Institute of Policy Studies

Budget 2014 and Economic Restructuring in Singapore

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Since the Global Financial Crisis (GFC) in 2008, Singapore has been restructuring its economy and making efforts to raise productivity levels through innovation so as to reduce its reliance on foreign labour. In a pre-Budget survey by KPMG, 65.8% of the businesses interviewed said that the policy-driven structural changes to the economy have been too accelerated for most companies to manage (KPMG, 2014). In the same survey, an overwhelming 96.8% of respondents reported that they had just started the transformation of their respective business models towards productivity and innovation-driven pathways and hoped that the support measures such as the Productivity and Innovation Credit (PIC) Scheme introduced in 2010 could be extended and enhanced.

Given that Singapore is in the early to middle stages of economic restructuring, has the Budget 2014 included appropriate measures to help companies, especially small and medium enterprises (SMEs), to stay on the course in restructuring?

Supporting Innovation to Raise Productivity

The PIC Scheme is a popular government assistance scheme aimed at enhancing support measures to transform companies to becoming more productive. The PIC covered six key areas: (1) information technology (IT) equipment and automation, (2) employee training, (3) acquisition of intellectual property rights, (4) registration of patents, trademarks, (5) research and development, and (6) design projects.

Despite a slow “take-up” rate by SMEs, a survey conducted by the Singapore Chinese Chamber of Commerce & Industry finds that in 2013, 77% of firms had benefited from the PIC and in 2012, 44,000 companies had utilised the PIC (SCCCI, 2013). Among SMEs there was concern for expiry of the PIC in 2015 (Singh, 2013). Two out of three SMEs with a turnover of more than $1 million have claimed benefits under the PIC (Ministry of Finance, 2014). In the Budget 2014, the PIC has been extended to 2018 and in addition, a PIC + scheme has been announced to help SMEs transform their businesses. Furthermore, the expenditure cap for the PIC + scheme has been raised from $400,000 to $600,000 per year (Wong, 2014). However, for the remaining third of SMEs that have not taken advantage of the PIC, could more be done to identify and engage them?

In a news report, Non-constituency Member of Parliament Yee Jenn Jong cites the same survey by KPMG, saying that it "highlighted a worrying finding that SMEs and even Singapore public-listed companies have not found benefits in innovation schemes. Respondents in that survey commented that the Inland Revenue Authority of Singapore (IRAS) has been very strict in administering incentives" (Goh, 2014).

Prior to this, IRAS had completed an audit of the claims for the PIC scheme and after, examining a sample of the PIC claims, said that on average a third had mistakes. While most of these were genuine mistakes, there is concern over the rising number of deliberate offences in which companies had submitted fraudulent PIC claims (IRAS, 2013). Another concern was that it was unclear how much benefit companies were deriving from their investments because it was too early for an economy-wide productivity improvement to be visible. For the remaining one-third of SMEs that did not utilise the PIC scheme, the likely reason was the perception that they would not benefit from the scheme because of the limited scope under which the incentives were provided and because the challenges of restructuring requires an approach beyond micro-managing transformation (KPMG, 2014). For example, brand building is a key concern among businesses and this included the intangible benefits of building a brand, something which the PIC scheme has not included. In this context, could the PIC + scheme — meant specifically for SMEs — play a role?

Managing our Reliance on Foreign Labour

Labour, especially the recruitment and retention of non-residents, is another area of key concern for companies. While there has been no further broad-based tightening of foreign labour policies, the SMEs that are heavily dependent on foreign labour such as the food and beverage (F&B) sector have to redouble their efforts to leverage technology and innovation if they are to survive (Budget 2014 — A well-tuned Budget: DBS, 2014). Effectively, with the PIC and the Infocomm Technologies for Productivity and Growth (IPG) Programme expiring in 2018, SMEs in the F&B sector would have to modify their business models within the three-year time frame. This means heavily leveraging innovation through the use of technology to compensate for a reduced number of service staff. However, the issue is multifaceted. For one, the F&B sector has difficulty in attracting and retaining Singaporean workers. In his Budget 2014 speech, Deputy Prime Minister Tharman Shanmugaratnam pointed out that a change in cultural mindset among consumers is also required. For example, the F&B sector in Singapore should be modelling itself after developed economies that rely less on service staff, rather than on developing economies that have an abundance of service staff (Ministry of Finance, 2014).

Other sectors that find it hard to recruit locals such as construction have also been affected with the increase of foreign worker levies for the Basic Skilled (R2) Work Permit (Wong, 2014). However, levies for higher skilled or R1 work permit holders remain unchanged. In addition, the maximum period of employment for R1 work permit holders from non-traditional sources and China has been extended from 18 to 22 years. This extension will also apply to the Marine and Process sectors (Wong, 2014). Skilled workers are central to expanding and rebuilding infrastructure, and if there is a shortage of these workers, the restructuring process would slow down.

This trend suggests that the government places emphasis on the construction industry by assisting construction companies to retain their workers with better skills and experience. In addition, basic skilled workers who have worked in Singapore for at least six years and earning a salary of at least $1,600 will be allowed to upgrade to Higher Skilled or R1 status. This policy shows the specific targeted approach employed by the government for construction firms to not only leverage technology and innovation to fulfil the basic manpower requirements of their businesses but also to increase the skills level of their respective employees. In the long term, the government might consider mandating a minimum proportion of R1 work permit holders at the company level to improve the skill profile of the foreign workforce (Wong, 2014).

While a change of mindset among F&B customers would help companies remodel their business operations, this process may be incremental at best. Besides, the government may not be in a position to accelerate this phenomenon. However, for the construction industry, the restructuring of the economy rests on the premise that our infrastructure has to be in sync to deal with the transformation. Notably, this requires governmental policies that are critical in enhancing the skills and expertise needed to accelerate the transformation of the construction industry. In this sense, the budgetary recognition to help firms retain and upgrade the skill sets of their more experienced workers is a step in the right direction.

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