

Opening Remarks of Symposium

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Welcome, Ms Lim, Chairman of the Civil Service College, colleagues and our distinguished guests from the private sector.

I was recently at the two-day Risk Assessment and Horizon Scanning Seminar organised by the Rajaratnam School of International Studies. I would like to share with you one insight from a speaker named Gary Klein. He said, “We all know the danger of having a closed mind” – that means the danger of having a fixed opinion. Therefore, it is good, or most people concluded that it is best, to keep an open mind. However, Klein’s research found that keeping an open mind is worse than having a closed mind

This is said in all seriousness. If you have a closed mind, you might have an opinion about something and do something which might turn out to be wrong; then you might learn or change (or some people don’t change, unfortunately), but at least something is done. If you have an open mind, it means that you do nothing because you don’t know what to do. It turned out, according to Klein, that the optimum strategy is to have a good hypothesis in mind but to be mentally prepared to test it against reality.

My belief in regulation arose from the fact, which Max Boisot alluded to two days ago at a seminar at the College, that the free market cannot operate without a very highly regulated environment or regime. That is ironic because it is nice to feel that we can leave everything to the free market and wash our hands off it.

The example that’s commonly given is China. The country has moved to a free market structure from a socialist, communist system but there are constant reports of corruption, failures and downright fraud. I agree with

Boisot that the reason is that China doesn't have the necessary regulatory or institutional framework to make the free market work.

This is not unique to China. Today, the US is often seen as a success of the free market system. But in the early days, the so-called "Robber Baron" era of the US, there were many examples of abuse of the free market system. Many of the regulatory concepts and practices arose to limit the abuses of the free market system in the early 1900s, e.g. the Antitrust Act and the Glass-Steagall Act. So my first message for today is: A good regulatory regime is essential for the free market to function effectively.

What is my hope for this series of Symposiums on Economic Governance? In the course of my work in the Civil Service, I have had the benefit of working on market regulation for many years. It is interesting to note that the regulatory regime grows or emerges, in complexity theory lingo, to fit the environment. There is no single correct regulatory regime in the world.

I have reached the conclusion that Singapore ought to tell its story because we have a very successful story. The evolutionary path that we went through in developing this regulatory expertise is a good story to tell and we should tell it. In an age where language and words form valuable intellectual property, we should make use of that intellectual property. I want to thank the four regulators for taking a lot of time to prepare and share with us that philosophy, to articulate it, make it explicit and tell our story.

Each of these four regulators and their sectors have unique characteristics. By bringing them together, our second purpose is to enable you to understand the differences in their approaches and the reasons for the differences. I would encourage you to ask questions and pose your comments too. Those who are not inside the regulatory bodies can be said to be the "victims" of the regulators. This is your chance to speak out so that, going forward, the regulators can learn something from you.

But regulatory practice is also dynamic over time. So I hope that this series will not be the first and last. At regular intervals, we should meet and see whether we have shifted, advanced and learnt from the previous years. If we do this over a period of time, we can actually build up a very good knowledge base that we can share with the rest of the world. And if the rest of the world comes to us and there is a market, why not sell that

expertise as a consultant? We now have a brand name, we have an implicit product, but it's a prototype. We haven't polished it; we haven't presented it to the world.

Marketing services is just like marketing goods – it makes a lot of difference if you package it. In the mid-1980s, we used to visit China and if you visit some of those palaces in the capital, you see hundreds and thousands of items lying in the dust, strewn all over the floor. You look at it and you say, "What so great about these imperial treasures?" Then years later, the New York museums and others began to exhibit a selected few, cleverly packaged with black velvet and lighting. This brought out the real beauty of the pieces. This applies to our regulatory experience as well. Let us package it appropriately and let everyone appreciate the value of what we have learnt.

So with that, I thank you, as well as the speakers, for coming here to support us.

CHAPTER 1

ELECTRICITY MARKET REGULATION

Khoo Chin Hean, Chief Executive,
Energy Market Authority

From One Provider to Multiple Competing Providers

Prior to the 1990s, the sole provider of electricity in Singapore was the Public Utilities Board (PUB). Upward pressure on electricity price led the Government to ponder over whether electricity production, transmission and distribution are as efficient as they can be and how they can be improved.

Also at around the same time other jurisdictions, e.g. UK, some states in the US, Australia and New Zealand, were already at advanced stages of studying and implementing electricity markets.

Competition exerts downward pressure on costs and therefore prices. Competition drives companies to find ways to stay more competitive than the next company or risk being driven out of the market.

But the Singapore market was small. Can competition work properly in such a small market? In addition, competition and an electricity market cannot happen with just one provider. Significant industry reforms, which would inevitably carve PUB into smaller companies, had to be carried out. Would this not destroy economies of scale?

The Government decided in 1995 to take the initial step to have the electricity and gas undertakings in the PUB corporatised under a separate organisation viz. Singapore Power. PUB was left to regulate the electricity industry.

