

Mr Lee Yi Shyan, at the Committee of Supply Debate (Ministry of Trade and Industry), 3 March 2008, in reply to cuts (p) to (t) under Head V

STRENGTH IN FUNDAMENTALS

Mr Chairman, I thank Members for sharing their thoughtful comments and constructive suggestions on SMEs. Let me assure Members that we share the same sentiments on the importance of the SME sector. MTI is committed to create the most conducive environment for our start-ups and SMEs to thrive.

Outstanding performance of SMEs

The SME sector is a critical component of our economy. For the past 3 years, its value-added growth at 11% year-on-year has out-paced the overall GDP growth of 7.7%. In the past three years alone (2004-2007), the SME sector created an additional 330,000 jobs and accounted for 63% of the net employment creation. They were instrumental in reducing our unemployment rate to an all-time low of 2.1%.

As a group, the top 500 SMEs had combined profits of more than \$665.5 million dollars last year, compared to \$70.3 million in 1999. By their sheer entrepreneurship and resourcefulness, our SMEs have grown to be larger, more sophisticated and internationally competitive.

In response to members' queries, let me elaborate on the Government's framework in supporting our SMEs. There are four pillars: namely, financing, manpower, markets and capacity building.

Helping SMEs Grow, Glow and Globalise

Money: Access to Financing

The guiding principle in the area of financing has been for the Government to catalyse the private sector to create more financial products customised to meet the needs of SMEs. Working with financial institutions, in 2007, SPRING Singapore made available 3,573 loans amounting to \$716 million through the Local Enterprise Finance Scheme (LEFS) and the Loan Insurance Scheme (LIS). With further enhancement and lowered premium rates, the LIS is expected to catalyse a projected total of \$3 billion of private sector loans over the next four years.

Mr Inderjit Singh has contributed greatly through his efforts in the Action Community for Entrepreneurship (ACE). As shown in a SME development survey¹, obtaining financing is no

¹ 2007 SME Development Survey by DP Info

longer a top concern for SMEs. We thank Mr Inderjit Singh for his excellent leadership in identifying and plugging financial gaps in our systems.

Management: Developing Capable SME Leaders

I agree with Mdm Ho Geok Choo on the importance of manpower development in growing our SMEs. SMEs need capable professionals and strong leaders to succeed. However, with many of our best talents opting for well-paying careers with multinationals, it is not easy for SMEs to attract and retain good talents.

To address this, SPRING has put together a \$60 million Business Leaders Initiative (BLI) to nurture current and future business leaders for SMEs. This BLI initiative caters to talent development at three levels: SME leadership, middle managers and young executives.

At the apex, the Advanced Management Programme (AMP) focuses on the training of CEOs and senior leadership. The Management Development Scholarship (MDS) targets middle management. Soon, SPRING will launch the Executive Development Scholarship (EDS), an undergraduate scholarship targeted at promising students. Collectively, BLI hopes to train 1,000 CEOs and Senior Managers by 2012.

Mdm Ho may be pleased to know that SPRING and WDA will also be rolling out the HR Capability Development Programme for SMEs this year. The programme will help SMEs implement good HR systems, practices and procedures.

Markets: Helping SMEs Internationalise

To grow, SMEs cannot rely solely on our domestic markets but to venture abroad. In recent years, we have seen many SMEs making successful forays into overseas markets. A recent survey² also shows that 70% of our SMEs derived part of their sales revenue from overseas markets. That our SMEs are internationally oriented is an encouraging sign. This means that their business models are potentially scalable.

I would like to assure Mr Singh that IE Singapore plays an active role in assisting SMEs by organising missions, fairs and networking platforms for them to build connections. The International Marketing Activities Program (IMAP) supports activities organised by trade associations and chambers to help their members market their products and services overseas. In fact, of the 40,000 companies that made use of IE Singapore's services in 2007, 80% were SMEs.

² 2007 SME Development Survey by DP Info

Capacity Building: Developing Capabilities of SMEs

My Minister had earlier spoken on how SME associations were being helped at the industry level through the Local Enterprise Association Development (LEAD) programme. At the company-level, our agencies have developed many capacity building programs to cater to the needs of SMEs at different growth stages.

In the area of branding and marketing, IE and SPRING have a joint program called “BrandPact”. One beneficiary of Brandpact is a company called bYSI. bySI started its first retail outlet in Tiong Bahru in 1998 selling women's clothes. With Brandpact in 2005, bYSI was able to re-define its market niche by focusing on the fashion needs of career women. Its sales have been growing at 30% since. The company currently operates 10 outlets overseas, and is looking to expand further into the Middle East. In December last year, the company won the “Singapore Prestigious Brand Award”³.

