## Executive Summary

1. Objective. This paper presents the key strategies and recommendations of the Working Group on Logistics (WGL) to enhance Singapore's competitiveness as a transport and logistics hub.

2. Global Trends. Transport and logistics is a sizeable growth market worldwide and is expected to grow at an annual rate of 3-10%. Over the years, this sector has evolved in sophistication, providing customers varied services ranging from individual transport and storage solutions to integrated supply chain management (SCM) services. As the pace of outsourcing gathers momentum, this sector is likely to enjoy continued growth, especially by SCM and other value-added or specialist services. Compared to the US and Europe, where shippers have outsourced up to 25% of their logistics functions, Asian shippers have outsourced only about 2.5% of their logistics functions. As such, there is much propensity for growth within Asia. Asian companies are also showing strong interest in revamping their supply chains and integrating them with operations worldwide.

3. Growth Targets. Currently, the transport and logistics industry contributes about 8% to Singapore's GDP or S$12.4 billion. In terms of employment, it absorbs 93,000 workers. With our vision, we aim to grow the sector to between 9 -13% of GDP by 2012, employing 120,000 to 170,000 workers. The key to achieving this is to plug the existing gaps and tap the opportunities.

4. SWOT. Singapore's key strengths are its world class infrastructure and connectivity. These make us one of the world's leading hub ports. However, there are constraints, key of which are Singapore's relatively higher cost of operation, the structural shift in manufacturing patterns, and the growing competition from the region. Nonetheless, there are opportunities that Singapore can tap on for future growth. These include high value-added supply chain management and IT services, ancillary services for the transport and logistics sector and secured cargo handling.

5. Vision. Taking into account Singapore's unique strengths and challenges, the WGL's vision is **to develop Singapore into a leading global integrated logistics hub, with robust maritime, aviation, and land transport capabilities supporting the global economy.** The vision rides on three key enablers, namely political, economic and regulatory stability/predictability; excellent physical, IT and financial infrastructure; and a critical mass of logistics professionals with strong customer orientation.

6. Physical and Virtual Hub. Encapsulated in the vision statement is the need to leverage on Singapore's strong physical hub capabilities and integrate these with knowledge-intensive SCM skills and technologies to build a strong physical cum virtual hub. The emerging competition from countries in the region has demonstrated that, with advances in technology, physical excellence can be achieved within a compressed period of time. Combining the strengths of a physical hub port and a "brain centre" for transport and logistics services will allow Singapore to build its competitive advantage. The presence of clusters of transport and logistics companies, together with related / supporting activities that form a network of interlinkages, are essential in making Singapore's SCM hub robust.

### Recommendations

7. Enhancing physical hub capabilities. Singapore is one of the world's leading transport and logistics hubs. This achievement is largely infrastructure-driven. However, with increasing competition, we must continue to build on our physical strengths by driving out the **business impediments**, both regulations and costs, that reduce our attractiveness as a physical hub port. A summary of the recommendations is outlined in Table A below.

Table A Summary of recommendations to address business impediments

| Categories | Recommendations |
| --- | --- |
| Review government regulations | • Allow trusted logistics companies to consolidate / deconsolidate cargo in their own premises outside the Free Trade Zone (FTZ).<br>• Review bonded warehouse regulations to ensure maximum utilisation of warehouse space.<br>• Allow pre-clearance of cargo.<br>• Review regulations governing the handling of dangerous goods.<br>• Review labour policies e.g. quota and sources of foreign labour and immigration procedures, manning restrictions of port limit harbour tankers and other craft.<br>• Streamline checks on tankers calling on Singapore ports. |
| Review and Manage Fees and Charges | • Reduce seaport dues to remain competitive.<br>• Reduce airport landing / parking charges to remain competitive.<br>• Remove land premiums and quit rentals for companies leasing land in the airport premises.<br>• Reduce land costs near the sea and airport areas, and extend the land tenure without additional premiums.<br>• Review TradeNet charges.<br>• Review union fees for Singapore flagged ships.<br>• Remove foreign worker levy for skilled labour |

8. Developing virtual hub capabilities. Beyond the actual handling of goods, Singapore should aim to be the logistics brain controlling the logistics limbs (planning & control functions) extending beyond Singapore to an extended hinterland i.e. the virtual hub. To this end, the WGL proposes:

a. **London-Plus Development Framework**. In the London-plus development framework, "London" refers to building a vibrant and influential transport and logistics services sector with highly skilled and experienced Singaporean transport and logistics professionals; while "Plus" refers to maintaining and leveraging on those aspects like the port and ship registry that we currently have an edge in. Together, the "London" and "Plus" components aim to maintain and leverage on Singapore's excellence in port handling facilities, ship registry, ship repairs, logistics and IT, while developing the "softer" aspects of the transport and logistics services and human resource sectors. This would enable Singapore to leapfrog our competition and achieve sustainable competitive advantage

While Singapore commands a lead in the "Plus" aspects, its main weakness is in the "London" aspect. This area is important to Singapore's move towards services and to achieve differentiation from various low cost physical alternatives. In order to develop the "London" capabilities, Singapore will need to build a vibrant and influential transport and logistics services sector, emphasising on knowledge activities and encompassing the professional, educational, R&D and technical segments supporting, and in turn being supported by the transport and logistics companies.

