

**Speech By Mr Lee Yi Shyan, Minister Of State For Trade And Industry
During The Committee Of Supply Debate (Ministry Of Trade And Industry),
5 March 2007, in reply to cuts (f) to (j) under Head V**

SMES

1. I thank Members for your comments on SMEs. Let me assure Members that we share your sentiments and passion on the importance of a vibrant SME sector.

2. The term “SME” has been used widely and loosely with good intention, to refer to a wide range of companies: sometimes start-ups, sometimes large companies by Singapore standard but small internationally. Different speakers may have different SMEs in mind when they expound SMEs’ needs and how best they can be met.

3. Thus, it is useful to highlight SPRING Singapore’s definition of SMEs as enterprises with \$15 million or less in fixed asset investment and, for non-manufacturing enterprises, 200 or fewer employees. SPRING uses this to qualify companies for its programmes. This has served us well, but we agree with **Mdm Ho Geok Choo**’s suggestion to design even more targeted solutions based on more granular sub-classifications of SMEs.

4. By this definition, 99% of establishments here are SMEs. SMEs form an important pillar of our economy, employing 56% of our workforce and contributing 42% of our GDP¹. They form a broad base from which new businesses and innovative ideas sprout, and tomorrow's multinationals emerge.

5. Overall, many of our SMEs are doing well here, and internationally. Aeromobiles, for instance, has the largest market share for aircraft Hi-Lifts in the Middle East. Esco Micro is among the top laboratory equipment companies in the world, counting Pfizer International and Harvard University as its customers.

6. As a group, the top 500 SMEs here have seen total turnover increase by 30% to \$13.5 billion over the past five years, and net profits almost double to \$630 million. For those in the domestic sector, the 20 retailers, including SMEs, who participated in the pilot phase of the Government's Customer Centric Initiative to improve service quality reported 8% improvement in service level, and expect sales to increase by \$150 million. We applaud their achievements. The Government will continue to support their growth, and create a vibrant, dynamic and competitive base for SMEs.

7. **Mr Inderjit Singh** and **Dr Ong Chit Chung** suggested that we transform SPRING into a local enterprise champion that assists start-ups with internationalisation and technology through their growth stages. I also want to thank them for having identified the Prince Charming for the SMEs. I am pleased

¹ Based on the latest 2004 figures

to inform them that SPRING thinks of herself as “the champion of enterprise growth” in many of her outreach programmes.

8. As the champion agency, SPRING recognises that enterprises’ needs change as they grow. Broadly speaking, SPRING’s assistance programmes for SMEs can be grouped under a 4-C framework, namely

- (a) Creating a Pro-Business Environment;
- (b) Capital – Easier Access;
- (c) Capacity Building; and
- (d) Connections – Linking up with the World

The various programmes under this framework can be further classified into basic, intermediate and advanced levels, to meet enterprises’ needs at the start-up, growth and internationalising stages.

9. While SPRING should not duplicate the role of other agencies, it endeavours to work with them as one government to help SMEs. For internationalisation, SPRING works closely with IE Singapore (IE). To help SMEs exploit technology, SPRING works with A*STAR. In this way, start-ups with internationalisation and technological needs can still get the necessary help through SPRING.

10. **Mdm Ho, Ms Penny Low and Mr Singh** asked about our plans for enhancing the competitiveness of local SMEs. Allow me to bring members through our SME development efforts, under the 4-C framework:

(I) CREATING A PRO-BUSINESS ENVIRONMENT

11. First, we create a pro-business environment. To render Singapore attractive for small businesses and start-ups, we must continually simplify our business environment, cut red tape and lower barriers to entry by promoting fair competition. The Pro-Enterprise Panel, a public-private sector partnership, actively solicits suggestions to ensure our rules are pro-business. The EnterpriseOne web portal and Enterprise Development Centres (EDCs) provide one-stop services for businesses.

12. I am happy to note that the World Bank *Doing Business* reports consistently rank Singapore amongst the top three easiest places in the world to do business. Together with the recently announced budget measures, we have one of the most pro-SME environments an entrepreneur can hope for.

(2) CAPITAL – EASIER ACCESS TO FINANCE

13. Secondly, Capital. Access to financing has always been a concern for SMEs. We have been working with our financial institutions to address this. Since 2001, the Government has provided \$40 million worth of equity financing for 170 start-ups, and extended \$3.6 billion worth of loans to 14,000 SMEs. Our intent is to introduce more SME-focused solutions from the private sector. I was therefore heartened to see Phillip Securities launch an Over-The-Counter (OTC) platform last year. So far, two companies have raised \$5.7 million.

14. When I first worked with SMEs in Year 2000, SME was not the focus of many banks. Today, almost every major local and foreign bank in Singapore has a SME Banking Group. Overall, start-ups and SMEs now have many more options and better access to funding, as these banks offer collateral-free loans, trade services, and investment banking facilities. A recent report by the Milken Institute ranked Singapore second best for businesses' access to financing.

