SPEECH BY MR LIM HNG KIANG, MINISTER FOR TRADE AND INDUSTRY DURING THE COMMITTEE OF SUPPLY DEBATE (MINISTRY OF TRADE AND INDUSTRY) ON MONDAY, 6 MARCH 2006
[in response to cuts (a) to (j) under Head V]

INTRODUCTION

I thank Members for your insightful comments and suggestions. Many of you have spoken about how we can help local enterprises, as well as the importance of Research and Development (R&D). These are indeed two areas that will strengthen our competitiveness in the coming years, and where we will be giving more emphasis over the next five years.

I would also like to divide the issues raised into two levels. At the macro level, Members have suggested ways to improve our competitiveness and adjustments to our economic policies. We all agree that the Singapore economy has recovered and the prospects are positive. We are ranked very high in terms of competitiveness, effective tax rates, ease in doing business, quality of infrastructure, and connectivity. We have a strong pipeline of investments; our trade is robust and our tourism receipts are growing. With our focus on R&D and the investment in our talent, I am confident our competitiveness would be reinforced.

At the second level, I sense that Members would like to see how our economic policies and programmes can be effectively implemented to help our companies grow and create jobs. I agree completely with Members. We must ensure that our strong GDP is translated into growth opportunities for our companies; that more FTAs mean more export opportunities; and that higher R&D spending results in technology upgrading in our companies. Let me elaborate.

GROWING TOGETHER

Dr Ahmad Magad has suggested a platform for MNCs and SMEs to regularly meet and interact. I agree with him that we should strengthen the economic linkages between the MNCs. One such platform is EDB's Local Industry Upgrading Programme, or LIUP, where MNCs form strategic partnerships with their SME suppliers and other companies. It is a win-win partnership. MNCs can build up a strong supplier base supporting their requirements, while SMEs can avail themselves of the MNCs' technical and managerial expertise to upgrade and be more competitive.

Over the last five years, LIUP has assisted some 670 local enterprises. A good example is Baxter Healthcare SA and its group of local suppliers. Baxter manufactures medical products such as intravenous sets and renal pumps. Under LIUP, Baxter has worked to develop its suppliers' capabilities through knowledge transfers and promotion of quality standards. Last year, it conducted two training sessions for 24 of its local suppliers to equip them with the ability to apply quality predictive tools to streamline their manufacturing processes.

As Members would remember, this was how we built up the electronics industry over 30 years. The MNCs provided the base that led to the development of the local precision engineering industry, which comprises many SMEs serving the tooling and component needs of the MNCs. Some of these SMEs later grew and internationalised, such as Unisteel and Seksun. Others become contract manufacturers, such as MMI. The vibrant local precision engineering industry in turn attracted more electronics MNCs, and further strengthened our electronics cluster. The supply chain management for electronic products gave the logistics sector a boost, with several SMEs growing to become sizeable regional logistics players, such as Accord Express Holdings. Not only that, it has also given rise to a huge electronics international wholesaling and trading cluster in Singapore, creating more business opportunities for additional local companies.

This same story is repeated in the chemicals, transport engineering and biomedical sciences, or BMS clusters. Increasingly, we are seeing the spill-over of such linkages across clusters. For instance, the local precision engineering industry, which started off supporting the electronics industry, is now also serving new growth areas like the medical technology, aerospace and automotive industries.

The second suggestion put up by members like Dr Tan Boon Wan, Mr Inderjit Singh and Mr Lawrence Leow is how to help our companies go overseas. They have suggested two approaches, one, by banding together such as through consortiums, and two, going together also as a cluster in the same location.

This is something that IE Singapore fully supports. By banding together, our companies can increase their chances of success. Through the iPartners programme, IE encourages the formation of strategic alliances among large companies (which need not necessarily be GLCs), and small enterprises. Last year, IE supported 12 new alliances comprising 60 companies, which are expected to generate over S$415 million in overseas sales.

One such alliance is the Singapore Building and Infrastructure Consortium (SBIC). Led by SembCorp Engineers and Constructors Pte Ltd and DP Architects Pte Ltd, the consortium is targeting the Middle East market. Collectively, the 14 consortium members represent the complete value chain for the building and construction sector, from master-planning, engineering, consultancy, construction to procurement. This enables the SBIC to present an integrated team capable of delivering complete solutions, thereby boosting their chances of success in securing larger projects.

