

DBJ REPORT

Remaking Singapore: The Economic Review Committee and Its Recommendations

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PREFACE

The Economic Review Committee (ERC) was set up in 2001 to provide recommendations in restructuring Singapore's economy when the country was facing an economic downturn brought about by the Asian crisis and the global slump thereafter.

The ERC was assigned seven terms of references – 1) Taxation, CPF system, Wages and Land, 2) Entrepreneurship, 3) Human Capital, 4) Manufacturing, 5) Services Industries, 6) Domestic Enterprises and 7) Economic Restructuring, and was grouped into sub-committees for each term of references. The sub-committee later submitted their respective reports to the Government between the years 2002 and 2003. The final report, titled "New Challenges, Fresh Goals – Towards a Dynamic Global City", was lastly submitted in February 2003, as the cream of the crop, consisting of key recommendations from the seven sub-committees. The Government had accepted all the recommendations in the report. To date, the Government had altered, enhanced or newly implemented policies and schemes in accordance to the recommendations made by the ERC.

After the ERC report had been announced and published, the newspapers and magazines scurried to analyze and comment on it. The Parliamentary Debate on the Budget for the YA 2003 (which was in line with ERC's long-term goals) also focused significantly on the recommendations of the ERC. Many agreed with the recommendations, but many also believed that more could have been done. The public had expected bolder changes from the ERC, and the recent SARS outbreak has also led to speculations whether it is already time to review the ERC's recommendations.

This report will provide readers a summary of the final ERC report and the implementations by the government so far in regards to taxation, entrepreneurship and human capital. It will also seek to find out the feasibility of the ERC's recommendations in remaking Singapore, and transforming it into a "dynamic global city", based on comments made by the Members of Parliament during the Budget Debate, from the media and academics interviewed for the purposed of this report. The overall perspective shows that although the ERC had drawn the roadmap for remaking Singapore, the result of Singapore in 2018 will still depend most on how the Government will be implementing the recommendations.

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1. INTRODUCTION

Ever since 1987, after a major recession, Singapore has metamorphosed, with the help of recommendations contributed by the Economic Committee, into an attractive, reputable investment-driven country. Investors all over the world view Singapore as one of the top choices in Asia to locate their businesses in, with prudent macroeconomic policies, first-class infrastructure and a pool of educated and skilled human resources. Singapore has also been able to achieve an estimated average of 9% annual GDP growth from 1987 to 1997. Despite a decade of prosperous growth, Singapore was hit by a series of events that threatened to destroy what it had accomplished.

The Asian economic crisis in 1997 tilted Singapore's stable economy, and before it could recover, the United States went through a recession, affecting Singapore as well. The recent Iraq war and SARS (severe acute respiratory syndrome) outbreak nearly break down Singapore's recovery process again. Simultaneously, technology advances have been rising at almost breakneck speed, and the same may describe the growth of two emerging countries – China and India. Both countries in particular China, are fast becoming fierce competitors of Singapore, threatening the country's status as one of Asia's business hub. To add domestic woes such as unemployment to the list of problems, it looks almost set that Singapore will be driven into recession in no time.

The Government has foreseen the need to restructure the maturing economy in order to keep up with the challenges ahead. In October 2001, Prime Minister Goh Chock Tong established the Economic Review Committee (ERC) to, come up with a blueprint to remake Singapore. Headed by Deputy Prime Minister and Minister of Finance Lee Hsien Loong, the ERC was delegated seven terms of references as follows:

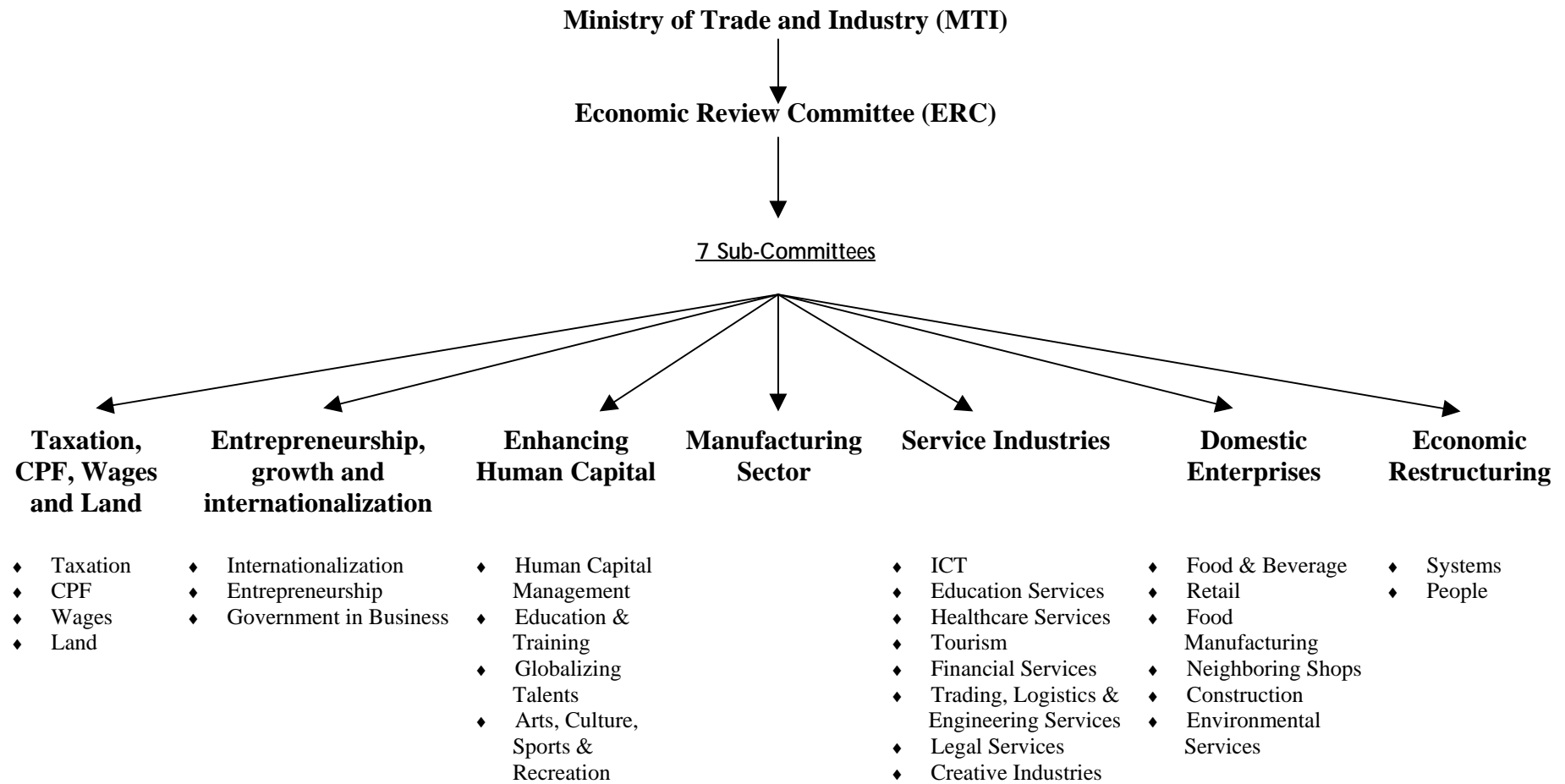
- 1) To review government policies with economic implications, including taxation, the CPF system, land allocation, and the framework for wage competitiveness;
- 2) To recommend ways to strengthen the spirit of Entrepreneurship and innovation among Singaporeans, and foster the growth and internationalization of Singapore-based companies;
- 3) To recommend measures to enhance our human capital, to support all sectors of the economy;
- 4) To recommend ways to upgrade the manufacturing sector and move into higher value added, knowledge intensive activities including R&D and biomedical science, to build on the successful record of MNC investments in Singapore;
- 5) To recommend strategies to promote service industries where we enjoy or can develop a competitive edge, including information & communications technology, education, healthcare, tourism, financial services, logistics and legal services.

