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ISCA Pre-Budget Roundtable 2015

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Pace of Restructuring

BY PERRINE OH

 Held for the sixth consecutive year, the ISCA Pre-Budget Roundtable 2015 on January 13 served as an invaluable platform to gather the views and insights of business leaders with regard to past items in Budget 2014 and the upcoming Budget 2015. The Budget Statement for 2015 will be delivered by Deputy Prime Minister and Minister for Finance Tharman Shanmugaratnam in Parliament on February 23.

The Roundtable brought together top management and business leaders of trade bodies, accounting firms and

ISCA Pre-Budget Roundtable 2015 Panellists

Gerard EE
President
Institute of Singapore Chartered Accountants

Liang Eng Hwa
Chairman
Government Parliamentary Committee (Finance and Trade & Industry)
C-suite executives to discuss and provide feedback on the Singapore Budget. The key insights raised at the Roundtable, together with ISCA’s Pre-Budget Survey findings, serve as important feedback to policymakers, regarding Singapore Budget matters, for their consideration in the formulation of the annual Budget.

As Singapore celebrates its golden jubilee (SG50) this year, it is an opportune time not only to reflect upon our past achievements but also to look forward to the future with confidence. Our past economic strategies have been successful in developing Singapore’s economy. Some conditions that allowed Singapore to succeed were an open and business-friendly location, sound infrastructure, a highly educated workforce, and a reputation for being a trusted business and financial hub.

Indeed, the strengths and advantages that Singapore has built up put the city-state in a strong position to remain competitive in the next five to 10 years. Beyond that, however, Singapore must develop new strengths and niches, and do things differently in order to maintain its competitiveness. Innovation, productivity and higher-level skill-sets will be key to Singapore’s future growth. Hence, there is a continued need to restructure the economy.

While economic restructuring may lead to painful situations for businesses and comes with significant risks, Singapore runs the...
danger of seeing the economy stagnate if it does not restructure fast enough in the face of competition which is quickly eroding the advantages that we have built up over the years.

At the same time, a focus on building up social capital is also important in developing a productive workforce. Social support – in areas such as eldercare and childcare – provides assurance to individuals that their social and family needs are being met, allowing them to devote themselves more fully to their work. Such support frees up individuals from some of the major pressures of daily life so that they can be more productive at their work places. In this respect, the “social” aspect should also be taken into consideration in restructuring our economy and raising productivity.

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“Economic restructuring is a long-term endeavour. Fortunately, we are implementing our restructuring from a strong position and the government has the resources to further help businesses if need be.
We must press on with restructuring but stay vigilant on the potential downside risks,” said Liang Eng Hwa, Chairman, Government Parliamentary Committee (Finance and Trade & Industry). Mr Liang was the Roundtable Co-chair with ISCA President Gerard Ee.

“How can we free up the individual from the pressures of family life and home so that, at whatever level, they can function to their optimal level at the work place? I think that is what’s missing when we talk about social capital,” said Mr Ee.

The Roundtable discussion highlighted optimism in the opportunities arising from the upcoming ASEAN Economic Community (AEC), but also the transitional pain experienced from the ongoing economic restructuring.

1 GOVERNMENT POLICIES, BUSINESS COSTS, MANPOWER

With regard to helping companies cope and adapt, panelists raised concerns about issues related to policy formulation and implementation. These include concerns that policies are not targeted enough to meet the needs of individual sectors or different firm sizes, that blunt policy instruments give the perception that policy-makers are detached from ground realities. Sunset clauses in schemes should be considered for removal. Schemes could be tweaked according to the needs of the life cycle of a business, for example startup, growth stage, etc. Further, schemes introduced to help small and medium-sized enterprises (SMEs) boost productivity may be confusing, or could be implemented with less cash flow and administrative challenges for the businesses. An SME-centric agency could better coordinate these schemes to meet SME needs and also to reach out to SMEs. Panelists said that the business sector welcomes secondment of policy-makers to businesses to enhance the effectiveness of policy formulation.

