

## An eye on 5 'I's of Budget 2017



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PRIOR to Budget Day, my team and I hypothesised that going by recent announcements, such as that of the Committee on the Future Economy (CFE), Budget 2017 would comprise five "I"s.

Broadly classified, we expected announcements on Innovation, Industry, Internationalisation, Inclusiveness and Idea. The Minister did not disappoint. There were indeed five "I"s and a few more, including Info-communications and Infrastructure.

This year's Budget proposals were largely domestic, recognising the contribution of local enterprises to the Singapore economy. This is

recognition of the pivotal role SMEs play in the economic future of Singapore.

### **I is for Innovation**

Since the Productivity and Innovation Credit (PIC) was introduced eight years ago, most of the interest has surrounded productivity, with far less focus on innovation.

This year, the attention is squarely back on innovation, with the Global Innovation Alliance, Innovators Academy and Innovation Launchpad.

There are also the Government Enabling Growth and Innovation measures such as greater forward-looking regulations balancing governance with greater risk taking.

Yet, in value creation, every form of innovation counts and is worthy of support. In the drive from value-adding to value-creating, the overall outcomes sought from innovation did not seem clearly defined.

Initiatives targeted at encouraging broad-based innovation were also absent. Such broad-based incentives promoting innovation could have gone far in encouraging new and truly disruptive business models.

After all, innovation defies absolute definition, classification and the ability to correctly pick winners most of the time.

And surely the greatest economic benefits from greater innovation must be complemented by promoting greater entrepreneurship. Yet, such measures were also absent this year.

Nothing was also said about what replaces the expiring PIC. Without enhanced deductions, the modest 68 per cent deduction benefit will soon be reduced to 25.5 per cent, making Singapore less attractive as an R&D destination.



### I is for Internationalisation

Internationalisation measures are addressed in the Budget in areas ranging from supporting internationalising SMEs to skills development.

In an increasingly borderless digital world, the introduction of the SME Go Digital initiative not only serves to help digitalise SMEs; it may help them compete more effectively with larger companies, and even reach customers in the farthest corners of the physical world.

The creation of a S\$600 million International Partnership Fund is also the right step forward in internationalisation, helping Singapore companies scale up and go overseas.

### I is for Industry

The Finance Minister spoke about how our people and our industries must come together, sharing expertise, tackling common challenges and reinforcing efforts.

Budget 2017 follows on from 2016, with the continued implementation of Industry Transformation Maps, with those for the remaining 17 of 23 sectors to be launched this year. There is also the Industry Digital Plans, part of the SME Go Digital initiative.

These and other sector-specific initiatives expanded, extended or introduced this year recognise that it is hard to pick sectoral winners.

It would therefore be better to focus on capability development to help local companies become more competitive on the global stage.

Lacking, though, this year were measures on cross-sector innovation. With the convergence of

many industry sectors, it is important to look beyond individual industry silos.

### I is for Inclusiveness

This year, efforts to develop a vibrant and connected city as well as build a more inclusive society continue.

Coincidentally, "I" is also for "Infrastructure", which featured significantly, as investing in economic infrastructure is necessary for long-term growth.

What differs from the past is the acknowledgement that developing infrastructure today comes with the recognition that in shared economies, there should be shared infrastructure.

Examples include the upcoming growth cluster planned for Punggol to co-locate cybersecurity and digital industries.

But really, Inclusiveness is about building a caring society. More household support measures have been announced. Totalling an expected S\$850 million, it includes GST vouchers, education bursaries and more service and conservancy charges, while the disadvantaged will receive more support.

### More important, I is for Idea

We speculated what that biggest Idea might be in this Budget. Looking over all the proposals in Budget 2017, our vote goes to the introduction of a Carbon Tax.

In an advanced industrial and knowledge economy heavily reliant on energy, a carbon tax will greatly encourage energy efficiency.



Energy use is so fundamental that an upstream carbon tax may not just be a price signal incentivising industries to reduce emissions upstream. It may also drive productivity all across the economy.

Examples include manufacturing processes becoming more efficient, and labour productivity increasing as investing in efficient technologies reduces the carbon footprint of a larger workforce, while technology makes each employee more effective.

### **Conclusion**

Overall, this is another Budget aimed at building skills and capacity to bring our economy to the next frontier.

Some pundits will say that, like the CFE announcement last week, it is long on intent and short on details. However, the Budget underscores a cultural value that has long defined Singapore - an adaptive approach to modern realities that prizes the ability to change direction quickly.

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