An electricity market was started in 1995 with the generation companies in Singapore Power competing with each other for despatch. Singapore Power was a vertically integrated dominant power company that owned and controlled electricity production, the electricity highways and electricity retail. While scale was retained, it was not possible to attract new power companies to compete when the market was dominated by Singapore Power.

The Government thus decided in 2000 to take further steps to open the electricity sector to competition. The decision led to the separation of the natural monopolies, viz. the electricity grid and gas pipeline companies, from the parts which can operate in the competitive domain, viz. the generation and retail companies. The natural monopolies remained under Singapore Power whilst each of the power plants was set up as separate companies to compete with one another. At the same time, the Energy Market Authority (EMA) was formed to regulate the electricity market.

In the electricity market, the cost of the natural monopoly (i.e. the grid) account for about 25% of electricity price. The companies that compete account for about 75%.

Demand Side Participation

By 2007, about 10,000 accounts, representing about 75% of electricity consumed in Singapore were made contestable, i.e. they were allowed to choose their own electricity provider. Apart from the benefits due to competition, these consumers further enjoy benefits derived from economies of scale that retailers offered to them as large consumers.

Though the objective is to allow all consumers to become contestable, the remaining one million plus consumers who use about 25% of electricity consumed are not yet contestable. However, the benefits from competition have already been passed through. Beyond this, further benefits come from economies of scale which the remaining small consumers do not enjoy. EMA is currently studying the use of technology so that the costs to retail electricity to these consumers will not outweigh the benefits that these small consumers will enjoy from contestability.

CHAPTER 2

TELECOMMUNICATIONS MARKET REGULATION

Leong Keng Thai, Deputy Chief Executive Officer
and Director-General (Telecoms),
Infocomm Development Authority of Singapore

Liberalisation Overview

1879 was the year when the first private telephone exchange started in Singapore, just three years after the telephone was patented by Alexander Graham Bell. A century later in 1990, SingTel installed its millionth telephone line. By 1992, SingTel had revenues of close to S\$1 billion and was widely regarded as an efficient and profitable operator. Nevertheless, the Government decided to corporatise SingTel as a private company for several national policy reasons.

First, SingTel would have the freedom to invest and internationalise as a commercial entity. This would benefit SingTel and also contribute to the globalisation strategy of the Singapore economy. Second, as a commercial entity that was accountable to its shareholders and that would eventually be subject to competition, SingTel would have to improve its operational efficiency leading to lower tariffs and improved services for business customers, strengthening Singapore's business hub status. It was nonetheless noted that SingTel was already very modern and efficient for its time. Third, SingTel's subsequent listing would provide Singaporeans with the opportunity to own good quality stock and give the necessary depth to the Singapore stock market – SingTel's 1993 listing remains Singapore's largest initial public offer. Fourth, the separation of the regulator and the service provider would be the first step in the gradual liberalisation of the sector.

COMMENTARY ON MARKET LIBERALISATION AND REGULATION: The Electricity and Telecommunications Sectors

Phang Sock Yong, Professor of Economics,
School of Economics, Singapore Management University

Introduction

Having heard the two presentations, it is clearer now why electricity and telecommunications are considered the most technically complex and challenging of the network industries to regulate. Twenty years ago, governments did not have to deal with this problem. The industries were regarded as natural monopolies and were either state-owned or as in the US, regulated private monopolies. By the 1990s, many countries had decided that the benefits from reform were well worth the costs and risks involved.

After competition was introduced, large chunks of monopoly power remained. In such a setting, the regulator has three main roles: the first is to regulate prices to avoid monopoly profits; the second is to prevent anti-competitive behaviour by the dominant incumbent and to ensure fair access by all market players to essential facilities and networks; the third is to decide when and how to further de-regulate in a dynamic and complex setting. While simple to state, these tasks are difficult to effect and especially so when rapid technological changes open up new markets and make obsolete others within a short span of time.

CHAPTER 4

OBJECTIVES AND PRINCIPLES OF FINANCIAL SUPERVISION IN SINGAPORE

Chia Der Jiun, Executive Director,
Prudential Policy Department, Monetary Authority of Singapore

Introduction

The *mission* of the Monetary Authority of Singapore (MAS) is “to promote sustained and non-inflationary economic growth, and a sound and progressive financial services sector”. To carry out this mission, MAS conducts exchange rate policy, manages the official foreign reserves, regulates and supervises the financial sector, and works with the industry to develop Singapore as an international financial centre.

This paper focuses on the supervisory aspect of MAS’ mandate, namely, to promote a sound and progressive financial services sector through regulation and supervision.⁴ It sets out MAS’ *objectives* or desired outcomes of supervision, the *functions* it performs directly or facilitates to achieve these outcomes, and the principles that guide its supervisory approach.

The schematic representation below illustrates how the various functions of MAS, based on a foundation of guiding *principles*, help to support the achievement of MAS’ objectives and mission.