- 6) To recommend measures to upgrade the operations and raise the productivity of businesses that serve mainly the domestic market, especially the smaller ones; and
- 7) To assess the impact of economic restructuring on Singaporeans, and recommend measures to prepare workers to adapt to their changes, particularly through education, skills upgrading and training, to ensure continued employability. (Ministry of Trade and Industry website)

The ERC is divided into sub-committees, which will take on one term of reference each and to come up with recommendations pertaining to the reference (See Chart 1). The ERC committee consisted of members from the government, the labor movement as well as from the private sector. This composition was specifically arranged in order to obtain opinions and suggestions from people from all walks of life. Members of the sub-committees interacted with the public, even Singaporeans and expatriates living in Singapore and abroad for their opinions and recommendations.

Reports of the respective sub-committees were submitted throughout 2002, beginning with recommendations concerning tax reforms and the CPF system in April, in time for the announcement of the Budget 2002. In February 6, 2003 the final ERC report, titled "New Challenges, Fresh Goals – Towards a Dynamic Global City", was submitted to the Cabinet for review. The Government has agreed, during the 2003 Budget announcement, to all of the recommendations and begun implementing many of the suggestions proposed by the ERC.

CHART 1: Economic Review Committee



(Reference: Ministry of Trade and Industry Website)

2. THE ERC REPORT: "NEW CHALLENGES, FRESH GOALS – TOWARDS A DYNAMIC GLOBAL CITY"

The final ERC report is a compilation of selected recommendations from reports of the respective sub-committees. The recommendations are categorized into short term or long term purposes in the part 1 of the report. Part 2 of the ERC report consist of detailed recommendations according to the respective terms of references. The following is a summary of Part 1 of the final ERC report.

2.1 Goals

The ERC wrote the report with the objectives of realizing the "vision of Singapore as a leading global city – a hub in the new Asian and global economic networks, and an entrepreneurial and diversified economy" (ERC final report, pg. 8). By 2018 or 15 years later, words such as "cosmopolitan", "innovative", "globalize", and "knowledge-based economy" will be used to describe Singapore. An alliance will be forged between Singapore and China, India and Southeast Asia, and beyond. Engines of growth will increase, and within each engine of growth, its value will continue to climb and R&D will become increasingly prominent.

The ERC hopes to push Singapore upwards, from a Newly Industrialized Economy, into a First World Economy. The economy, as the ERC predicted, will be able to achieve 3-5 per cent per annum once full recovery is attained. This is assuming that constant updating and restructuring of the economy, as well as a conducive environment is existent for people to develop their potential to their fullest, contributing to the economy. Nonetheless, these goals will only be accomplished if Singapore work together as one through the hard times of restructuring and cutting costs.

Hence, another objective of the ERC report is to encourage Singaporeans to change their mindsets, to adopt more versatility and initiatives in their lives. Instead of waiting for assistance from the government, Singaporeans will become independent, entrepreneurial, competitive and skilled. Besides educating and training individuals to obtain the mentioned qualities, the arts, culture, sports and recreation side of the individual must not be ignored. Thus the ERC also works towards building well-rounded Singaporeans who will work hard, and play hard.

As such, the following recommendations were proposed to the Government on February 2003.

2.2 Longer-Term Strategies - The Road Ahead

As mentioned, prudent macroeconomic policies have been one of the factors that resulted in the success of Singapore. Low inflation rate, a healthy budget balance, and sound infrastructure are just some examples of the effects of adopting such strategy. These are no longer sufficient or updated for Singapore to regain its economic growth at times as such. Therefore, the ERC recommended not only to maintain such policies and strategies, but also to carry out some alterations and enhancement to keep up with the changing environment. Hence, six key driving forces were identified.

Expanding External Ties

It is more important than ever for Singapore to be connected with countries such as the G-3, China, India and the ASEAN nations as supply and demand for resources, including labor has gone global. Despite that the EU, the US and Japan may be experiencing problems of their own, they remain as Singapore's main engine of growth. China and India, as mentioned may compete with Singapore, but new markets equals to new investments and trading opportunities. Singapore should also strive to become a business center for countries within the seven-hour flight radius such as Australia, Greater China and India.

Promoting ASEAN as a whole will attract foreign investors much easier than individually. Technical expertise from Singapore when partnered with low manufacturing costs in Batam, for example, will increase the ability to compete with other countries such as China. Hence, tighter rapport is necessary.

On top of that, supporting the World Trade Organization's framework is important in determining Singapore's ability to access international markets easily. Concluding bilateral Free Trade Agreements (FTAs) with as many countries as possible is also crucial. Singapore has already signed FTAs with countries such as the United States and India, and should push for countries to close FTAs with ASEAN as a whole. These will result in huge savings in exports and creation of jobs.

Competitiveness and Flexibility

Enhancing Singapore's ability to compete is very important in ERC's recommendations due to Singapore's size and limited resources. The inability to reduce costs as well as new competitions further supports the need to become more competitive. Hence, the following recommendations by the ERC:

- a) Direct taxes on corporate and individuals' incomes to be reduced to 20% from 22% and the GST to be increased to 5% in two years' time so as to recover loss of revenue in the reduction of direct tax rate.
- b) Delay in bringing back CPF contribution rate of 40% from the present 36% for another two years, as well as other changes related to CPF such as salary ceilings, withdrawals and Special Account contribution.
- c) To increase flexibility in labor market and adopt the Monthly Variable Component (MVC) wage system instead of seniority based wage system.
- d) Prices of land, infrastructure services and factors of production to be appropriately priced in order to ensure optimal use of land, and maintain cost competitiveness.

Entrepreneurship and Singapore Companies

As mentioned, the world today is constantly changing, and globalization and constant emerging markets require people who are dynamic, innovative and are able to take risks. Singapore needs its citizens to cultivate a habit of accepting defeats, and always be ready for challenges. The ERC therefore recommended that the Government strictly only target the needy in providing assistance, and to designate a Minister to oversee the promotion of Entrepreneurship in Singapore. Further recommendations include nurturing the spirit of entrepreneurship through education, easing taxation, regulations and cutting red tape pertaining to entrepreneurs. The Government should also work towards attracting talented foreign entrepreneurs to venture into Singapore, which will in turn support local entrepreneurs.

Major local companies and Government-linked companies (GLCs) should also play a part in the development of entrepreneurs by assisting potential small and medium sized enterprises regionalize and engaging their services in every possible ways. In addition, the GLCs should not provide services that the private sector is able to provide.

Twin Engines: Manufacturing and Services

Manufacturing remains a vital growth engine for Singapore. Competition from other countries in terms of costs and skilled labor is on the rise. Singapore needs to constantly move ahead to remain as the forerunner.

Electronics, chemicals, biomedical sciences and engineering and four of Singapore's high value-added manufacturing groups and should be reinforced through better skills in new technologies. Foreseeing that the manufacturing sector will graduate into knowledge and research intensive, building up R&D in various institutions in order to develop and tap on Intellectual Property (IP)

is crucial to keep in pace with the world economy. The goal is for Singapore to be perceived by MNCs as an R&D network and base for product developments.

The service sector, as the second growth engine, should not be neglected as well. Upgrading, liberalizing and growth in the trading and logistics, information and communications technology (ICT), financial services and tourism industries is a must. Healthcare, education and creative industries are new areas that Singapore should look towards investing in and promoting in the near future. In addition, the ERC suggested establishing a Ministerial Committee on Services to manage the development of the service industries. Lastly, legislation and regulations on IP is vital in the manufacturing and services sector today. The ERC therefore supported the setting up an IP Academy and to transform Singapore into an IP management center.

People

All the above strategies will not be able to materialize without capable people. Talent and information is the key to competitive superiority. Education must be made even better, to nurture pupils with a greater divergence of talents and a drive for R&D. A skilled and knowledgeable labor force is necessary for the future of the manufacturing and services industry, therefore relevant training and skills development programs have to be promoted. Global talent is indispensable, due to Singapore's limited human resources. The establishment of the Majulah Connection, initiated by the ERC, is also a big step to ensure Singaporeans working and living abroad keep in touch with home.

