MAKING SINGAPORE ASIA'S LEADING PROVIDER OF WORLD-CLASS SERVICES

REPORT OF THE ECONOMIC REVIEW COMMITTEE SUB-COMMITTEE ON SERVICE INDUSTRIES

14 OCT 2002

CONTENTS

SUMMARY OF CROSS-CUTTING RECOMMENDATIONS

The vision is for Singapore to be Asia's leading provider of world-class services. To achieve this vision, we must reinvent and reposition our established service industries such as financial services, ICT, tourism, trading & logistics, as well as develop new service industries such as creative industries, education, healthcare and legal services.

2 From the reports of the 8 Working Groups, we have distilled 5 main observations about the characteristics of the service industries. 15 cross cutting recommendations are made and grouped under these observations. They are:

- Local demand is key;
- Regulations can kill;
- IP is often trapped in the public sector;
- An institutional sponsor is a great help; and
- Bias against services exists.

Observation #1: Local demand is key

3 Most services are produced at the point of consumption. A strong and sophisticated local demand that first creates the market for these services of quality and high standards is necessary for their development. In this regard, Singapore enjoys a competitive advantage as we have one of the largest concentrations of discerning consumers in the region.

4 Once a cluster develops, it draws wealthy customers from the surrounding region. This creates a virtuous cycle that helps the cluster grow further. This has been the experience of New York with its concentration of financial, performing arts and legal services. The Boston experience is similar with its cluster of higher education and medical services.

5 Nevertheless, in many services, the exportable component seldom exceeds the local demand. It is therefore natural for the regulator to put priority on regulation to address the socio-political concerns of the domestic demand, ahead of industry development. Powerful regulations would often

end up hindering the growth of the exportable component, whether intentionally or otherwise. For example, for social policy reasons, we have deliberately restricted the supply of healthcare and legal services in Singapore.

6 In some sectors, Government inevitably gets deeply involved in the services sector, beyond being a mere regulator, to becoming a dominant player. When it also tries to be a promoter of the exportable component, it becomes largely ambivalent.

7 4 recommendations are made in response to this observation:

Recommendation #1: Regulator cannot be the promoter. The responsibility of growing the exportable component has to be parked outside of the regulator. But the regulator must be sympathetic to the industry's development. Not being involved as a promoter must not result in it being divorced or disinterested.

Recommendation #2: Regulator must not also be a player. In other words, Government should actively outsource such services to local enterprises wherever possible.

Recommendation #3: Promote regional and global demand. An agency is needed to take responsibility for promoting education, healthcare, legal and other professional services to the outside world.

Recommendation #4: Stimulate sophisticated local demand, where appropriate. Examples include "1% for the Arts" scheme, e-government initiatives, and placing out reserves for private fund management.

Observation #2: Regulations can kill

8 Services are subject to more regulatory impediments. Many service industries are negatively impacted directly or indirectly and sometimes unintentionally.

9 In addition, local service providers are often too timid to argue against the regulator. This is unlike their MNC counterparts in the manufacturing sector who have EDB as their champion.

10 2 recommendations are made in response to this observation:

> Recommendation #5: A powerful champion is needed for the services sector.
>
> Recommendation #6: A regular review of regulations that negatively impact development of service industries must be conducted and recommendations made to MTI to remove or modify such regulations.

Observation #3: IP is often trapped in the public sector

11 Much of the expertise in many service industries resides in the public sector. This is particularly so in healthcare (MOH and Restructured Hospitals), education (MOE and Institutions) and financial management (GIC).

12 There is a structural problem since the public sector is not mandated to grow their organisations via revenue from external sources. While the corporatisation and privatisation of agencies such as PSA, PWD and Singtel are significant moves in this direction, we have not fully unlocked the expertise trapped in the public sector.

13 4 recommendations are made in response to this observation:

> Recommendation #7: Push on with corporatisation and privatisation.
>
> Recommendation #8: Designate an agency to collate the inventory of such IP and to sell/license them for commercialisation.
>
> Recommendation #9: Incentivise Research Institutes (RIs) and Universities to consider licensing their Intellectual Property (IP), in addition to the traditional approach of spinning off companies.

Recommendation #10: Support technology and skills transfer from government IP owners to Singapore-based companies, as well as co-develop technology with them.

Observation #4: An institutional sponsor is a great help

14 Most world-class institutions, particularly in healthcare, education and the arts, have received endowments or assistance from private sector donors. This is particularly so in the US. However, Singapore has yet to have the US Foundations and Endowment Funds tradition. In Singapore, only the Government is largely in a position to play this role at the moment, as it holds the largest concentration of capital and assets (land).

15 The implication of this is that in the Singapore context, the catalytic role of growing a world-class services sector, especially those with social objectives (eg healthcare, education and the arts) has to be largely borne by the Government. While we have taken some major steps with the development of facilities such as the Esplanade, a more proactive strategy is needed.

16 3 recommendations are made in response to this observation:

Recommendation #11: Land Policy. Implement a systematic, well-articulated policy of making land available to appropriate service industries. For instance, by setting aside 90 ha of institutional land for education and institutional zoning for land occupied by hospitals.

Recommendation #12: Public Endowments. The recently implemented tax benefits for endowments and donations would help. But while the spirit of private sector donations is being built up, we should annually allocate a budget for the development and endowment of cultural institutions like the Esplanade and the Museums. This can be spearheaded by the Totalisator Board. But the objective should be for it to lead to an active corporate sponsorship tradition eventually.

Recommendation #13: Private Endowments. Double tax deduction for these was recently implemented. We should continue to foster the development of private endowments to the education, arts and healthcare by favourable tax treatment for gifts to non-profit organizations in these industries. We should also continue to acknowledge and celebrate such donations.

Observation #5: Bias against services exists

17 Our manpower development strategy is biased against services. For instance, we have deliberately restricted the entry of service professionals in the legal and medical professions because of concerns about the social impact.

18 As another example, a significant chunk of manpower and capability development for the services industry falls outside the mainstream education and training system. This is quite unlike the manufacturing sector where the bulk of the manpower needs are fully taken care of, from ITEs, through polytechnics to universities.

19 The final 2 recommendations are:

Recommendation #14: Review comprehensively the manpower training for the service industries and bring it into the main stream.

Recommendation #15: Address the absence of training of service professionals at the tertiary level. This applies not only to the traditional industries like tourism, but is especially urgent for the emerging creative industries.

IMPLEMENTATION

20 The above strategies will only be as effective as how they are executed. A key factor behind the success of our manufacturing sector is the role played by EDB in driving the promotion and development effort. Similarly, for services, we need to have clear champions that will work closely with the industry to implement these strategies and realise the vision.

21 We must realign agency mandates and improve the existing services promotion framework to make it more effective. We need to assign clearer responsibilities, tighten co-ordination among our government agencies, and

streamline the incentive and assistance programmes. For each service cluster, there must be a clear champion identified to push its development.

22 A Ministry must also be clearly designated to drive and be singularly responsible for the health of the entire services engine. This has to be the Ministry of Trade & Industry (MTI).

23 However, MTI and the various service champions can only achieve their mission if they have the whole-hearted support of the regulators. The tension between economic and social objectives will have to be managed. There is an urgent need to set up a high-level Ministerial Committee on Services to provide a platform for such policy debates to be conducted so that rational trade-offs can be made.