Background on Singapore’s Financial Services Sector

Singapore’s development as an international financial centre began in the late 1960s. Over the years, its sound economic and financial fundamentals, conducive regulatory and business environment, strategic location, skilled

⁴ *Regulation* refers to the establishment of specific rules of behaviour and *supervision* means the more general monitoring of the behaviour of financial institutions, including compliance with rules and regulations. When the term “supervision” is used in isolation in this note, we intend it to mean the broad oversight that includes both regulation and supervision.

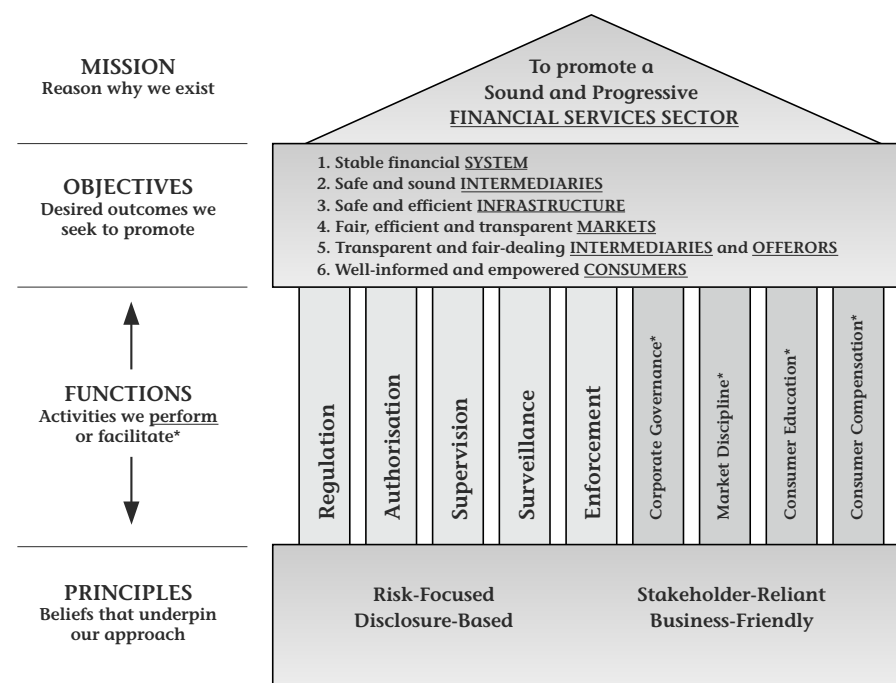


Diagram 3: Objectives, functions and guiding principles of MAS

and educated workforce, excellent telecommunications and infrastructure, and high living standards have attracted many reputable international financial institutions to set up operations in Singapore. Today, financial services account for 11.6% of Singapore’s GDP.

There is a large and diversified group of local and foreign financial institutions, numbering about 500, located in Singapore and offering a wide range of financial products and services. These include trade financing, foreign exchange, derivatives products, capital market activities, loan syndication, underwriting, mergers and acquisitions, asset management, securities trading, financial advisory services, and specialised insurance services. The presence of these leading institutions has contributed to the vibrancy and sophistication of Singapore’s financial industry. In 2004, the World Economic Forum Global Competitiveness Report ranked Singapore among the top 10 most sophisticated financial markets in the world.

CHAPTER 5

PROMOTING COMPETITION: The CCS Perspective

Ong Beng Lee, Chief Executive,
Competition Commission of Singapore

Introduction

The Competition Commission of Singapore (CCS), a statutory board under the Ministry of Trade and Industry, was established on 1 January 2005, to administer and enforce competition law in Singapore. It aims to promote healthy competitive markets that will benefit the Singapore economy, based on sound economic principles applied objectively and consistently.

What is competition law? The objective of competition law is to protect competitive processes by preventing players from agreeing not to compete or a dominant firm from dictating the terms of competition. Competition law is one aspect of competition policy that focuses on anti-competitive practices by businesses that inhibit competition. It is not about protecting the interests of individual players in the marketplace. Nor is it about consumer protection, although the competition authorities in some jurisdictions, such as UK and Australia, also have this role.

Background And Context

Why Competition Law?

Singapore has generally relied on free and open markets to foster the competitiveness of our markets and businesses. Competition spurs

COMMENTARY ON PROMOTING COMPETITION: The Financial Sector and Competition Policy in Singapore

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The Competition Commission of Singapore (CCS) has given a clear and comprehensive presentation of its roles and functions. CCS, being a “latecomer” among the developed countries in the field of market regulation, had the advantage of observing and learning from the experiences of other countries, so that it could fine-tune its own practices to suit the local conditions.

While it was still early days for CCS, one could however discuss some potential constraints that CCS might face in practice.

Competition Constrained by a Small Economy

The first constraint had to do with market size. In a small economy, some concentration of market power in certain industries was often unavoidable, especially in industries that exhibited a tendency for natural monopolies. Hence, there was a limit to the amount of competition achievable. Firms might also be given some amount of monopoly power to operate close to their optimum size, so that their average costs of production would fall and the decreasing costs could in turn be passed on to the consumers.