Notwithstanding the need to beef up the "London" aspect, the "Plus" aspect is also crucial as it is part of Singapore's over-arching objective of staying ahead of competition. To this end, there is scope for Singapore to further enhance its IT, port handling capabilities and bunkering and ship repair facilities.

b. **IT for Logistics Nerve Centre**. The key to achieving operational excellence in global supply chains is to ensure that efficient physical flow of goods is complemented by adept information flows. The ability to develop, adopt, harness and deploy technology will serve to attract and root the global IT HQs/RHQs of MNCs in Singapore. The WGL proposes positioning Singapore as the preferred regional/global IT Logistics Nerve Center. The main strategy is to develop an end-to-end service model as an integrating framework, and would address both the 'hard' and 'soft' aspects. The former would involve common backroom infrastructure that services the transport and logistics companies, while the latter would encompass community platforms and specialised transport and logistics expertise and IT solutions.

c. **SCM Nerve Centre**. To be the nerve centre for SCM innovation, Singapore must possess strong expertise and capabilities to manage, co-ordinate and optimise the global / regional supply chains of major manufacturers, traders and retailers etc. Specifically, the development of knowledge-intensive, high value added activities such as sourcing and procurement, supply chain optimisation, data hosting and reverse logistics should be targeted. Underlying these is the ability for Singapore to develop and attract the necessary expertise. To this end, it is recommended that the Singapore government support the development of R&D centres of competence in SCM. Comprehensive manpower education and training roadmaps should also be developed. Strong collaboration among the key drivers of SCM innovation viz. centres of competence, training institutions and the industry is vital.

d. **Secured Hub**. Following the terrorist attacks in New York and Washington on 11 September, worldwide focus is now on secured cargo shipments. In order to reinforce Singapore's position as a hub port, we must be able to respond to such global requirements. The WGL recommends that Singapore, with its advanced technological capabilities and reputation for having strict security measures, should position itself as the regional secure supply chain nerve center. By securing preferential access / clearance to the major trading nations for shipments going through our ports, it will remain attractive for shippers to base their operations in Singapore and allow Singapore to capture more transhipment cargo, thereby generating more opportunities for Singapore-based transport and logistics companies. In addition, a new market segment may be opened to non-logistics companies, such as technology solutions providers and certification bodies.

e. **Multimodal Connectivity**. With extensive air and sea connectivity, Singapore is well poised to be a multimodal hub. However, this means that both physical and IT infrastructure must be integrated to ensure a seamless flow of goods from one mode of transportation to another. Such a concept will warrant a change in the existing Free Trade Zone (FTZ) structure by allowing logistics operators to break-bulk and consolidate within their own facilities to reduce cost and improve turnaround time. The formation of a multimodal IT platform would also facilitate cross-modal shipments.

9. <u>Fiscal recommendations</u>. Apart from the above measures, Singapore must offer a competitive tax regime to attract the mind and management and to encourage businesses to upgrade their capabilities to compete in global knowledge supply chains. Stability and predictability of a tax regime is also highly valued by businesses as it helps them to estimate their financial obligations with greater accuracy.

10. <u>Champion Agency</u>. To ensure that the above recommendations are implemented and the growth targets are met, the WGL proposes that a Champion Agency for the transport and logistics industry be established. The Champion Agency will have the primary responsibility of promoting and developing Singapore into a leading global integrated logistics hub. It should allow and promote a collaborative and consensus-based policy making system and will spearhead and co-ordinate an integrated multi-organisational effort in collaboration with the private sector to promote and develop Singapore into a leading global integrated logistics hub.

11. <u>Conclusion</u>. Singapore has enjoyed competitive advantage by virtue of its excellent physical infrastructure; however, these are no longer sufficient to ensure that we stay ahead of our competitors. While it is important to address the business impediments which hinder o ur

advancement as a physical hub, it is vital that we now also focus on developing high value added services. The ERC Working Group on Logistics has concluded that by pursuing this holistic approach encapsulated in "Global Integrated Logistics Hub" concept, the economic contribution of this cluster could increase from the existing S$12 billion to S$30-42 billion in 10 years' time. This target is chievable if the industry, in partnership with the government, is committed to pursue all the strategies and recommendations as outlined.