Speech by Mr Lim Hng Kiang, Minister for Trade and Industry, during the Committee of Supply Debate (Ministry of Trade and Industry) on Monday, 5 March 2007, in reply to cuts (a) to (e) under Head V

INTRODUCTION

1. I thank Members for your insightful comments and suggestions. Members have rightly pointed out that our key challenge is how Singapore should position itself, invest in our future and grow the economy.

Economic Outlook and Strategies

2. First of all, we start from a very strong position. The Singapore economy is in good shape. It grew by a robust 7.9% last year, with growth permeating all sectors. More than 173,000 jobs were created, and the unemployment rate fell to 2.7%. The average household income among employed households grew by 4.3% last year, with income per household member showing gains across all deciles.

3. Our current strong position is due to our restructuring efforts over the years. We cut our income taxes, re-calibrated our cost structures and increased wage flexibility. We also diversified our economic base by growing new industries and expanding into new markets.

4. Our economy now has more growth engines compared to 5 years ago. This gives us greater cushion against business cycle fluctuations of the various

individual sectors. For example, the strong performance of the biomedical and transport engineering sectors in recent years has helped to compensate for the slower growth in chemicals and construction sectors.

5. We have one of the most open economies in the world. That has served us well. Trade grew by 13% last year and is projected to grow by between 8 to 10% this year. Our international trade linkages have never been stronger. Since we embarked on our first Free Trade Agreement (FTA) in 2000, we have concluded 11 such agreements and are in active negotiations for 10 more. Our FTAs have helped our companies achieve tariff savings of over $470 million in 2006 alone.

6. The global economic growth, however, is expected to be slower, but overall, the external environment is still positive. Domestically, consumption is likely to strengthen, while investments will remain firm. We expect inflation to remain in check, even with the impending GST increase in July. Barring unforeseen setbacks, we should continue to see another year of robust growth of between 4.5 to 6.5%.

7. As Members pointed out, we should ride on the current growth momentum, and seize this opportunity to further strengthen our competitiveness. While we are enjoying the low hanging fruits of our earlier restructuring efforts, we need to press on with the more difficult areas which will take time to transform. Three

areas we need to concentrate on: first, rejuvenate existing sectors and grow new ones; second, build up innovation capacity; and third, develop our enterprises and help them to venture overseas.

(I) Developing Our Sectors

8. As Mr Inderjit Singh pointed out, we need growth engines. Today, we have a broadly diversified economy. If we can strengthen and nurture more sectors, we will have more engines of growth and be more resilient.

9. We have seen successes in rejuvenating the marine sector, for example. In the marine and offshore sector, they have reinvented themselves to become major global players in ship conversions and rig-building. Our recent investment successes in the electronics and chemical sectors will provide the growth momentum in these sectors in the next cycle. Tourism is another sector that we are remaking. MOS Iswaran will elaborate on the promising results so far, and what more we are doing beyond the first two IRs.

10. Besides existing clusters, we are also making good progress in growing new clusters, such as education, healthcare, water and environmental technology, interactive and digital media, as well as alternative energy.

BMS Strategy

11. The biomedical sciences (BMS) sector is another new sector that we started developing in 2000. It has since enjoyed phenomenal growth and now accounts for almost 7% of our GDP and 10,600 high value added jobs.

12. Mr Inderjit Singh raised two main points about our BMS strategy: first, whether our MNC-approach has left local enterprises out, and second, whether we should sharpen the focus of our strategy.

13. Let me first elaborate on our approach to developing the BMS sector. For a knowledge-intensive industry like BMS, talent and knowledge are the keys. Hence, in the first phase, we focused on establishing a firm foundation in basic biomedical research in Singapore, even as we attracted big pharmaceutical companies to set up plants here. We established research institutes (RIs) to develop BMS capabilities, as well as build up a pool of research talent.

14. Mr Inderjit Singh suggested that apart from attracting MNCs, we also need to focus on building local capabilities and supporting industries. I fully agree. A-Bio, our first biologics contract manufacturer, and MerLion Pharmaceuticals, a drug discovery company, are examples of local companies built up from our capability development efforts. We hope to nurture more such firms. On the biopharmaceuticals front, we have attracted a number of supporting services for

R&D and manufacturing. We are also building up the local supplier base for medical technology. Specifically on the gamma-sterilization facility, this is indeed presently lacking in Singapore and EDB is working actively to address it.

15. Mr Inderjit Singh's second point is that we should sharpen the focus of the biomedical strategy on niche areas instead of just letting the foreign researchers do what they want in Singapore. I agree. Let me explain our R&D strategy. First, we have decided to increase our National R&D expenditure to 3% of GDP. By world standards, 3% of GDP is not very large. Second, two thirds of that expenditure would be from the private sector. Hence, government expenditure is only 1% of GDP. Third, government expenditure has to be apportioned to the BMS and non-BMS sectors. In the non-BMS sectors, for example, we are very clear in our mission – to support and expand the existing sectors and grow new sectors. Fourth, with the limited funds available, we have to focus on niche areas. And this is what we are doing. We have recruited foreign scientists based on strengths that Singapore wants to compete on and develop, and how these foreign scientists can train and nurture our local talent. Furthermore, A*STAR does not work alone. In cancer, research, for instance, it collaborates with other leading research institutions such as Sweden's Karolinska Institute. Our capabilities are well recognised internationally, due to the critical mass of excellent research talent that we have managed to attract internationally. At the same time, we are developing a healthy pipeline of local researchers. A*STAR has so far awarded close to 400 scholarships in the field of BMS.

16. We must recognise that BMS is a long term investment. We are only 5 years into it. We have laid a strong foundation in the first phase. In the next phase, we will add a new focus to develop translational and clinical research capabilities. This will bring discoveries from the 'bench' to the 'bedside'.