To assist SMEs in developing new capabilities in product development and process innovation, SPRING launched the Capability Development Programme (CDP) in four sectors: Marine, Logistics, F&B and Medical Device Technology. The \$5 million Medtech capability development programme for instance, enables local precision engineering SMEs to develop new process know-how to supply to the medical device industry. The participating SMEs hope to generate \$300 million of new sales from the medical devices industry over the next three years.

Rising Business Costs

The reason why we have invested so much on upgrading capabilities, and will continue to do so, is to increase SMEs' capacity for value creation. This is more effective in the long run, than providing temporary band-aid solutions to help SMEs cope with rising business costs, as Ms Jessica Tan reminded us. We should not create artificial conditions that insulate our SMEs from global competition. The responsible strategy for us has to be continued investments to upgrade our SMEs.

Cultivating innovative enterprises of the future

Mr Zaqy Mohamad pointed out that we would need to nurture innovative enterprises to create both quality GDP growth and high-value added jobs for Singaporeans. I agree with him. Innovative enterprises and knowledge industries are our future.

Encouraging greater R&D and Innovation by existing SMEs

To nurture innovative enterprises, we adopt a three-pronged approach. The first prong is to encourage greater R&D and innovation by existing enterprises. The newly launched “R&D Incentive for Start-up Enterprise” (RISE) announced by Minister for Finance is designed for

³ Organised by the Association of Small and Medium Enterprises (ASME) and Lianhe Zaobao.

that. Mr Teo Ser Luck questioned if SMEs would benefit from RISE because they tend not to invest much in R&D. Our latest SME development survey shows that a significant 14% of all startups spent between \$100,000 and \$300,000 on R&D in 2007. We certainly hope that over time, more SMEs will invest more in R&D and make full use of RISE.

There is a view that R&D and innovation are only applicable to high-tech industries. This is not necessarily always the case. More World System Pte Ltd, better known to Singaporeans as the Waraku chain of restaurants, is the first in Asia to leverage on R&D to develop pasta that cooks in a mere 15 seconds, as compared to 10 minutes. As a result, this has cut down waiting time for customers significantly.

We agree with Mr Teo and Mr Singh that SMEs and start-ups should have access to various programmes aimed at promoting company-level innovation and R&D. In fact, we share the belief that SMEs and start-ups are amongst the best places for the new innovations to sprout.

To spread the benefits of R&D findings of our Research Institutes, the Technology Innovation Programme (TIP) has seconded 31 A*STAR researchers to SMEs. To encourage SMEs to undertake outsourced R&D, SPRING has established Centres of Innovation (COIs) in four sectors including Food and Precision Engineering to provide technology consultancy.

Mr Inderjit Singh commented that in commercialising our RIs' research findings, the relevant departments should not have profit-maximisation as their goal. We agree. In the case of Exploit Technologies, we want to assure Mr Singh that its goal is to make A*STAR's technologies as widely accessible to industries as possible. This is in line with the objective to derive economic benefits from our R&D investments. The issue though is not of licensing fees being unrealistically high. The main qualm for many SMEs has been their wanting to have full IP right and exclusive licensing in return for their partial cost-sharing. As such, A*STAR finds it difficult to accede to such requests as it would like to proliferate its technologies to as many enterprises as possible.

Fostering a stronger entrepreneurial ethos

The second prong to grow innovative enterprises is to create a broad entrepreneurship community.

I agree with Mdm Ho Geok Choo that the entrepreneurial ethos needs to be cultivated from young. Starting in schools, we need to infuse students with an entrepreneurial zeal. SPRING's Entrepreneurial Talent Development Fund (ETDF) provides monetary support to young budding entrepreneurs in our universities and polytechnics to start their ventures. Today, ETDF has invested \$1.4 million in 44 student start-ups.

Promoting entrepreneurship cannot be the Government's responsibility alone. Our entire society must embrace the values of self reliance, resourcefulness and tenacity. For entrepreneurship to take root, our people must learn to take risks, think out of the box and tolerate failures.

Realising this, the Action Community for Entrepreneurship (ACE) has sought to build a community of people passionate in and committed to entrepreneurship development. ACE reaches out to a wide sector of the business circle, including entrepreneurs, financiers, lawyers, consultants and educationists. