Rows of oBikes at a field in Sengkang. The bicycle-sharing firm has exited the Singapore market, saying it is unable to meet new licensing requirements. The writer believes that given the potential advantages of the bike-sharing industry, regulators should consider creative approaches such as subsidies to incentivise optimal user behaviour instead of imposing onerous costs. ST PHOTO: NG SOR LUAN

Bike-sharing: Balance between regulation, supporting innovation

At least two bike-sharing companies exited the market after new licensing rules kicked in. Is the need for order and discipline stymieing creative thinking?

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For The Straits Times

The closure of Singapore-based bike-sharing firm oBike will certainly be cheered by many critics. Those who complained about the "eyesore" and "clutter" of indiscriminately parked bikes will be pleased to see them gone.

oBike has said the firm is unable to meet the tougher licensing rules introduced to crack down on bikes strewn randomly across the island. However, oBike also left the Melbourne market recently. It is possible the company was having financial difficulties with a huge fixed upfront cost and revenues trickling in slowly. So, maybe it used the rules as a convenient excuse.

But putting aside such questions, there are broader implications to this story that send worrying signals about Singapore's openness to innovation.

The rapidly growing industry of bike-sharing presents an innovative solution to the globally pressing problem of urban transportation and offers several significant spin-offs.

These include the obvious health benefits of getting more people to ride bikes, as well as the reduced congestion and pollution derived from moving people away from motorised transport.

In my own recent research at the National University of Singapore Business School, for example, I found that about 11 per cent of bus and MRT journeys are single-stop journeys. Reducing these by encouraging people to switch to bikes for short trips would reduce congestion and speed up commuting duration.

Innovations inevitably bring with them positive and negative externalities – the term economists use for the public consequences of a business activity that are not fully reflected in the price.

While not all innovations are necessarily effective and have a positive impact on society, they are undoubtedly the key to success of an economy.

The Singapore Government has made much play of this, and innovative thinking is rightly being put at the heart of the nation's educational push. To thrive and progress, Singapore needs to nurture and drive a culture of innovation and encourage ideas that have a significant impact on society.

Being open to innovators requires flexibility, easing up on the leash, acknowledging that new ideas take time to develop and evolve, and perhaps require the country to step – at least a little way – outside of its comfort zone.

To be sure, regulation of varying degrees is necessary because industries cannot self-regulate – their primary incentive is to make profits, rather than to simply improve public welfare.

Some industries require more stringent regulation than others. Banking, for example, can have destabilising effects on an entire economy – unregulated financial "innovations" can have far-reaching and significant consequences.

Likewise, utility firms also require regulation because of the huge fixed infrastructure costs that are inherent to the business. These reduce competition and, without regulation, could give a few players the power to effectively set their own prices.

However, in other cases, there are innovative industries and ideas that offer many benefits to consumers.

In cases where a particular innovation generates many positive externalities, the role of the regulator should be to support and manage its development and progress, as well as its wider impact.

In the case of bike-sharing, I would argue that the advantages significantly outweigh the drawbacks – indeed, they match closely with government aims of making Singapore a car-lite society.

More can be done on the part of the Government to internalise the externalities of this new industry and alter the behaviour of consumers.

Principles of economics teach us that aligning incentives can create a win-win situation.

Research has shown that small subsidies can change behaviour, developing over time into such an ingrained habit that, ultimately, subsidies are no longer required.

Thus, cheap bike-sharing options today might shift consumer behaviour so that people become used to riding bikes for the "last mile" connection to their destinations, to the extent that they are later prepared to pay for bike-sharing services priced at sustainable levels.

Singapore is globally renowned for its orderly urban planning and development. But too much of a preoccupation with order and discipline can stymie creative thinking and shackle innovation.

Rather than imposing onerous costs, regulators need instead to think of creative approaches to tackle negative externalities by incentivising optimal behaviour and usage. In the case of bike-sharing, this might take the form of targeted subsidies or rebates that encourage users to park responsibly and in designated areas, as innovations that are good for the country deserve to be subsidised.

Instead, what we have seen is a regulatory response that has seen at least two players, including oBike, exit the country. ShareBikeSG also cited licensing requirements as a factor for its move.

The silver lining might be that other bike-sharing companies such as Mobike are still operating, and so I would encourage the Government and regulators to nurture them and help them become a stable part of the Singapore ecosystem.

Given Singapore's small size, transportation will certainly become an increasingly pressing problem, for which bike-sharing promises to be at least part of the solution.

Yet when it comes to innovation, Singapore's diminutive stature is also a strong advantage. It provides a manageable stage on which new ideas can be tested and refined. It also offers an easily monitored space where things that go wrong can be easily and quickly addressed.

In another recent study at NUS Business School, I looked at the success of the Home Office Scheme on encouraging entrepreneurs to launch businesses from their own homes. Such innovative thinking and policies show that Singapore can be a world leader in encouraging entrepreneurship.

But innovators and entrepreneurs also tend to be footloose – if the environment doesn't suit them, they will go to somewhere that does.

The broader lesson from oBike's closure is that we must carefully consider how regulation and innovation can work together, rather than against each other.

Otherwise, when it comes to encouraging and nurturing innovators, Singapore will be at risk of losing its competitive edge.

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