17. We believe that our BMS strategies are in the right direction, but we will continue to fine-tune them as we gain more experience. We will also continue to tap on our international scientific advisory boards, as well as eminent local and foreign experts to guide us in our effort.

(II) Building Innovation Capacity

18. The second thrust of our development strategy is to build innovation capacity. For Singapore to remain competitive in the longer term, we need to become a knowledge-based economy, thriving on creativity and innovation.

19. R&D is a major effort that we are undertaking to support this transition into a knowledge-based economy.

<u>Research Help for Local Companies</u>

20. I agree with Mr Inderjit Singh that the transition to a knowledge-based economy cannot be limited to just the MNCs located here, but has to occur among SMEs as well. We should indeed help local companies to develop and exploit technology. Recognising that local enterprises often need help to undertake R&D, we have developed various programs to provide them technical, manpower and funding assistance.

21. In addition, the National Research Foundation (NRF) plans to allocate $250m for initiatives that will benefit local SMEs, particularly technology start-up companies. NRF is working with MTI and its agencies to develop the specific schemes. MOS Lee Yi Shyan will provide the details later on.

(III) Developing Our Enterprises

22. The third thrust is to develop our enterprises, particularly, in helping them compete overseas.

Financing

23. Financing is a problem faced by many SMEs. Mr Inderjit Singh mentioned that government agencies are required to make a return on SME loan and investment schemes. He asked whether Singapore could adopt a developmental approach towards financing SMEs, whereby losses incurred by the government from these schemes are regarded as investments in the economy.

24. First, let me assure Members that the government does not expect to profit from SME financing schemes. However, the cost of capital is charged to ensure financial discipline, so that funds are deployed efficiently on worthy projects.

25. But it doesn't mean that our schemes are not developmental in their approach. For example, for most loan schemes, the government shares 50% of the loan default risk and sets aside a grant to cover potential losses. We have even gone up to 70% on selected schemes. The grant is not expected to be recovered. For equity financing schemes such as SEEDS, the government's expected return is only 5%, far below the threshold for private equity funds.

26. But I agree with Mr Inderjit Singh that we can fine-tune our financing schemes to be more efficient in reaching out to the various companies, and I welcome his suggestions. SPRING will work closely with ACE on this.

Internationalisation of local companies

27. As our companies grow, they must also go beyond our shores to take advantage of the enormous business opportunities elsewhere.

28. Ms Jessica Tan and Dr Loo Choon Yong asked about government’s initiatives in leading overseas business initiatives. The government’s approach in helping Singapore companies internationalise focuses on three aspects: Competency, Capital and Connections.

29. Ms Jessica Tan asked about the success of these efforts. Let me update Members on our results over the past year. IE Singapore’s grants for capability development are expected to help companies generate almost $2.9 billion in incremental sales over the next three years. Our financing schemes catalysed $220 million worth of loans and helped our enterprises insure almost $900 million in sales. Our various trade missions and fairs are expected to generate almost $1.7 billion of overseas sales.

30. We agree with Dr Loo Choon Yong that our smaller enterprises need more help than their larger counterparts. That is why when we designed our schemes, we factored in the size of the enterprises. For example, the Trade Credit Insurance Programme pools demand from smaller enterprises so that they can gain access to attractive premium rates normally available only to larger

companies. The Internationalisation Finance Scheme is only open to companies whose turnover is $200 million or below.

Maintaining Cost Competitiveness

31. Even as we push on with growing our sectors, building innovation capacity and developing our enterprises, we must ensure that we remain cost competitive, as Mr Inderjit Singh pointed out.

Manpower

32. Let me address a few key issues. First, the manpower issue. Our labour market is tight and wages are rising. A strong pipeline of jobs is coming on-stream in the next few years, on top of a buoyant employment market. For example, the marine industry will need at least 15,000 additional workers by the end of the year. To support the construction of major projects, the process supporting industry will create some 10,000 supervisory jobs from 2007 to 2009. Another area is the tourism industry, where the two IRs will each create about 30,000 jobs economy-wide when fully operational.

33. To cope with the rising demand, we will train as many Singaporeans as possible to take up the new jobs created, especially the better-paying ones. But we foresee that there will still be a shortage of workers, in particular for the semi-skilled jobs that Singaporeans are not attracted to.

34. We are working with MOM to see how we can ease the tight labour supply. The Minister for Manpower will elaborate on this in his Committee of Supply Debate.

Industrial Space Rentals

35. Next is the issue of rentals. Our industrial rentals have come down significantly since the late 1990s. The rental indices for JTC's standard factories and flatted factories are approximately 50% and 45% below their respective levels just before the Asian Financial Crisis. The government will continue to be responsive in making available land through the Government Land Sales (GLS) programme to meet demand of industrialists.

36. Mr Inderjit Singh is concerned that the upcoming divestment of JTC's properties and how this may push up rentals.

37. JTC understands this concern. To minimise the risk of unwarranted rental hikes, JTC will proceed with the divestment process carefully with the aim of fostering a competitive industrial market landscape post-divestment.

38. JTC will not be divesting its entire industrial portfolio to one owner, but instead plans to divest some via a REIT and others via trade sale. This will introduce more players into the industrial space sector. Even for properties put

into a REIT, the REIT manager cannot hike rentals above what the market will bear. Otherwise tenant retention will be a problem.

39. The divestment process should result in more choices, better properties and better services for tenants as landlords try to maintain their competitive positioning.

Conclusion

40. Mr Chairman, in summary, our economic prospects are bright. We will strengthen our growth sectors, upgrade our innovation capacity and extend more help to local enterprises, while staying vigilant on costs. We are confident we can maintain our long-term competitiveness and sustain Singapore’s economic growth.

41. Thank you.