Restructuring

Lastly, the above recommendations inevitably result in economic restructuring, and its impact on Singaporeans will be huge. Structural unemployment is on the rise, and it is urgent that Singaporeans makes changes to get through the economic downturn.

The retrenched faces many difficulties, not only in finding new jobs, but adapting to the reality of loss of job as well. Counseling and guidance is needed, and the ERC urged the Government to establish a national Continuing Education and Training (CET) body to help Singaporeans upgrade their skills so as to find new jobs. Assistance schemes also have to target those who are truly in need, and have truly put in the effort in gaining employment.

2.3 Immediate Issues

In order to implement the above-mentioned long-term strategies, the current economic situation must not be forgotten. It has to be controlled and ready for the longer-term restructuring. Also, while Singaporeans cope with the restructuring, job availability have to be ensured. In 2002, the

Government had accepted the ERC's recommendation to phase in the increase in Goods and Services Tax (GST) from 3 per cent to 5 per cent over two years instead of immediate increase so as to help Singaporeans cope better with the vague economic situation. A relief package was also provided to every Singaporean to offset the GST increase.

The ERC also supports wage restraining proposed by the National Wages Council (NWC) in order to maintain job availability. Modifications to the CPF contribution rate (deferring restoration beyond 36 per cent for 2 years, lowering salary ceilings and lowering employers' contribution to 16 per cent from 20 per cent for workers aged 50-55, etc.) and to the foreign worker policies were also recommended.

3. KEY RECOMMENDATIONS IN REGARDS TO TAXATION, ENTREPRENEURSHIP AND HUMAN CAPITAL

Chapter 2 displayed recommendations the ERC suggested in terms of long-term or short-term strategies. This chapter looks at the second part of the ERC report, whereby the recommendations are more detailed. Due to the limited length of this report, only key recommendations pertaining to Taxation, Entrepreneurship and Human Capital will be focused on.

3.1 Taxation

Competing countries such as Ireland, Germany, Australia and India have recently lowered their corporate and personal income tax rates to attract more investors and foreign talents. Singapore is losing out in its ability to attract foreign investments, and with the current unpredictable economic situation, an immediate and long-term solution is needed.

In 1985 the Economic Committee (EC) came up with several recommendations pertaining to tax reforms, such as encouraging the Government to shift from direct taxes to indirect taxes, and reducing corporate and personal income tax rates. In 2002, Economic Review Committee (ERC) followed up by improving the recommendations made as well as to provide more up-to-date ideas for the future of Singapore.

The ERC introduced a pro-growth tax system, which will “facilitate the creation of new economic activities and attract new investment” (ERC final report, pg. 79). By reducing direct taxes, besides increasing the chances of attracting more businesses to locate in Singapore, local companies can retain more of their returns, and together with entrepreneurs, may be motivated to venture into more businesses. The results will be both immediate and for the long-term, as more creation of jobs with good wages and an increased standard of living for Singaporeans can be realized.

Decrease in Direct Taxes

The Government had reduced corporate and personal income tax rates significantly over the years, spurred by the EC’s recommendations in 1985. From an initial 40% to the present 22%, the ERC would like to see a further cut in the tax rates, down to 20% as quickly as possible to regain Singapore’s position in the global competition.

A cut in tax rate would imply revenue loss for the Government. In order to offset the loss of revenue, the Goods and Services Tax (GST) will be increased to 5%. This is in conjunction with

the recommendations of the EC in 1986, to shift from direct taxes to indirect taxes as main source of revenue. As the EC report reasons:

“They (indirect taxes) do not penalize companies which are making profits or persons who are putting away savings. Tax is paid only when money is spent on consumption items, not when the money is invested in productive capacity” (Economic Committee report, 1985)

Similar to 1994 when GST was first introduced, the ERC recommended that the Government provide a GST offset package to help Singaporeans cope with the increase, especially for the lower-income group.

Corporate Tax Reforms

In the corporate section, further tax reforms were proposed as well, namely:

- a) Group Relief: Instead of the current tax system of taxing companies that belong to one corporate group separately, a group relief tax system will be implemented. This is to the offsetting of any unutilized losses of one company against another company that may be profiteering.
- b) One-tier Corporate Tax System: This system is simpler and companies will only be taxed once compared to a full-imputation system, and hence amount of profits to be distributed for dividends will increase.
- c) Exemption of Foreign Source Income: In order to achieve the goal of making Singapore a top choice for foreign investors as a business hub, exempting business-related foreign source income will in turn encourage the export of local services as well.
- d) Intellectual Property (IP): Investing in R&D has become increasingly important as Intellectual Property and intangible assets become very valuable in a knowledge economy. Currently there are incentives and deductions given to companies who incur R&D expenses, but greater liberalization in tax deductions to any organization is requested, not only to local organizations. In addition, automatic writing down of allowances in acquisition of IP should be implemented across the board.
- e) Withholding Tax Mechanism: Singapore uses the withholding tax mechanism to simplify tax collection from non-Singapore residents. The problem with withholding tax mechanism though, is that companies end up paying for the taxes due to weak bargaining power. Administration can be complicating as well. Therefore the ERC recommends that a study into the extent to which withholding tax can be improved.
- f) Enterprise Development and Expansion: Lastly, although a reduction in corporate tax will benefit small and medium-sized enterprises (SMEs) significantly as well, more should be done to help the SMEs. The ERC therefore recommended tax deductions to SMEs for front-end

costs incurred in merger and restructuring exercises, and for activities such as listing of companies or cost of new business startup.

Overall, the ERC hopes that tax restructuring will likely to strengthen Singapore's competitiveness and attract more foreign businesses to choose to locate in Singapore. And companies in Singapore, local or foreign, and entrepreneurs will venture into more businesses and markets, bringing about more jobs and economic growth.

3.2 Entrepreneurship

The Singapore Government felt that Singaporeans are no longer willing to take risks, avoiding any unpredictable situations and waiting for handouts to be provided. In the 2002 Global Entrepreneurship Monitor (GEM) Report, Singapore's relative ranking in Total Entrepreneurial Activity (TEA)¹ was 21st out of 37 countries (Ministry of Trade and Industry).

Hence, the Entrepreneurship and Internationalization Sub-Committee (EISC) of the ERC was given the task: "to recommend ways to strengthen the spirit of entrepreneurship and innovation in Singapore, and to foster the growth and internationalization of Singapore based companies, including Government-Linked Companies (GLCs)" (Ministry of Trade and Industry website).

Entrepreneurial Culture

To create a class of entrepreneurs, the individual, Government and the society as a whole will have to play their part. The individual will be exposed to programs and curriculums that will foster creativity, entrepreneurship and independence from the very start of their education lives as well as throughout their working years, whether they will be spurred to set up businesses have to depend on their thirst for challenges. The society's perception on entrepreneurs must be positive, by allowing mistakes and failures, and encouraging budding entrepreneurs to persevere. The Government on the other hand, has to reduce its participation in providing social assistance across the board. Dependence on the Government, according to the ERC report, will only impede creativity and the need to rise to challenges among its citizens.

Hence, to comprise an entrepreneurial and enterprising spirit in the Ministry of Education's Intermediate Outcomes of Education for secondary and pre-university education promotes further entrepreneurship programs in the education system. Besides schools, the National Youth Council, Community Development Councils, Ministry of Manpower, the Singapore National

¹ TEA is defined as the proportion of adult population who has started new businesses less than 42 months old that they substantially owned.

Employers' Federation and the National Library Board should also organize entrepreneurship programs to the young and working adults.