INTEGRATED HELP FOR SMEs

The LIUP programme and the iPartners programme illustrate that our approach to developing our SMEs is a painstaking one, involving sector by sector, consortium by consortium. We cannot just wave a magic wand and every SME will be helped.

Mr Inderjit Singh proposed establishing a Local EDB, while Dr Wang Kai Yuen suggested also centralising help to the SMEs. Dr Ong Chit Chung, during the Budget Debate, had said that SMEs were like Cinderella and called on the Government to send a Prince Charming to transform Cinderella into a princess. But we have 120,000 SME Cinderellas in all shapes and sizes out there, and they wear different sizes of glass slippers. They range from your neighbourhood stores, to bigger names like Osim, Inter-Roller and HTL. It is hard to imagine that a single agency can be that Prince Charming, with the full breadth and depth of sectoral knowledge and domain expertise to fully cater to all our SMEs' needs. For example, BCA's involvement will be needed for SMEs in the construction and renovation sector, IDA for IT development, and WDA for workforce upgrading and retraining. Hence, the more sensible approach of developing our SMEs is to adopt a "whole-of-government" approach.

What we have done is to appoint SPRING as the overall champion for SMEs. SPRING will leverage on the strengths and expertise of other agencies to provide holistic and integrated services to SMEs, in line with the vision of "Many Agencies, One Government".

Enterprise One

A concrete result of this integrated, multi-agency approach is the recent launch of EnterpriseOne, which stands for "One Network for Enterprises". The portal at www.business.gov.sg is a Government-wide initiative managed by SPRING in partnership with business chambers and industry associations. It enhances SMEs' access to business information, Government e-services from more than 30 agencies, and advisory and consultative services. I urge Members to give it a try and I welcome your feedback on the effectiveness and usefulness of this portal.

Enterprise Development Centres

The second pillar of the EnterpriseOne initiative is the network of Enterprise Development Centres, or EDCs that are being set up. These EDCs, run by the various business chambers and associations, offer business advisory and consultancy services. Today, SMEs can visit any of three EDCs at the Association of Small and Medium Enterprises, the Singapore Manufacturers' Federation and the Singapore Chinese Chamber of Commerce and Industry.

Mr Lawrence Leow has asked about the Government's long term plans for the EDCs. The idea of EDCs was prompted by industry calls for a consultancy or advisory panel which SMEs can turn to for business advice, be it to upgrade, expand or venture overseas. Recognising that most SMEs will not be able to afford the services of the likes of McKinsey, the Government sought the cooperation of the major business chambers and industry associations to provide guidance and advice to enterprises and would-be entrepreneurs.

As each chamber and association has a specific business focus, the EDC so formed will similarly have its own focus and areas of specialisation. For example, the EDC at the Singapore Manufacturers' Federation focuses on manufacturing-related diagnostic and consultancy services, while the one at the Singapore Chinese Chambers provides comprehensive advice on doing business in China.

So far, the Government has provided co-funding support to defray the set-up costs for the EDCs. In the longer term, we hope that EDCs will evolve into thriving centres for business information and knowledge exchange, sufficiently valued by SMEs that they become an integral part of the chambers and industry associations. The Government will thus work closely with the EDCs to help them succeed and be commercially viable and sustainable over time.

<u>Local Enterprise and Association Development</u>

The next level of our support is working with the industry associations to develop vibrant industry clusters. The industry associations know the business environment, challenges and issues faced by their SME members much better than the Government does. Thus, by working with them and through them, we can better reach out and target our assistance to SMEs.

It is with this in mind that the Government launched the S$50 million Local Enterprise and Association Development (LEAD) programme to support able and willing industry associations in spearheading industry development efforts. The LEAD programme has had very good success to date. So far, the Government has approved grants of more than S$20 million to six associations in industries such as Restaurant, Food manufacturing, Furniture, Textile and Garment, Process Industry and Precision Engineering. These projects are expected to add more than S$800 million to the economy, and create more than 4,000 new jobs.