Further, panelists affirmed that the top business concerns are costs-related, such as wage cost, foreign worker levy and rental – a result consistent with ISCA’s survey findings. Additionally, the quota on foreign workers should be sector-specific and should not be applied on jobs that Singaporeans view as being less desirable. Policy-makers should examine further the causes of rental inflation over the years, such as changes in market arrangements or structure in the property market, to understand how to better contain rental cost escalations.

PROF SUM YEE LOONG “We have progressed a lot over the past 50 years. There are jobs that Singaporeans do not

DR JANNIE CHAN “You either have quotas or levies. If you take away the levies, at least we can then increase the wage of our local (workers). Some retailers are paying half a million dollars in levies even with quotas in place. With quotas and levies, it is a double restriction.”

TAN HEE TEC 

“Focusing on SMEs, I think it is important to understand their needs as they collectively employ 70% of the workforce and contribute to about half of our GDP. When we look at how we want to be future-ready, we need to look at how we can help SMEs to build capabilities with specific schemes.”

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want to do. My question is whether we need a quota (for these jobs)? It would be different if we are talking about PMEs. We should be looking at applying restrictions to these jobs.”

Panellists acknowledged that given rising business costs and a tight labour market in Singapore, businesses must raise productivity in order to grow. While a variety of productivity schemes are available, companies need to also know how to raise productivity and transform themselves holistically. It was discussed that technology remains an important enabler to drive productivity. The government could help to educate businesses to be savvy with technology while providing support with existing government schemes.

**PRODUCTIVITY AND INNOVATION**

More ways should also be found to incentivise and encourage innovation among companies. Panellists highlighted the importance of motivating the Singapore-based multinational corporations (MNCs) and SMEs to own and develop key assets, such as intellectual property, in Singapore. Policies may perhaps be finetuned to steer business behaviour in the desired direction.

To further encourage productivity and innovation, greater collaboration between SMEs and universities would also be useful. Arrangements to support such developments can be put in place; this will be mutually beneficial as undergraduates can gain hands-on experience while SMEs can at the same time gain better access to this talent pool.

**MAX LOH**

“Productivity incentive schemes are certainly good for their intent and purpose. However, schemes are only enablers of change. Ultimately, it’s about the mindset, knowhow, business processes and conviction – the entire ecosystem must rally us towards the productivity initiative. R&D and innovation are the main drivers of productivity. Companies know that, but...
execution of these more difficult levers remains a challenge. The question we need to ask critically is: Do companies really know how best to drive innovation and improve productivity?”

Frankie Chia: “Several government incentives are on a reimbursement basis which creates a lot of administrative issues and delays for SMEs. On top of this, SMEs also need to worry about their cash flow. One suggestion is for government schemes to pay out directly to the vendors/consultants instead.”

Jeann Low: “The use of technology increases our productivity and makes use of resources that would otherwise be idle. Business models have evolved, with greater ability to share resources. That has been the success formula. We need to look at enabling companies either to correctly invest in or use technology to step up on productivity.”

Chris Woo: “The role of intellectual property in today’s economy cannot be over-stated. This covers many value drivers and different aspects of the business, from technology to brands. To develop, own and exploit such key assets in and from Singapore is fundamental to future growth, for both Singapore-based MNCs as well as SMEs.”

**Mindsets and Attitudes**

Panellists also mentioned that employers have noticed a deterioration in the quality of the Singaporean workforce, with some noting that workers in Singapore have developed a misplaced sense of entitlement. One effect of this is that Singaporeans now tend to avoid jobs, particularly those in the service industry, which are deemed to be less desirable. It was discussed that efforts should be made to reinforce the idea that every job is a good job, and that every profession should be one that workers can be proud of. Perhaps schemes or incentives could be made available to support private or public organisations to undertake activities or educational efforts to change mindsets.

There is no doubt that the number one priority for Singapore’s economy and its businesses is to improve productivity. Small companies need help from large companies to understand how to go about improving productivity. A key component of achieving increased productivity is a much more engaged workforce.