Entrepreneurial Talent

Global Entrepreneurial Executives, or GEEs, are highly in demand in Singapore because of the limited talent pool that the country has. The GEEs are also able to support and provide budding local entrepreneurs a role model to learn and gain experience from. The ERC thus recommended three incentive programs to attract GEEs into Singapore:

- i. Liberalizing or increasing flexibility in attaining employment pass for GEEs even without a specific job as well as to simplify the entry of their close families.
- ii. The Economic Development Board (EDB) should work hard towards promoting Singapore in cooperation with other agencies to GEEs.
- iii. Non-government organizations can take on some responsibilities in assisting GEEs to settle down in Singapore.

Government scholarships have been an effective method of distinguishing the talented for recruitment into the civil service. The Government has to ensure that the private sector have a fair share of talented workforce as well, and not stifling the prospects of the talented. Rather than to abolish scholarships, it should be catered specifically for where it is really necessary. The Economic Development Board's industry scholarship, for example, where scholars will move towards the private sector gradually, is highly recommended to ensure the private sector will have its share of talents.

Implementation Strategy

The Technopreneurship 21 Ministerial Committee was set up in 1999 to manage the promoting of technopreneurship in Singapore. It was then changed to the Entrepreneurship 21 Ministerial Committee in 2001 in consistent with the Government's efforts to cultivate entrepreneurship as a whole. The ERC suggested that a Minister should be appointed to oversee and promote entrepreneurship in Singapore.

Growing Singapore Companies

The next stage is to see that more local companies are being set up. These Singapore companies should be innovative, able to exploit any opportunities available in the global and domestic market, able to "complement the MNCs, and also help to support and anchor MNCs here." (ERC final report, pg. 125)

Every small and medium enterprises (SMEs) and enterprising startups should be encouraged to grow, as their success will have a positive impact on the progress of the economy. The very first step, therefore, is to abolish any barriers that may obstruct growing of local companies.

Regulatory landscape

Excess rules and regulations may prevent establishment of new businesses. The ERC thus urge the Government to “adopt a structured, institutionalized and coordinated program to cut public sector red tape.” (ERC final report, pg. 126). At present, a ‘More Vision, Less Bureaucracy’ (MVLB) movement has been set up in 2000. The MVLB consists of panels working on reviewing rules and regulations regularly, investigating ways to abolish red tape, and looking into feedback from public sector officers as well as from the public ways to develop an enterprise-friendly environment.

Further improvement to the present MVLB movement should be included, such as implementing a ‘Sunset Rule’ – where all licensing requirements will become obsolete by three years after its introduction, making sure the Pro-Enterprise Panel (PEP) (one of the panels in the MVLB movement) guarantees its consistency in achieving the pro-enterprise movement, and retaining of IP by suppliers originating from Government projects. Lastly, opportunities for SMEs that may not have necessary experience to perform Government procurement services should be provided as well. The Enterprise Challenge, a test bed for SMEs’ products and services is encouraged to carry on its mission to discover potential Government procurement service suppliers.

Financing and government support

The ERC also suggested the following recommendations to help entrepreneurs obtain financing needed easier:

- 1) Cash flow financing, instead of using physical assets as collateral, should be proposed to financial institutions through the Government.
- 2) A private equity exchange can allow owners to raise funds from issuing shares to selected investors and which will also allow shares to be used as collateral for loans. The ERC recommends that together with Singapore Exchange or a private sector company, EDB should establish this project.
- 3) The Startup Enterprise Development Scheme (SEEDS) currently only serve startups with intellectual content. The Government should develop a similar equity scheme to serve other types of enterprise startups.
- 4) Regular inspection of Government debt financing scheme may help to keep up-to-date in promoting entrepreneurship, and globalizing enterprises.

- 5) A debt-equity composite financing scheme should be provided to allow budding enterprises fund their growth.

Developing capabilities to franchise and license overseas

Many local companies with innovative ideas are incapable of expanding overseas due to company size or lack of funds. The Government should establish export industries, which will assist Singapore companies to franchise and license their concepts abroad.

Competition framework

Except for certain sectors such as energy and telecommunications, there is currently no generic competition law in Singapore. The ERC supports the Government's recognition to enact a generic competition law and to establish an independent competition authority in the coming years.

Internationalization of major companies

Many of Singapore's companies have successfully ventured into the global market. Currently, there are many local companies who have the latent talent as well, and the Government should push them towards internationalization by providing more assistance and opportunities. The ERC provided the following advice:

- 1) To do away with double taxation of foreign source income remitted into Singapore so as to help Singapore-based companies increase their foreign income.
- 2) To continue marketing Singapore and its companies and brands internationally through events or exhibition to foreign investors and visitors so as to create a certain brand awareness towards Singapore.
- 3) To engage SPRING and IE Singapore in getting local enterprises that complement one another to venture abroad as a cluster. Like the LIUP (Local Industry Upgrading Program) scheme, which encourages MNCs to assist local SMEs to upgrade, the Government should try to broaden the scope to include GLCs and larger enterprises with experience overseas, lead the selected group of companies, including SMEs abroad.
- 4) To push for consolidation and strategic alliances among local companies. The Government can help by matchmaking or providing incentives for small and various companies to group together for economic purposes.

Helping smaller, traditional companies adapt

Besides helping local enterprises with the potential to pursue international goals, smaller and traditional companies such as the HDB retail shops and small industries in HDB industrial parks must not be ignored as well.

These companies have problems keeping up with the changes in the environment fast enough and often lack economies of scale. The companies also have trouble employing qualified and capable employees since the pay and future prospect of such companies are not attractive compared to big companies.

Examples of help that may be given to such companies are reducing bureaucracy so as to speed up the process of executing ideas, raise an awareness towards the importance of service excellence and to correct the perception many have of the domestic sector. Therefore, the ERC recommended that regulations pertaining to such companies have to be reviewed to make processing faster and less hassle. The Government should place an emphasis nationwide regarding service excellence and promote training programs for the domestic sector. The image of domestic enterprises as “low-end jobs and unexciting job prospects” has to be abolished by giving more recognition through the use of international rating systems such as Michelin Award. Restructuring of such companies should be implemented as well, and the Government may help by providing financial incentives.

Role of Government

GLCs and Temasek Holdings

Government-Linked companies, or GLCs, were established in the years when Singapore’s private sector was still weak and the Government had to set up companies in strategically critical areas such as development banking, telecommunications, ports and power. Temasek Holdings is the investment arm of the Singapore Government and hold stakes in most of the GLCs. Now that the private sector has flourished and is developed, the Government should step down and allow the private sector to take over any provision of goods and services it can handle. The Temasek Charter is “a major step forward” in determining the reduction of intervention by the Government. The ERC agreed that the Government should abide by the guidelines stated in the Charter as well as:

1. The Government will only participate in business activities in areas where the resource is critical economically or for security purposes, and for public policy objectives.
2. Regular commercial decisions within the GLCs should not involve the Government. Performing ‘national service’, such as project that “GLCs would not have done if it were evaluated purely on a commercial basis” (pg133) is prohibited.
3. GLCs should be reviewed regularly so as to divest any company deemed unnecessary to be held by Temasek Holdings.

In addition to what has been mentioned in the Charter, the ERC sees the need to reinforce the Charter with the following:

1. GLCs have the most potential in achieving international recognition, and Temasek Holdings' should encourage the growth of GLCs into international companies.
2. Foreign executives should be hunted to take over any inefficient board members and staff by Temasek Holdings.
3. As internationalization is the key word for Temasek Holdings' GLCs, any future investments should be within the key objectives. Furthermore, investments should also be in areas where the private sector is unwilling or unable to venture into.

Ministries and Statutory Boards

Government agencies have over the years established businesses and may overlap with the private sector. There is a need, as recommended by the ERC, for a set of guidelines to ensure that there is no unnecessary competition between the agencies' businesses and the private sector.

1. The 'Yellow Pages' rule should be set up, whereby services provided by statutory boards' enterprises must not be similar to those found in the yellow pages.
2. In order to prevent rent-seeking, statutory boards should not corporatize regulatory functions.
3. There should be plans that will eventually hand any enterprises set up to the private sector. Constant review on whether a business is to be divested should be implemented.
4. Enterprises set up by statutory boards should avoid conflict of interest by adopting methods such as not using names that may relate directly to the statutory board and have independent board of directors.