Let me give an example, the Print and Media Association, Singapore. Some may perceive printing as a "sunset" industry in Singapore because of our high labour costs. But our printing companies have been very resilient, surviving downturns and strong competition by finding niches for themselves and moving towards high value print jobs. For example, CS Graphics prints fine quality art books for key clients such as the Metropolitan Museum of Art. Another group of local printing companies, such as Fabulous Printers, C.O.S. Printers and Markono Print Media, supports Blackwell Publishing, one of the world's leading scientific, technical and medical journal publishers. Blackwell is drawn to our local printers because of their quality and competitive prices, as well as Singapore's strong supply chain capabilities, which enable quick distribution of the journals worldwide. Some of our printers not only do the printing, but also maintain a website and fulfil orders for Blackwell.

SUPPORTING OUR LOCAL ENTERPRISES

Let me now turn to specific areas where SMEs need help. The first area is financing. We have been systematically improving the financing infrastructure for enterprises by plugging funding gaps through a mixture of loan and equity schemes. For this, we have to thank Mr Inderjit Singh and the Financing Crucible of the Action Community for Entrepreneurship, or ACE for their contributions.

Last year alone saw the launch of several new financing schemes. Among them is the SME ACCESS Loan to help SMEs, especially under-served enterprises without collateral or with a limited track record. To date, over S$100 million in loans have been extended to more than 400 SMEs. To spur greater angel investments, EDB launched the S$30 million Business Angel Scheme last September. In October last year, IE Singapore started the Trade Credit Insurance Programme, which offers premium trade credit insurance rates through the pooling of demand. The scheme has already benefited more than 270 companies with total volume of sales insured amounting to over S$45 million in just 3 months. We will continue to work on improving the access of our enterprises to financing.

Dr Wang Kai Yuen suggested that the Government could consider a single Government funded institution to provide financing to SMEs. Currently, there are already many private sector financial institutions which are providing loans to SMEs. In fact, more banks are recognising the potential of the SME market, and have set up specialised teams to focus on SME customers. For the Government to set up its own SME banking institution to compete against the private sector will be against the “Yellow Pages Rule”. The Government has instead partnered some 16 financial institutions to administer the loans to SMEs, so that we can leverage on their market expertise as well as foster the start of hopefully a lasting banking relationship between the SMEs and the financial institutions. This win-win arrangement has worked well so far. Over the past five years, SPRING and IE Singapore have worked with financial institutions to facilitate more than S$3.1 billion worth of loans to more than 12,500 companies.

What the Government can do is to designate more financial resources to help our local enterprises grow. I am happy to announce that the Government will set aside S$3.9 billion over the next five years (FY2006-2010) for this purpose. Grants will take up S$900 million, an increase of 35% over the previous five years (FY2001-2005). The remaining S$3 billion will be in loans, and through partnerships with financial institutions, this is expected to catalyse more than S$6 billion worth of loan financing, almost 60% more than the previous five years. So we are prepared to put more resources to support our local companies.

The second area is helping our companies to encourage them and facilitate them to expand overseas. Let me brifly outline what IE Singapore does to help our companies go overseas.

IE Singapore supports companies' internationalisation efforts through a "3C" framework – **C**ompetency, **C**apital and **C**onnections. Last year, IE Singapore helped some 32,000 companies through its services and activities. I will highlight some of the key initiatives under each of the 3Cs.

"**Competency**" involves helping our companies to build up capabilities so that they can compete more effectively in overseas markets. Last year, some 1,900 companies leveraged on IE's capability-building programmes particularly in branding, design, and international manpower development.

It is important that companies formulate a viable market strategy before entering any new market. The Internationalisation Roadmapping Programme was launched early this year to help companies develop long-term business planning strategies as part of their internationalisation plans.

The second C is "**Capital**". Coupled with the other inroads we have made on supporting financing, we have also promoted our Regionalisation Finance

Scheme, which is a fixed interest loan scheme. Since 2001, it has committed over S$54 million in loans, benefiting some 43 companies as at end 2005.

The third C is "**Connections**". SMEs, in particular, need help to enter into overseas markets. To build connections, SMEs can participate in outgoing missions and fairs organised by IE, as well as IE's networking platforms, namely Network China, Network Indonesia and Network India. Companies can also tap on the International Marketing Activities Programme which supports the activities organised by trade associations and chambers, or the Pathfinder Scheme for Distribution, which helps exporters by matching them with overseas intermediaries who have extensive local business networks.