15. **Mdm Ho** does not think that 8% of our SMEs taking up the LEFS scheme is a good sign. Should it be higher? How much higher?

16. Our target should be that every bankable project from the SMEs should be able to find its financing, ideally from a number of offers, from an efficient

financial market. We see the government's role in financing as a catalyst, identifying and filling gaps not well served by the private sector. Over time though, financial institutions in the private sector should through our policy encouragement introduce more varied and specialised financial tools for our SMEs, continually enhancing Singapore's attractiveness as a SME hub, a hotbed for SMEs to start-up and flourish. This is why we are reluctant to set up a SME Bank. Going forward, we will continue to work with the private sector, including the ACE Finance Action Crucible, to bring about even more market-based financing solutions for our SMEs.

(3) CAPACITY BUILDING – AT ENTERPRISE AND INDUSTRY LEVEL

Technology Innovation Programme

17. Thirdly, capacity building at enterprise- and industry-level. **Ms Low** and **Mr Singh** are right in wanting to help SMEs exploit technology. This is necessary to grow enterprise in the knowledge economy, and to compete against lower-cost competitors.

18. SPRING launched the \$150 million Technology Innovation Programme (TIP) last year to encourage SMEs to adopt technology innovation. TIP provides

funding support for projects. It also allows technical experts to be seconded to SMEs, complementing an existing 'Growing Enterprises through Technology Upgrading', or GET-Up programme. Furthermore, under TIP, three Centres of Innovation are being set up for the Food, Marine and Environmental industries. As mentioned by my Minister, NRF will commit another \$250 million to these efforts.

BrandPact

19. **Mdm Ho** asked how we help SMEs with marketing. I agree that SMEs need to differentiate their offerings to succeed. A strong brand helps. Thus, we run the BrandPact programme to raise awareness and adoption of branding as a competitive strategy. So far 2,700 companies have benefited from the workshops, and 90 have received project funding. PGS Design for instance, which produces signages for customers like Food Junction and Kopitiam, expects sales to double in 2007, after the BrandPact exercise.

Management Development Programmes

20. **Mdm Ho** and **Mr Singh** asked about management training. SPRING successfully piloted an 18-week Executive Management Programme with SMU

last year. SPRING will soon release details for its new management development programme for SMEs.

Local Enterprise and Association Development (LEAD) Programme

21. At the industry level, our agencies work through various channels to maximise our reach to SMEs. We believe that if our industry players work together, many industry-specific programmes can become feasible to substantially raise the capacity and competitiveness of the industry. Since 2005, more than \$65 million has been committed by the Government and 14 industry associations under the Local Enterprise and Association Development (LEAD) programme. We expect 40,000 enterprises to potentially benefit from these initiatives.

22. An example of cooperation under the LEAD programme would be: The Container Depot Association of Singapore, the Singapore Transport Association and the Singapore Logistics Association which came together to work with PSA to implement the Containerised Traffic System to improve turnaround time using GPS technology.

(4) CONNECTIONS - LINKING UP WITH THE WORLD

23. The fourth thrust is facilitating market opportunities, issues which **Mdm Ho** and **Ms Low** raised.

24. To help our local enterprises internationalise, IE provides a comprehensive suite of government assistance, such as the Internationalisation Finance Scheme, which extends loans to enterprises venturing overseas. IE organises missions and trade fairs to bring Singapore enterprises to new markets. It also introduces foreign buyers to Singapore enterprises. In 2006, over 300 trade missions and fairs led to \$1.7 billion of overseas sales for 3,500 companies. IE's outreach programmes helped 3,000 companies learn to exploit our FTAs, saving \$470 million in tariffs last year. IE recognises that start-ups and small companies have different internationalisation needs from the larger companies. To cater to these companies, IE will launch a New Exporters Programme this year to help them through training workshops and expert advice.

25. Let me now address **Ms Lee Bee Wah's** suggestion that government-linked companies, or GLCs, should help SMEs internationalise.

26. Many of our GLCs are public listed companies. They operate as independent commercial entities and are free to choose to partner with local or foreign companies in international ventures. We encourage like-minded companies, large and small, to work together for the many obvious benefits. This

is a process not to be mandated, but evolved over time on mutual understanding and trusts. I must say that based on my personal observation, many of our companies are beginning to work as teams. In 2004, IE Singapore launched the iPartners Programme to bring our enterprises together to bid for overseas projects as consortiums. To date, 25 consortiums comprising 130 companies have been formed. Many GLCs are leading or participating in such consortiums. For example, the Security Consortium, led by ST Electronics, enabled three SMEs, Teleradio Engineering, Technologies Creation, and Arrowcrest Technologies, to clinch \$8 million worth of security projects in the Middle East. Other non-GLC but large local companies are also leading smaller companies in consortiums.

Broadening our base – improving the quality of our SMEs

27. **Mdm Ho** and **Ms Low** expressed concern for local SMEs against foreign competition. Let me explain our approach.