The above 5 main points illustrated aims to achieve the goal of transforming Singaporeans into entrepreneurs who "develop new niches and to exploit economic opportunities for Singapore" (ERC final report, pg. 122).

3.3 Human Capital

A skilled and educated workforce has been a key factor in Singapore's economic growth for the past 4 decades. It is a vital resource for the country, but changes over the years has led to a number of problems that need to be resolved to aid Singapore's restructuring. Compared to other major countries in the world, Singapore's workforce has some catching up to do in terms of educational profile. There is a lack of managerial talent, whereas many without formal qualifications need to be retrained or upgraded with new skills, and also to suit new industry needs. The recommendations proposed by the ERC therefore serves to achieve the goals of developing the full potential in every individual, adopting a more flexible and diverse approach at

manpower planning, fostering a global mindset, tapping overseas network, attracting foreign talent, enhancing human capital management and lastly, enriching the environment.

Developing the Full Potential in Every Individual

Reforms in Education Sector

The education system is the foundation of nurturing Singapore's future workforce. Students are gradually being exposed to a more flexible and diversified school curriculum. Specialized schools such as the Sports Schools, NUS-run Mathematics and Science School and the Arts School allow fresh and alternative qualification for the talented. The Sports School will be due to open in 2004, whereas NUS and the Ministry of Information and the Arts are still planning for the other two schools respectively.

Expansion of the tertiary sector is also ongoing, with NUS transforming into a multi-campus university that will include NUS Outram and NUS Buona Vista, and NTU expanding its disciplinary provisions. The Institute of Technical Education is set to go regional as well, and more polytechnics are being set up. Overall, this will allow a larger cohort to attain tertiary education with a wide range of curriculum to suit every industry's needs.

Manpower Planning

The Government's role in manpower planning should continue, as it is most qualified to assess the future economic conditions to determine the manpower needs of Singapore, and it is part of the Government's responsibility since huge portions of public funds are invested in education and manpower development. Nevertheless, the Government can improve itself through embracing a broader approach by increasing versatility so as to keep up with changes in the market, and providing up-to-date information about market changes or employment opportunities to institutions, students and parents.

Fostering a Global Mindset

In order to keep up with the goal of becoming a global city, Singaporeans have to be equipped with the desire and ability to venture and operate globally. Steps to achieve that include starting from the education level, by establishing more overseas campuses, creating more opportunities for exchange programs, promoting core internationalization skills, and encouraging overseas postings for civil service and private sector with overseas public services or private sector.

Singaporeans and their families who have taken up overseas posting should be taken care of as well through establishing a greater network of Singapore International Schools, and to relax

requiring mother tongues language as a compulsory subject for the children of those returning to Singapore.

Tapping Overseas Network

With more Singaporeans moving out to study, work or live, the Government should make an effort to keep in close contact with them. The Singaporeans Overseas Networks (SONs), set up by Singaporeans living abroad in 2002 to specifically contribute to the ERC report, is one example of keeping Singaporeans closer to home while overseas. The ERC also proposed the establishment of the Majulah Connection to network with Singaporeans and Friends of Singapore overseas to contribute to Singapore and to strengthen business networks.

Foreign Talent

Although Singapore has its own pool of local talent, many are not as creative. Foreign talent is necessary for the economic growth of Singapore, as well as to provide a blend of global talent with originality. While it may be a delicate issue at present with retrenchments and unemployment increasing, to chase or turn away global talent will not benefit the remaking of Singapore's economy to become a leading global city. Hence, attracting global talent to work and live in Singapore should continue and be pursued further so as to complement the local talent pool, and to encourage them to blend into Singapore's community and identify themselves with the country.

Enhancing Human Capital Management

The future not only requires a productive and versatile workforce, but a workforce that is also creative and daring in taking the first step. Therefore, the ERC proposed to:

- a. Develop Human Capital Management (HCM) as a strategic capability in organizations: HR managers should undergo training and upgrading of business skills throughout to raise the people-management and HR capabilities of business enterprises;
- b. Upgrade the manpower industry to raise HCM competencies: Upgrading of the manpower industry will refine labor market mobility and develop the leadership, management and talent pool of Singapore. The SBF should also initiate a HR Center of Excellence to establish a recognition system for the HR industry so as to enhance its professionalism in Singapore, in particular the HR skills of SMEs.
- c. Realign human resource practices: Traditional seniority-based wage systems should be replaced by more flexible, performance-based wage systems for higher efficiency in the labor market. As unemployment and retrenchment are on the rise, workers are most worried

towards job security. HR managers and employers should work towards providing assistance such as medical benefits or retirement savings for workers changing or are in between jobs.

Enriching the Environment

Despite working towards a first class workforce, the arts, culture, recreation and sports area must not be ignored, as they strengthen the national identity and sense of belonging of Singaporeans. As a result, the ERC proposed that the Government play its part in promoting Arts, Recreation, Culture and Sports (ACRS) through funds and tax incentives to encourage both public and private sectors, as well as the people to work together to support recreation. Also, the National Arts Council and National Heritage Board should work with other relevant agencies to increase awareness in ACRS.

These long-term strategies will make Singaporeans not only globally empowered, knowledgeable and versatile, but also participating healthily in the arts, culture and recreation. They will be deeply connected globally, and deeply rooted to their national identity.

4. IMPLEMENTATIONS BY THE GOVERNMENT

Ever since the very first set of recommendations were submitted to the Government by the Taxation, CPF system, Wages and Land sub-committee in 2002, the Government had responded and put many recommendations into actions. Implementations have varied from GST being raised gradually to 4% first, then 5% later in 2004, to the National Wage Council going all out to encourage more private firms to discard the traditional seniority based wage system and adopt the monthly variable component (MVC), to the Prime Minister pushing for the Asean Summit to reconstruct into an Asean Economic Community (AEC) by 2020 to create an even stronger economic integration within ASEAN. The following provides a number of significant implementations in regards to taxation, entrepreneurship and human capital.

4.1 Taxation

In the Budget Speech 2003, Deputy Prime Minister Lee Hsien Loong announced that “the Government will implement the ERC’s recommendations on restructuring taxes, on exempting foreign income and domestic interest income from tax” (Ministry of Finance website).

Tax rates for both corporate and personal income tax have been reduced from 24.5% and 26% respectively to 22% in the Budget year 2002, where many changes in the tax system were implemented as well (See Appendix 1). The Taxation, CPF System, Wages and Land sub-committee recommended that tax rates should be reduced to 20% by YA 2003, but this year, DPM Lee had decided to hold the reduction of tax rates. Instead, he targeted that the tax rates will be reduced to 20% by YA 2005.

In terms of foreign income tax exemption, all foreign income in the form of dividends, branch profits and services income from 1 June 2003 onwards will be exempted. This is in line with the ERC recommendations to exempt taxing foreign income, while preventing tax avoidance through round-tripping and transfer-pricing, as well as maintaining an uncomplicated tax system.

Taxing domestic interest income has caused funds to be retained in overseas banks. The Government has thus agreed with the ERC to exempt from tax interest from domestic income. This will encourage the public to save in Singapore, and even bring back funds previously placed overseas.

4.2 Entrepreneurship

For Entrepreneurship, the Government has implemented several changes to help bring up more entrepreneurship in Singapore. Some examples include amending the Companies Act to relax regulations, encourage more enterprise startups, and reduce cost of raising capital for businesses, revising the accounting year so as to allow businesses to enjoy more tax rebates on revenue expenses, etc.