Mr Lawrence Leow suggested that our SMEs can go together and find suitable locations when they go overseas. I think this is indeed what many have done. As you know, many Singapore companies have helped build industrial estates in Batam, Bintan, Vietnam, China and India. Many of our SMEs find comfort in operating in many of these industrial estates developed by our local companies. If companies find this is a sensible strategy - to locate in business districts and industrial estates developed by Singapore companies - then this is one strategy they can pursue. However, I would be loathe to concentrate our resources just in one or two industrial estates and encourage all our companies to go there. We should allow our companies to diversify and go to different industrial estates and different countries to pursue the opportunities.

Let me now turn to another area, which is, the FTAs. So far, we have signed 11 Free Trade Agreements or FTAs and Mr Inderjit Singh asked exactly how our companies have benefited from the FTAs.

In several ways. First, FTAs give our companies a competitive advantage through the elimination or reduction of tariff as well as non-tariff barriers. Second, FTAs can also help companies gain access to emerging markets, such as India and the Middle East. Finally, our FTAs contain safeguards to provide our companies with better protection when they venture abroad. These include guarantees on repatriation of capital and profits and investor-state dispute settlement mechanisms.

In order to help our companies take advantage of these benefits, MTI and its partner agencies have been reaching out to the business community through various activities and programmes. These include seminars, workshops and guidebooks. A dedicated FTA website has also been set up. This year, IE has established a special unit to help companies leverage on FTAs. This special unit will not only organise seminars and provide general information, but also provide the individual company with consultations to encourage greater utilisation of the FTAs for the products that they are exporting. I encourage our businessmen to take advantage of these resources and make full use of our FTAs.

Dr John Chen also asked whether we have a strategy for bringing investments into Singapore to capitalise on our FTA network.

Singapore's extensive FTA networks add to our overall value proposition in attracting investments. EDB actively markets our strong network of FTAs when highlighting Singapore's strengths to potential investors. We work with companies to identify the areas where our FTAs are able to offer a preferential edge over other competing investment locations, be they in terms of tariff savings or investment protection.

Let me give you an illustration. A leading US manufacturer of oilfield drilling equipment doubled its manufacturing plant capacity in Singapore. It did so because the tariff savings from the US-Singapore FTA, combined with Singapore's logistics infrastructure and our competitive costs, made it more economical for it to manufacture here and export to the US. FTAs have added value to Singapore's attractiveness as an investment location.

Singapore Business Federation

Mr Chew Heng Ching has cited unhappiness among some SMEs that they are mandated to join the Singapore Business Federation, or SBF.

Members will recall that the SBF was set up in 2002 to create an apex organisation to represent Singapore's business interests more effectively locally and abroad. SBF membership was made mandatory as the earlier practice of voluntary membership by business chambers and associations had not been effective. Compulsory membership would ensure that SBF has a strong membership base, and has the mandate of the entire business community. Compulsory membership of business chambers at the apex level is not uncommon. France, Germany and Brazil also have this practice.

Only local companies with paid-up capital and foreign companies with authorised capital of S$0.5 million and above are required to be members of the SBF. Small companies, partnerships, sole proprietorships and companies without any employees are exempted. As a result, SBF has exempted some 142,000 companies and another 140,000 partnerships and sole proprietors. In fact, SBF has a membership of 15,046, which constitute just 9.6% of all companies in Singapore. Of these companies, about 11,500 companies have paid up/authorized share capital of less than $5m. Their annual fees range from $300 to $400 per year, or about $1 a day.

ECONOMIC DEVELOPMENT ASSISTANCE SCHEME (EDAS)

Let me now turn to the question raised by Prof Ivan Png who asked about the performance measures that we use to evaluate the Economic Development Assistance Scheme (EDAS) and Mr Inderjit Singh's comments about the value of FDI we have attracted to Singapore.

As you know, attracting FDI is a very important component of our investment and development strategy. We believe that the foreign direct investment into Singapore is very important because it not only brings in capital but brings in technology and gives us access to export markets.