Victor Mills: “Why are we always described as being “under happy” in surveys? How do we as a society begin to move the dial, improve workforce attitudes and reduce the thinking among parents, among job-seekers, that there is only a very narrow definition of what a good job is?”

Ho Meng Kit: “We have to move away from the paradigm where we are charging first-world prices for goods and services while having third-world input costs. If you pay workers first-world wages, attitudes will change and they will want to serve.”

**Social Capital**

Several panellists focused on the importance of the social dimension in building an inclusive nation, where social capital can be created from the trust and cooperation that people cultivate through having more social support or networks. Social capital could be developed through providing incentives to raise the employment of seniors and other disadvantaged groups, reviewing...
the allowance of certain relevant tax deductions and enhancing child reliefs, and fostering volunteerism.

Incentives could also be considered to encourage the private sector to increase their commitment to being socially responsible through supporting employee volunteerism, which could positively influence mindsets and attitudes. Volunteers could benefit from skills gained through volunteer activities, which they could then apply in their work places.

These will contribute to increasing the level of social support for the working population and other vulnerable groups in Singapore. The importance of social capital cannot be overlooked even as other ongoing efforts are made to address concerns of businesses.

SIM GIM GUAN “Collaboration among the people, public and private sectors is critical in how we develop social capital. More companies have started to become increasingly socially responsible. However, companies should consider the impact of their CSR activities, and one area they should look into is skills-based volunteerism. In addition, companies should also look into the employment of vulnerable groups, and if the government can extend additional help to companies so that they are better able to engage the vulnerable groups and allow them to stay employed, that would be very beneficial.”

CHRIS WOO “In encouraging our older workers to remain in the workforce, it is also important to reduce the burden on employers. We need to relook at the cap on healthcare cost tax deductions for these workers so as to cater to their circumstances and as a means to alleviate costs for employers. Other innovative ways could include more generous deductions for certain salary costs of workers above a certain age.”

LOW HWEH CHUA “There are many tax incentives that we can tweak to give more social support to individuals. For example, tax deductions for CPF and life insurance premiums may be delinked. It will encourage more people to save for their future and well-being.”

INTERNATIONALISATION

Besides encouraging businesses to take advantage of the establishment of the AEC, when going overseas, the Singapore brand should also be leveraged upon. There are views that the government needs to give incentives that recognise and encourage brands to be built internally by Singapore firms.

A pertinent challenge to going overseas is finding trusted overseas partners or suppliers. There were also views that the external environment is very uncertain, thus, this may not be a good time to go abroad. A different perspective of internationalisation, according to the panellists, was that it could benefit from some finetuning; for example, tax treaties could be refreshed with the aim of maintaining Singapore’s competitiveness as a business hub.

MAX LOH “No one can afford to stand still in today’s competitive globalised economy. We must make sustained efforts at promoting investment and enterprise growth as well as finetune our policies and initiatives to enhance the value of Singapore as an economic hub. For instance, Singapore was a first mover in tax treaties, but our treaties are now older and other countries have since signed treaties that are more relevant and progressive. It’s time we review and refresh our existing tax treaties, and negotiate new and improved ones.”

TAY HONG BENG “Singapore brands have grown in recognition overseas. We have to inspire the new generation of Singapore entrepreneurs to build brands. There are currently no significant incentives, especially tax-wise, which assist or reward businesses for building good brands from scratch. Brands in themselves are extremely important as businesses venture abroad and seek to compete in the international market.”

IRENE KHO “Businesses are interested to expand overseas, especially given the establishment of the Asian Economic Community. Firms are looking for broad-based holistic government support to penetrate larger overseas markets. Businesses have cited difficulty in finding trustworthy partners or suppliers abroad as their top concern with regard to overseas expansion.”

The full ISCA Pre-Budget Roundtable 2015 report can be downloaded via http://isca.org.sg/bca/bm/singapore-budget/pre-budget-roundtable/