COMMITTEE ON THE FUTURE ECONOMY (CFE)

SINGAPORE

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The key thrusts of CFE recommendations

The CFE vision is for the people to have deep skills, businesses to be innovative and nimble, city to be connected and vibrant, and government to be coordinated, inclusive and responsive in the future economy. To achieve 2-3% growth per annum over the next decade, key thrusts include:

1. Deepen and diversify our international connections
2. Acquire and utilize deep skills
3. Strengthen enterprise capabilities to innovate and scale up
4. Build strong digital capabilities
5. Develop a vibrant and connected city of opportunity
6. Develop and implement Industry Transformation Maps (ITMs)
7. Partner each other to enable innovation and growth

Same, same but different?

The CFE thrusts are not intrinsically different or totally groundbreaking from earlier government strategic plans, but reinforce the growing need to stay connected even amidst an emerging shift by some of our key trading partners towards protectionism and insular growth. Singapore will essentially have to continue to keep up a brave front and push on with free trade and investments, notwithstanding the US pushback on TPP post-Trump. This is to a large extent inevitable because Singapore remains a small and open economy with no economic hinterland market. As such, Singapore remains committed to a rules-based trading system and will continue to work with like-minded partners to pursue the liberalization of trade and investments.

Asean is a major manufacturing and trade powerhouse and comprises one of the fastest-growing consumer markets in the world, with a rapidly growing middle class. As such, Asean comes the closest to an economic hinterland market but the idiosyncratic and non-tariff related challenges of each individual Asean market remains intact, especially in terms of services liberalization. Encouraging regional integration with the implementation of the Asean Economic Community, and participating in other regional trade initiatives like the Regional Comprehensive Economic Partnership (RCEP), remains relevant strategies. In addition, utilizing the SkillsFuture Leadership Development Initiative (LDI) to expose potential corporate leaders to quality overseas assignments and encouraging more internationalization programmes for students and business study trips to the region will help deepen knowledge about the regional markets.

Growth sectors and opportunities are there for the taking

Singapore companies can still take advantage of several growth sectors – again these are not totally new and include finance, hub services, logistics, urban solutions, healthcare technology, digital economy and advanced

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manufacturing. Despite the recent weakness in manufacturing performance, the CFE reaffirmed that maintaining a globally competitive manufacturing sector, coupled with manufacturing-related services, is the way to go.

The CFE's recommendation to build a globally competitive manufacturing sector, at around 20% of GDP, over the medium term affirms its conviction in retaining a sizeable manufacturing hub (as opposed to hollowing out of manufacturing activities) and recognizes the synergistic spinoffs into manufacturing services. Manufacturing's share of GDP has been declining since 2011 (the last time it was >20%) and probably stabilized around 18% handle last year. Since Singapore is not a low-cost manufacturing base, companies and activities here have to continually move up the value-chain and add value to global supply chains. Increasingly the actual manufacturing processes may be outsourced to regional countries as part of growing the internationalization wing. Only the very high-tech, customized and advanced manufacturing activities would stay in Singapore.

The servicisation of manufacturing, whether in design, R&D, logistics, marketing and after-sales services, is one area where Singapore could have a niche and competitive advantage in as it is a means to differentiate products from goods produced in low-cost economies. To achieve the 20% target would require the rapid adoption of cutting-edge and sophisticated technology, use of automation, openness to ideas and talent, and focus on R&D and connectivity.

For the Singaporean worker, it's all about skills.
Given growing skills and jobs mismatch in the Singapore economy, there will be greater focus on acquisition of deeper skills will help workers stay relevant in an age of rapid technological change. Recommendations to support this include setting up an online one-stop education, training and career guidance portal, extending work-learn programmes from fresh graduates to existing employees, offering more modularized training programmes, improving the national Jobs Bank and other initiatives like the Professional Conversion Programme and Career Support Programme. At the end of the day, the government is a facilitator and enabler, but training providers, institutes of higher learning, employers and workers need to partner each other to ensure the timely, relevant and complementary skills acquisition. We believe the FY17 Budget is likely to unveil more initiatives to build on the momentum to facilitate skills acquisition and lifelong learning.

Innovation remains a key growth engine
In the next stage of economic growth and development, the role of innovation to boost GDP and productivity growth is vital since the population is ageing and local workforce growth is slowing. The CFE talked about strengthening enterprise capabilities to innovate and scale up, but taking into account a more tailored approach given specific needs and growth stage of enterprises. To enhance Singapore's start-up hub status, the CFE recommendations range from setting up a Global Innovation Alliance (GIA), encouraging companies to leverage on the Enterprise 2020 plan (RIE2020) to scale up and internationalise, establishing commercially-oriented entities to better commercialise research findings and intellectual

property (IP) of research institutions, and encouraging partnerships between enterprises, especially large and small enterprises.

Building strong digital capabilities is ongoing
As part of the Smart Nation vision, the government will help SMEs adopt digital technologies, establish joint laboratories to develop deep capabilities in data analytics and cybersecurity as well as a dedicated programme office for flagship science projects. The Internet of Things will enable Industry 4.0, offering significant opportunities from the digital economy. Singapore is well-poised to leverage on digitalization given our head-start in technical skills, advanced infrastructure and trusted reputation. The National Trade Platform (NTP) is one way to accelerate digital adoption by private sector players. The government could also lead the way by identifying emerging demand problems, establishing public-private partnerships, and developing flexible regulatory frameworks.

Connectivity, both external and digital, are important
Singapore's priority has always been about building connectivity, whether in trade, investment, capital flows, air/land/sea logistics, digital, start-ups etc. To this end, the government will continually invest in new international connections including the Changi Airport Terminal 5, the next-generation seaport in Tuas, the KL-S'pore High Speed Rail (HSR). To maintain Singapore's position as one of the world's most digitally connected cities, the government will continue to strengthen the communications infrastructure. Given the land resource constraints, land rejuvenation and redevelopment remains integral, whether through an underground infrastructure, urban logistics system, shared industrial hub facilities, and clusters of mutually-reinforcing economies activities, with greater flexibility in land use. This would improve the land efficiency for the Singapore economy.

Industry Transformation Maps (ITMs) are the way to forward
Budget 2016 already announced ITMs, and the latter is expected to cover 23 industries and about 80% of the economy by FY2017. A customized approach for each industry probably makes more sense than a broad strategic thrust given rapidly changing industry, technology and business configurations. Overlying the ITMs would be a cluster approach to foster synergies across industries, with a single government agency (champion?) for each ITM. This is a mindset shift from picking winners and a one-size-fits-all approach. Going forward, we can expect TACs to play a greater role to lead more industry initiatives and tap on the Local Enterprise and Association Development (LEAD) programme.

Tax regime review – more to come?
The CFE also highlighted a need to review and reshape Singapore's tax system amid rising domestic expenditures due to ageing and global changes in tax rules. In particular, the CFE called for the tax system to remain broad-based, progressive and fair, even as revenues need to be raised over time to meeting rising domestic needs, while balancing the need to remain competitive and pro-growth. This could warrant further elaboration in the coming Budget(s) on how to achieve fiscal sustainability and equity.