The EADS is a very important tool by which the EDB uses to bring in foreign investment into Singapore. In evaluating whether the EDAS would be used, the EDB does this through four key indicators : the amount of Manufacturing Fixed Asset Investments (FAI) and Services Total Business Spending (TBS) from the investment commitments secured by EDB, the estimated value-added (VA) and the number of new jobs generated as a result of these investments.

Over the last 5 years, EDB attracted S$42.5 billion in manufacturing FAI and S$10.6 billion in services TBS. These investment commitments will create a total VA of S$50.4 billion per annum and 110,000 new jobs when fully realised. Of the 110,000 jobs created, 71% will be skilled and professional. So, it is very important for us that this pipeline of investments continue to give strength to the economy, add to the value add and help generate jobs.

Prof Ivan Png also suggested that we consider a tax revenue budget to manage revenue loss through tax incentives. I would like to explain that we are in a very competitive environment, competing with both the developed countries, as well as emerging countries for such investments. Our tax incentives are also granted by tying companies to new investments. If we had not provided these incentives, the companies could have taken their investment to competing locations. We would therefore not have collected the taxes to begin with.

RESEARCH AND DEVELOPMENT

Let me now move on to R&D. As Prime Minister highlighted in his Budget Debate round-up speech, R&D is a major effort that we are undertaking to transform our economy, to build a strong foundation for our sustainable growth and competitiveness. In a global knowledge-based economy, competition will not simply be about lower costs, but increasingly, about talent and creating value. Building up our R&D capability is therefore a crucial piece of securing our economic future. There will be risks. But it is something we have to do.

I think what Members are more concerned about is how do we go about investing our R&D funds in a way that would deliver the output that we desire. There is great difficulty in measuring the output of R&D because this is a very long term process but we have to be bold and take this step to invest heavily in our R&D effort.

If you look at comparisons among various countries, it would be easier to compare the inputs – the percentage of GDP devoted to R&D or the amount of funds or resources both the public and private sectors put into R&D. When you start looking at outputs, the indicators are more difficult to arrive at. The easy output indicators, would be, for example, the number of research scientists and engineers that are effective in the country

On this measure, Singapore has done well. From the S&T Plan, the number of research scientists and engineers in Singapore have progressively been increased and that puts us in a very strong position in going forward because R&D is all about talent. We need to build up our local talent to undertake the R&D.

Prof Ivan Png suggested using the multi-factor productivity growth as an indicator. However, this indicator attempts to account for any GDP growth that cannot be attributed to changes in labour or capital inputs. It does not specifically measure R&D output.

Mr Ivan Png also suggested that we look at the grants that we are able to secure from overseas R&D agencies as one way of measuring our performance. This is a valid point. In fact A*STAR agencies - research institutes - have been fairly successful in securing funding from other national and international agencies, such as the US National Institutes of Health, the US Defence Advanced Project Agency and also from the European Commission. This reflects well on us because it shows that our standards of research are high and some of the areas that we are collaborating in are also areas which these agencies are interested in. But I would be concerned if we used this as a primary factor of the effectiveness of research. If we send a wrong signal to our research agencies and if they pursue this factor, then what we would be doing is that we would align our research objectives with all these agencies in order to get our funding and I'm not sure if this is entirely the right thing for us to do as we do want our research directed at different sectors.

I think the main issue that we need to address going forward in R&D is one, we must to put in more resources. We need to take the risk and if we are very cautious, I think we run the risk of losing out. Two, we want to make sure that these resources are invested in the right areas and this requires both a bottom-up as well as a top-down process. The bottom-up process involves us tapping a big panel of research experts, to draw upon their expertise and to understand which are the areas that we should invest in. The top-down input involves the Prime Minister chairing the research council so that he has an overview that the resources are directed at the right areas.

Next, the other key principle is encouraging the leveraging of the industry and that is the reason we target to achieve two-thirds of the research to be done by the companies because the companies will know where the commercial potential is and this is one way we can be assured that the research money will be appropriately spent.

The broad principle is I don't think we can be very far wrong if we invest in talent so a large part of the S&T plan is to build up our local talent, encourage our students to take up PhDs and to take up research as a career

With all these measures in place, I think we are well-poised to go into this programme. The government decided to put in resources into this programme and it is our responsibility to ensure that these resources are properly spent and that we get the best benefit out of these resources.

Thank you.