The more prominent implementation towards boosting entrepreneurship though is the appointment of Mr. Raymond Lim, Minister of State for Trade and Industry, as the Minister to cooperate with the Entrepreneurship 21 Ministerial Committee, to oversee promotions and drives that will nurture more entrepreneurial citizens. Mr. Raymond Lim is also the chairman of the Entrepreneurship and Internationalization Sub-Committee of the ERC. So far, new items have been added to the list targeted at providing more opportunities and assistance for budding entrepreneurs to set up their businesses. The Action Community for Entrepreneurship (ACE) is one good example. Chaired by Mr. Raymond Lim himself, the joint public-private sector group consists of volunteers who are successful entrepreneurs themselves, such as technopreneur-cum Member of Parliament Mr. Inderjit Singh, and hotel and property tycoon Mr. Kwek Leng Beng. The ACE will act as a supporting group, meeting informally with new entrepreneurs to exchange ideas and help solve any problems (The Straits Times, 27 May 2003). More information on ACE can be found at Appendix 2.

The New Home Office Scheme was recently announced to provide more opportunities for entrepreneurs to operate their businesses at the convenience of their homes, thereby reducing their startup costs as well. Previously, the Home Office Scheme was restricted only to Technopreneurs. The New Home Office Scheme is now open to almost all kinds of businesses, and allows the employment of non-residents (limited to 2 persons) (See Appendix 3 for further elaboration of the scheme). Property developers are also seizing the opportunities by providing modern small office-home office (SOHO) developments specifically for the purpose of working from home (Channelnewsasia.com, 10 June 2003).

4.3 Human Capital

With regards to enhancing human capital, the Government has launched the plan of the Sports School, and plans to expand the universities have been accepted. Also, a number of measures such as in establishing a statutory board for Continuing Education and Training (CET), in tax relief for a broader range of courses, and in facilitating overseas talent recruitment were also accepted and implemented.

The Sports School will be admitting students from 2004 onwards, and similar specialized schools such as the Arts Schools are also being looked into. The universities of Singapore are also being expanded to accommodate more students in the future. By 2010, the Government hopes to achieve a 25% cohort entering the universities. Besides expanding the Singapore Management University, the Nanyang Technological University will be adding a school of humanities and social sciences in 2004, followed by schools of physical sciences and design and media by 2005.

Not to be outdone, the National University of Singapore is to be transformed into a multi-campus university, with the additions of NUS Outram – a medical school, which is on negotiating terms with a leading foreign university as a collaboration exercise, and NUS Buona Vista – set for Research and Development, which is still in the process of planning (Business Times, 29 May 2003).

In helping enhancing the adult workforce, the Government has decided to set up a statutory board under the Ministry of Manpower (MOM), to focus on developing and strengthening the CET infrastructure. The MOM will network with the public and private sectors as well as the people to come up with better modes of training, certificate and skills recognition and training programs to meet industry needs. It will also ensure that public funds target for workforce training and employment assistance is put to its optimal use.

In addition, tax relief for course fees were not only increased from \$2,500 to \$3,500, seminars and conferences will also be allowed for tax relief from now. Conditions for course fee tax relief is also broadened to include courses that may be in preparation for a career switch in two years' time. The Lifelong Learning Fund was increased by \$500 million to \$1.5 billion as well.

Last but not least, the Double Tax Deduction (DTD) for Overseas Talent Recruitment Scheme, which started in 1998, will be increased by \$10,000 for employers whose foreign talents bring their families along with them to relocate in Singapore.

5. OVERALL PERSPECTIVE TOWARDS THE ERC RECOMMENDATIONS

Without a doubt, new policies have been created to improve the economic activity in Singapore, and that hundreds and thousands of policies have been reviewed and altered or abolished because of the recommendations made by the ERC. Yet despite that, there are still demands for more.

Many see the ERC report as too similar to the 1985 Economic Committee's report. As the Far Eastern Economic Review (FEER) report described its feelings, "... its recommendations turn out to be as exciting as watching traffic on the Pan-Island Expressway" (20 February 2003). The most common response that the media has about the final ERC report is that they are not bold enough. FEER describes that "the committee has retreated to the safety of the familiar" (20 February 2003). And a commentary in The Business Times pointed out that "cynics have suggested that... the sacred cows have been spared" (7 February 2003). In addition, since the recommendations were also significantly incorporated into this year's Budget, the Budget Debate consisted of many topics in relation to the ERC's recommendations, and urge for a speedier process in cutting red tape can also be heard from many during the Budget Debate.

Both the media and the Members of Parliament (MPs) also spoke up on their opinions on specific recommendations. In terms of taxation changes, the GST increase, deferment to restore CPF contribution rate and reduction of corporate tax rate together with the wage restraint prompted some to wonder if "the burden of Singapore's economic transformations is falling squarely on the poor". Prime Minister Goh was also quoted, as saying that income gap will possibly increase (The Economist, 30th May 2002). In the Budget, MPs have voiced out that Singapore's image has been grounded as one of high cost for doing businesses, and it is too late to change. The above measures meant to attract investments into Singapore is temporary and longer-term investors will simply delay their exit until the economy recovers, which will mean back to high costs again (The Straits Times, 11 March 2003).

Recommendations set to bring out more entrepreneurial Singaporeans also brought about some comments. The appointment of a Minister to take charge of promoting entrepreneurship and providing assistance, training programs as well as tax relief and benefits caused mixed reactions among MPs. "To nanny or to leave alone?" was the title for The Straits Times in reporting the debate among MPs in the Parliament. Pleas were made to do more in reviewing rules and regulations, cutting red tapes, focusing on creating incentives and schemes for SMEs, and overall create "a one-stop agency to champion the cause of local entrepreneurs". On other hand, other MPs object to "handholding" entrepreneurs, and that a true entrepreneur is one who will make it,

regardless of whether there is intervention by the Government or not (The Straits Times, 11 March 2003). The media has also commented that although the new Home Office Scheme was launched to encourage more entrepreneurs and to ease cost of startups, there are still a lot of red tape involved, with many restrictions tied to it as well (The Business Times, 17 June 2003).

Comments on the Government reducing participation in the business can also be heard, as the ERC recommendations were as foggy as the Temasek Charter, which only states that Government-Linked Companies (GLCs) that are strategically important will remain, only venturing into businesses deemed necessary for global growth. (Economist Intelligence Unit, 17 February 2003)

On human capital, the ERC recommendations push for more creative, innovative, and diverse talents. Yet, the entry requirement in the new Sports School consists of students whose academic results are good. Currently, Singapore's education system streams students according to the results of their Primary School Leaving Examinations (PSLE) to Gifted Program, Express, Normal (Academic) and Normal (Technical) streams. Only those in the Gifted Program and Express stream with talents in sports will be admitted into the Sports School. While the government strives to change the mindset of people, they contradict themselves by continuously placing high importance on academic results. As one person interviewed by The Straits Times sums it up, "To a country obsessed with rankings and grades, it appears the powers-that-be do not dare to be different. The emphasis of this institution (the Singapore Sports School), as its name implies, should be sports, meaning which the entry criterion should be sporting talent, not the number of PSLE points." (12 March 2003)

Nonetheless, it is unfair to say that the recommendations are a failure and did not make any difference to Singapore's economic future. DPM Lee emphasized that the ERC had "made significant changes", and has "left no stone unturned. If the stones look as though they are in the same place, that's because (the ERC) put some of them back very carefully" (The Business Times, 7 February 2003). In criticisms regarding the ERC final report almost too similar to the 1985 Economic Committee report, Senior Minister of State Mr. Khaw Boon Wan defended that the ERC report is similar only because it is a reincarnation. And recommendations were similar because they have not been fully exploited previously (MITA, 10 March 2003).

Academics interviewed believe that reduction of the corporate and personal income tax rate is required as part of the long-term strategy to keep companies in Singapore, to attract more foreign talents to come to Singapore and to counter other countries' lowering of tax rates to remain competitive. Although the current rate of 22% was not further adjusted downwards to

20%, it is still lower than some neighboring countries such as Malaysia. The increase in GST is said to be making the poor worse off, but the Government had provided a GST offset package in the form of Economic Restructuring Shares (ERS). The ERS was more than enough to cover the increase (at least 5 years of additional GST payable and up to 10 years for the lower income households).

