

New Challenges, Fresh Goals - Towards a Dynamic Global City

Introduction

1. A dynamic global city, thriving in a changed world. This is what the Economic Review Committee (ERC) 's proposals aim to achieve for Singapore.
2. The ERC was formed in December 2001 against the backdrop of a significantly changed regional and world environment. We faced a slowdown in the developed economies, the rise of emerging economies like China and uncertainties in Southeast Asia. Our economy was itself maturing, well past the phase of low costs and incomes. The ERC's task was to fundamentally review Singapore's development strategy, and formulate strategies to upgrade, transform and revitalise the economy.
3. The ERC Report reflects the combined energies and ideas of more than 1,000 people. Seven Sub-Committees and numerous working groups studied issues including taxation, wages, the CPF and land; promoting entrepreneurship and internationalisation of Singapore companies; upgrading and growing the manufacturing sector; developing the services sector; growing domestic enterprises; developing our human capital; and helping Singaporeans to respond to changes and take advantage of new opportunities. These sub-groups, in turn, solicited and benefited from the contributions of a wide spectrum of people: employers and workers, public agencies and private companies, Singaporeans and expatriates living both here and abroad.
4. The ERC recommendations can be divided into two parts:
 - a. more immediate measures to deal with current uncertainties; and
 - b. longer-term strategies to restructure the economy.

Immediate Issues - Lowering Costs, Staying Competitive

5. The ERC recognises the need to deal with the current downturn even as we make changes for the long term. Our economy has still not fully recovered from the 2001 recession. The immediate outlook is clouded by the slowdown in the US, Europe and Japan, and the prospect of war in Iraq. Because of these uncertainties, we expect full recovery to come only in 2004.
6. The ERC recommends that the Government defer any further restoration of the CPF contribution rate, beyond its present level of 36 per cent, for two years. This will avoid adding to the statutory burden on wages for employers at a nascent stage of our recovery, and help reduce further job losses. It will also send a clear signal to investors that Singapore is acting decisively to strengthen its competitive position.
7. The ERC also recommends that the Government manage major components of business costs so that we stay internationally competitive. In particular, foreign worker policies should be flexible enough to allow companies to employ the workers they need, keep their overall costs of production down and make their operations here more viable.
8. Finally, the Government must continue helping Singaporeans affected by the downturn. The ERC recommends that the Government set up a national Continuing Education and Training (CET) body to oversee the promotion and development of CET in Singapore. The Government should also step up efforts to help Singaporeans who are out of work find new jobs as quickly as possible. Retrenched Singaporeans are taking longer to find re-employment and, meanwhile, will need assistance. The ERC recommends that the Government refine its assistance schemes to focus on Singaporeans who most need help, and make the most effort to help themselves.

Longer Term Strategies

9. For the longer term, the ERC has identified five key thrusts:
 - a. **Expanding external ties**. We must link up with the developed

economies of the US, EU and Japan, support the World Trade Organisation (WTO), and supplement multilateral free trade with bilateral Free Trade Agreements (FTAs) with key trading partners. We must also position Singapore to tap the opportunities of emerging economies like China and India;

- b. **Maintaining our competitiveness and flexibility**. First, the ERC recommends shifting Singapore's tax regime from direct to indirect taxes, in order to keep direct taxes on the production of wealth as low as possible. Second, it recommends refocussing the Central Provident Fund (CPF) system on basic needs to minimise the statutory wage burden on employers, and especially to improve employment prospects for older workers. These recommendations have been accepted by the Government.

In addition, the ERC recommends measures to make the labour market and wage system more flexible, link wages to performance instead of seniority, and facilitate flexible working arrangements. Key factors of production, including land, must also be priced competitively;

- c. **Encouraging Entrepreneurship**. To upgrade Singapore into a knowledge economy, we need to nurture a spirit of entrepreneurship and creativity. Singaporeans need to venture beyond their comfort zones, accept risks and carve niches for themselves. Encouraging this mindset, however, confronts deep issues of culture and social values, and is a long-term exercise. The ERC recommends that the Government designate a Minister to be responsible for driving initiatives to develop a more entrepreneurial Singapore;
- d. **Promoting twin growth engines of manufacturing and services**. Manufacturing will continue to be an important growth engine. Singapore must upgrade the key industry clusters of electronics, chemicals, biomedical sciences, and engineering which now form the core of our high value-added activities. We must also develop new capabilities in emerging technologies such as micro-electromechanical systems, nanotechnology and photonics.

In addition, we need to grow our services sector, to tap major new opportunities in Asia. We have to promote new, exportable services like healthcare, education and creative industries, while pushing forward in established areas like trading, logistics, information-communications technology (ICT), financial services, and tourism. As the issues cut across different ministries and agencies, the ERC recommends that the Government set up a Ministerial Committee on Services to co-ordinate Singapore's efforts to develop our key services industries; and

- e. **Developing our people**. We must equip Singaporeans with the skills and know-how to realise all these strategies, and take advantage of new opportunities and a continuously changing environment. We need to train Singaporeans to work in the upgraded manufacturing and new services sectors. At the same time, we must continue to welcome global talent to supplement

our indigenous talent. We must also maintain links with Singaporeans who work abroad.

A Globalised, Entrepreneurial and Diversified Economy

10. The ERC believes that these strategies will make Singapore a leading global city, a hub of talent, enterprise and innovation in the next 15 years. Our goal is to make Singapore:
 - a. A *globalised* economy, a key node in the global network, linked to all the major economies and emerging regions;
 - b. A *creative and entrepreneurial* nation, willing to take risks to create fresh businesses and blaze new paths to success; and
 - c. A *diversified* economy, powered by the twin engines of manufacturing and services, where vibrant Singapore companies complement MNCs, and new startups co-exist with traditional businesses exploiting new and innovative ideas.
11. Our education and training efforts will prepare Singaporeans in this new economy. Flexibility and adaptability will be crucial for all Singaporeans. Every Singaporean, regardless of age or educational level, who is willing to adapt to new job conditions and makes the effort to learn new skills will find a place in the new Singapore economy.
12. In this new phase, the economy has the potential to grow by an average of 3-5 per cent per annum, barring external shocks. Real wages are likely to grow at 2-3 per cent per annum. This is lower than we have hitherto enjoyed, but still represents healthy growth and steady improvements in living standards for Singaporeans. It is an ambitious target, exceeding what other economies with the same level of per capita GDP have attained. But it is achievable, if we persevere with the strategies to remake the Singapore economy.

A Better Future for All

13. Achieving the vision of a dynamic, global Singapore will require solidarity and hard work.

"The competition is tough, but we are confident about Singapore ' s prospects. The ERC ' s proposals offer a comprehensive and realistic roadmap for the next phase of our economic development. We run the race with significant strengths. Let us build on them, take the current problems in our stride, and work together to build new capabilities. Then we can stay ahead of our competitors, sustain economic growth, and improve the lives of all Singaporeans."; ERC Chairman Lee Hsien Loong