28. Last year, we launched a five-year \$4 billion Enterprise Development Fund (EDF) III. 99.5% of the 2006 funds actually went to local SMEs. We assure Members we will continue to direct our efforts to build local SMEs to become tomorrow's MNCs.

29. Our SMEs operate in a globalised environment. Thus, shielding them from competition domestically will not help them as they internationalize. Foreign SMEs can help stimulate local enterprise development by bringing in new capabilities and market opportunities. One example is a Korean SME Colorzip which brought in ZapCode, which has already been adopted by the likes of Amazon.com and eBay, and creates new marketing possibilities for Singapore.

30. Foreign SMEs collectively employ 165,000 workers here² and contribute to almost 20% of GDP³. In fact, foreign SMEs only account for 9% of the entire 130,000 SMEs base in Singapore but they contribute almost as much as the local SMEs here. As we make our environment more pro-business, we can expect high quality foreign SMEs to move here. We should welcome them, but we will also study **Mdm Ho's** suggestion on how we can better foster collaboration between foreign and local SMEs.

31. We are committed to building our SME sector as a key thrust in our economic development efforts. I am confident that by working together, we can achieve our vision of having a vibrant SME sector, thriving with globally competitive enterprises.

² 12% of workforce

³³ Based on the latest 2004 figures

CONSUMER PROTECTION

32. Let me now move to the topic of consumer protection. I thank **Mr Yeo Guat Kwang** and **Mr Lim Biow Chuan** for their comments on the Consumer Protection (Fair Trading) Act (or CPFTA).

33. Since the CPFTA was implemented in 2004, the Consumers Association of Singapore (or CASE) has been actively raising awareness and helping consumers resolve issues covered by the Act. In 2006, CASE took up close to 600 CPFTA-related cases.

34. Last year, a taskforce led by CASE and MTI completed a review of the Act, and has submitted its recommendations. Among the recommendations are proposals to enhance the CPFTA such as expanding its ambit to cover financial services, and tightening existing provisions on cooling-off periods. My Ministry has accepted all of the taskforce's eight recommendations and is now in the final stages of finalising the proposed regulatory changes for public consultation. We will do this over the next three months.

35. The issue of "Lemon Laws" was also raised by the taskforce. These laws typically provide consumers with remedial rights for substantial defects in goods that persist after a reasonable period. Different countries have adopted different

approaches with regards to the scope and extent of consumer rights to a refund or replacement. In the US for example, lemon laws generally deal with specific product types. These allow the laws to cater specifically to the products of concern. The UK, on the other hand, strengthened its consumers' right to remedies through its generic Sales of Good Act. Given the potentially extensive impact, this issue requires closer study and deliberation. We will do so with the various stakeholders' inputs.

36. Mr Yeo proposed to introduce new legislation to regulate the timeshare industry. He also made some specific suggestions on what the legislation could cover. We appreciate his thoughtfulness.

37. We believe that an industry or consumer-led accreditation system, such as CaseTrust, is a better approach to encourage fair practices in the timeshare industry, and provide a monitoring mechanism to ensure compliance. Conditions raised by Mr Yeo, such as those relating to operational hours and prospectus requirements are better dealt with by the industry or through a consumer body like CASE. Additional legislation may not be the best solution. For example, it would not be practical for Government to legislate the number of hours a customer can spend at the premises of a timeshare company. As a matter of fact, we do not legislate so finely for any other industry at all.

38. Notwithstanding, we are prepared to review some of the specific suggestions to weigh in on good practices. For instance, the CPFTA today already makes provision for a cooling-off period for direct and timeshare sales. We would look into Mr Yeo's suggestions to further enhance the cooling-off provision.

39. We will continue to work closely with CASE to review and improve our consumer protection framework. We will do so while maintaining a good balance between regulatory action and consumer responsibility. Consumers must play their part, and be vigilant when making purchases. Ultimately, we believe that the best way to protect consumers is to ensure that they are well-educated about their rights and protect them with a balanced legal framework.

COMPETITION POLICY

40. Finally, Mr Singh asked on the effectiveness of the Competition Act. The Act has a short history, with the prohibitions against anti-competitive agreements and abuse of a dominant position only effective from 1st January 2006. The third and final prohibition against anti-competitive mergers will come into effect on 1st July 2007. As the Act is still in its early days of implementation, it may be premature to say how effective it has been at this juncture.

41. If the Member or the public has information to suggest that the oil or taxi companies are engaging in anti-competitive activities, I urge them to lodge a complaint with the CCS. The energy sector is excluded from the Competition Act, and under the purview of the Energy Market Authority. Mr Inderjit Singh cited a generation company which is facing difficulties in its bid to enter the electricity generation market. Let me reiterate that my Ministry is committed to having a competitive gas market, to complement the electricity market which has been liberalised. We will ensure that all industry players, both the incumbents and new players, will have open access in the gas market. Thank you.