On the debate on whether the Government should intervene in promoting entrepreneurship, Minister of State in Charge of Entrepreneurship Mr. Raymond Lim had defended that his responsibility is not to “manufacture” entrepreneurs, but to ensure that there is a conducive environment for entrepreneurs to stretch their potential, as well as to “cultivate a risk-taking mindset” (The Straits Times, 11 March 2003). Furthermore, the outcome of the ERC focusing on helping start-ups has resulted in taking in more feedback from the public by the Pro-Enterprise Panel leading to a reviewing of rules and regulations, and throwing out a number of unnecessary regulations. The Home Office Scheme should also not be looked at as a single change, but as part of a long-term “on-going effort to build a new class of entrepreneurs... encourag(ing) thousands of small players put off by the cost of rentals” (The Business Times, 17 June 2003).

Ever since unemployment began to rise in Singapore, the Government had worked hard to promote the Continuing Education and Training program to help Singaporeans upgrade and learn new skills in order to retain their jobs or to find new employment opportunities. The further allowance on more courses to be relieved through tax further highlight the Government’s help to bring down unemployment rate, to enhance the skills and knowledge of its people. Although the Singapore Sports School is intending to hold firm its decision to only take in Express stream students, the school has decided that students placed in the Normal Stream will be considered for entry on a case-by-case basis. Given that the Sports School is in its infant stage, more changes should be expected in the coming years, as it expands.

6. CONCLUSION

The Economic Review Committee was established to help Singapore overcome the immediate crisis through promoting enterprise, lowering costs and generating jobs, and more importantly to plot a roadmap to bring the maturing economy to further growth, to keep up with the rapid technological changes and emerging competitors. It came up with hundreds of recommendations in regards to taxation, the CPF system, wages and land, entrepreneurship, human capital, manufacturing, services industries, domestic enterprises and ways to deal with economic restructuring. Selected ones thought to be more concrete and feasible made it into the final ERC report, leaving the rest to be reviewed at a later date. All of the recommendations stated in the final report were accepted by the Government and announced in the Budget for YA 2003.

As Deputy Prime Minister Lee puts it, the ERC's recommendations indicated 3 basic objectives for Singapore in the coming years: "Firstly, ... promote innovation, creativity, and entrepreneurship". Secondly, ... deregulate and liberalize the economy, to allow enterprise to flourish. And thirdly, ... encourage self-reliance complemented by community support, and minimize dependence on the state." (MITA, 8 April 2003) So far, the Government has carried out many implementations according to the ERC's recommendations. The tax system is gradually being reformed, starting with the reduction of corporate and income tax rate in 2002 from 24.5% to 22%. The Action Community for Enterprise (ACE) has been set up, as well as a New Home Office Scheme to support entrepreneurs in setting up businesses. The Sports School is ready to admit students in 2004, and more training programs are available for tax relief to encourage more to retrain and upgrade. There is also a need to give credit to the ERC for urging the Government to implement a "sunset rule" for all licenses concerning businesses every three years, and the push for a generic competition law to be enacted, which is significant in cutting red tape and giving more protection to the small and medium size enterprises.

The media and MPs had demanded to see more implementations and to add to the recommendations bolder changes. It does not pay to make bold changes without thinking of the risks. The Iraq war at the time had not started, and how long, how serious an impact it would be for Singapore economy had been unknown. If huge and extreme changes were to occur in Singapore as the sudden Severe Acute Respiratory Syndrome (SARS) began, the outcome may have been tragic for any efforts put into restructuring. The modus operandi should not be changed drastically and not cause unnecessary panic within its citizens, and as the transition has to be in the long run.

The sudden outbreak of SARS had caused some to ponder about whether if there is a need to review the goal of attaining full recovery in 2004 and achieving an annual growth of 3-5% thereafter. Academics believe that the SARS outbreak definitely will, to a certain extent, affect the growth. Professor Tan Khee Giap of Nanyang Technological University believes that 5% may be far-fetched, but like many others, remain optimistic about a 3% growth. Surprisingly, although SARS-affected countries and businesses blamed SARS for any downturns, SARS may not have such a huge impact in Singapore as perceived. After all, the Government was able to react quickly and repressed further infections and disaster to the economy. What Professor Tan perceives as worrying is the problem of structural growth. The manufacturing sector is slowing and the financial sector is not growing. He also agrees with the Government's urge for its citizens to alter their mindsets. Also worrying to him is the further rise in unemployment, where more graduates are expected to look for jobs and companies are still downsizing and lowering costs.

All in all, the Government is recognizing the need to deter from its conservative, frugal, academic-emphasized and MNC-focused way of governing to being more open and diverse. The ERC had laid the path to remake Singapore's economic future, requiring Singapore to shift from specialization to embracing diversity. The next step is for the Government to move ahead according to it, and to constantly review and remake Singapore for the challenges ahead. The Remaking Singapore Committee, set up to complement the ERC, recently handed up over 100 recommendations to add vitality into the social, cultural and political life of the country. The Prime Minister had taken the chance at the report presentation to announce the Government's interests in promoting diversity, as well as "to give space for more "ventilation and variation" in the political and social scenes (MITA, 12 July 2003). It is clear that balance of power is now gradually leaning towards encouraging more participation by the public in decision making with more chances to speak up and deregulation by the state.

The Government, as Professor Tsui-Auch of Nanyang Business School describes, have created sound policies and programs. But the management of the programs remains to be improved in order to attain policy effectiveness. The main question now is focused on the word "HOW". How will the Government accomplish what is stated in the ERC recommendations, how will the mindset of the people change, and especially, how will the Government change its own mindset. Minister of State Mr. Khaw Boon Wan laid down some factors for Singapore to succeed: Aim High, Move Fast and Learn, and Be Frugal. What about some factors for the Government to change its mindset? Perhaps it will be to continue to listen to the public's feedback, give way to diverse talents without insisting on academic grades and ranking, and continue to aim for more transparency and flexibility.

Appendix 1

Tax Incentives for the Financial Sector Enterprise Development

1. Fund Managers Incentives

- ♦ Exemption of tax for qualifying investment income of foreign investors from funds managed by all fund managers in Singapore.
- ♦ Merger of the Approved Fund Manager and Approved Boutique Fund Manager schemes into a single Approved Fund Manager scheme. The concessionary tax rate of 10% on fee income enjoyed by Approved Fund Manager scheme will be extended to qualifying boutique fund managers and more types of investments will be covered.

2. Enhanced Approved Trustee Company Scheme

- ♦ Extension of concessionary tax rate of 10% for the provision of trustee and custodian services to the custodian services that ATCs provide to mutual fund corporations;
- ♦ Extension of tax exemption granted on income from foreign trusts administered by an ATC to income derived through an eligible investment holding company; and
- ♦ Extension of concessionary tax rate of 10% to an ATC that provides substantial trust management or administrative services to a foreign trust of which it is not the trustee. Tax exemption for such foreign trusts on their qualifying income as well.

3. Concessionary Tax Rates for Equity Capital Market

- ♦ Subject to certain conditions, Approved Securities Companies will be taxed at the concessionary rate of 10% on the income derived during the period YA 2003 to YA 2007 from the provision of financial advisory services to persons outside Singapore.
- ♦ From YA 2003 to YA 2007, income derived by Asian Currency Units and Approved Securities Companies from managing the Initial Public Offering of securities of foreign companies for listing on the Singapore Exchange (SGX) will be taxed at a concessionary rate of 5%. This rate will also apply to the income derived by Asian Currency Units and Approved Securities Companies from the sale of such foreign securities and related services such as brokerage and custodian services.
- ♦ Corporate SGX members who are ranked amongst the top 20 in terms of annual trading volume generated for each approved new derivative product denominated in any foreign currency will enjoy the same rate on total income derived from transactions in each product. This will apply to new products that commence trade on SGX during the period from 1 Jan 2002 to 31 Dec 2006.

4. Treasury Industry Incentives

- ♦ Asian Currency Units or Approved Securities Companies with substantial commitments will enjoy a concessionary tax rate of 5% for 5 years on the income derived from transacting with qualifying parties in over-the-counter financial derivatives denominated in any foreign currency. Payments to non-residents on such derivative transactions will be exempted from withholding tax for this period. This scheme will take effect from 20 May 02 and will last for 5 years.

5. Financial Sector Incentive Scheme

- ♦ Several of the eleven existing incentives will be merged into a single umbrella Financial Sector Incentive (FSI) scheme, which offers simpler administrative procedures and more flexible qualifying criteria. The FSI scheme will offer a concessionary tax rate of 5% for qualifying high growth and high value-added activities and 10% for mature but tax-sensitive activities. As this involves a major revamp of the many existing incentives, the FSI scheme will only be implemented from YA 2004.

6. Extension of Concessionary Rate for Interest Income from Qualifying Debt Securities

- ♦ Interest income from qualifying debt securities is currently subject to tax at a concessionary rate of 10% if a company or financial institution receives it. With effect from YA 2003, this incentive will be extended to bodies of persons, such as management corporations, town councils, trade and industry associations, and clubs.

7. Tax Deduction for Special Reserves of General Insurance Companies

- ♦ General insurance companies can claim tax deduction on special reserves set aside for certain offshore risks.

Promoting Enterprise Development

1. Development and Expansion Incentive (DEI)

- ♦ The minimum tax rate under the DEI will be reduced from 10% to 5%. Companies that currently qualify for both the Pioneer Incentive on some activities and DEI on other activities can apply to EDB for a flat rate DEI to be applied for all qualifying activities.

2. Enhanced Deduction for Research and Development Expenses

- ♦ Single tax deduction for expenses incurred for R&D that leads to the ownership of intellectual property in Singapore will include R&D outsourced to any R&D organisation, whether local or overseas. The scope of further tax deduction for R&D expenses will also be extended to all service companies.

3. Approved International Shipping Enterprise Scheme

- ♦ Scope of 'qualifying ships'
 - AIS scheme will be expanded to include towage vessels, salvage ships, dredgers, seismic vessels and semi-submersible oil rigs as 'qualifying ships' under the AIS scheme with effect from Year of Assessment 2003.
- ♦ AIS eligibility criteria:
 - The qualifying criteria under the AIS scheme will be harmonised to make the scheme user-friendlier and help ship operators to expand their operations in Singapore. The manpower requirement for operators of Floating Production Storage Offloading vessels and Floating Storage Offloading vessels under the AIS scheme will be lifted with effect from YA 2003.
- ♦ Requirement for qualifying ship operators to register at least 10% of their companies fleet under the Singapore flag will be lifted with immediate effect

Source: "FY2002 Budget Speech by Deputy Prime Minister Lee Hsien Loong", Ministry of Finance website, http://www.mof.gov.sg/budget/budget_2002/budget2002_index.html

Appendix 2

This is an extract from The Straits Times article on Action Community for Entrepreneurship dated May 28, 2003

Businessmen ranging from tycoons to technopreneurs have teamed up with the public sector to give budding entrepreneurs a very special helping hand.

It (ACE) wants to act as a peer support group and will hold informal networking sessions – BlueSky Evenings – to bring together would-be and successful entrepreneurs, venture capitalists, bankers and consultants.

ACES in Your Hand

The joint private-public sector Action Community for Entrepreneurship (ACE) has set up five Action Crucibles, each headed by an ACE member, who is called an Igniter of Change (or IC, for short). Altogether, there are 23 ACE members. The five committees and their heads are:

- ♦ **RULES**
IC: Mr. Patrick Daniel
Job: To identify areas where rules should be changed or simplified
- ♦ **FINANCING**
IC: Mr. Inderjit Singh
Job: To improve businessmen's access to funding
- ♦ **CULTURE**
IC: Dr Loo Choon Yong
Job: To foster a more entrepreneurial culture in Singapore
- ♦ **GLOBAL ENTREPRENEURIAL EXECUTIVES**
IC: Mr. Ong Peng Tsin
Job: To attract global entrepreneurs, including Singaporeans living abroad, to start here
- ♦ **INTELLECTUAL PROPERTY**
IC: Mr. Richard Lai
Job: To help entrepreneurs in IP Protection and commercialization

The Members

1. Mr. Raymond Lim (chairman), Minister of State (Trade & Industry, Foreign Affairs)
2. Dr Loo Choon Yong (deputy chairman), Raffles Medical Group executive chairman
3. Mr. Ong Peng Tsin (deputy chairman), Encenutate president & CEO
4. Dr. Colin Chan, Addvalue Technologies chairman & CEO
5. Mr. Chay Kwong Soon, chairman of both Enspire Capital and Beyonics Technology
6. Ms. Elim Chew, 77th Street (S) managing director
7. Mr. Patrick Daniel, Singapore Press Holdings' English and Malay Newspapers Division managing editor
8. Ms. Kim Faulkner, Interbrand Singapore chairman
9. Mr. Goh Yew Lin, GK Goh Holdings executive director
10. Mr. Kong Mun Kwong, MAE Engineering executive director and Cathay Organization vice-chairman
11. Mr. Kwek Leng Beng, Hong Leong Group Singapore executive chairman
12. Mr. Richard Lai, dollarDEX managing director
13. Mr. Stephen Lee, Singapore Business Federation chairman
14. Mr. Victor Lye, GK Goh Stockbrokers director
15. Mr. Michael Ma, IndoChine Group chairman
16. Mr. Ahmad Magad, II-VI Singapore managing director
17. Mr. Russell R. Miller, Ascendant Capital Partners managing partner
18. Professor Hellmut Schutte, Insead's Asia Campus dean
19. Mr. Inderjit Singh, Infiniti Solutions CEO
20. Mr. Tan Tau chew, SCM Microsystems Asia president and Ginosko Venture director
21. Mr. Sunny Verghese, Olam International group managing director & CEO
22. Mr. Wong Ngit Liong, Venture Corporation managing director
23. Mr. Kenny Yap, Qian Hu Corp executive chairman, group managing director

Appendix 3

Description on New Home Office Scheme

Examples of Businesses Allowed	All businesses that satisfy the performance criteria and do not fall within the negative list of uses that are not permitted. Examples are professional businesses offering accountancy or architectural services, trading office, insurance/financial planning company, property consultant, estate agency, design/advertising office, IT/Management consultancy. Technology based and knowledge intensive businesses are also allowed. For example, computer programming, digital animation, engineering services and consultancy, developing of prototype of application software and designing electronic circuit using computer software.
Approval Required?	Yes
Where to Apply	Housing and Development Board (HDB), for flat owners; Urban Redevelopment Authority (URA), for private property owners.
Where Can It Be Allowed	All residential units.
External Employees	Number of non-residents (including employees, partners, and directors) engaged in the business in limited to 2.

Types of Businesses/Uses that cannot be allowed

	Remarks
Maid Agency/Employment Agency	Detrimental to residential amenity and character
Contractors Business	
Car Trading Business	
Commercial School e.g. music, dance, language school or tuition centre	
Sales/marketing office involving conducting seminars/talks for large number of customers	
Courier Business	
Manufacture/Preparation/Processing of products and goods. Examples are food products, beverages, textiles, apparel, handbags, footwear, wood and paper products, pharmaceutical products, domestic appliances, watches and clocks and other related products.	
Ophthalmic dispensing/Pharmacy/Medical or dental clinics/Veterinary medicine	
Card reading/Palm reading or fortune telling in any form	
Funeral chapels or homes	
Mausoleums	
Shop use and any form of retail activity including pet shop	
Food catering/Restaurants	
Conducting of dress making/embroidery lessons	These are not allowed as the scale of activities with external employees could affect the residential amenity
Repair of household appliances, electrical products, footwear, etc.	
Beauty/Hair-Dressing/Massage therapy services	

Source: Ministry of National Development website,
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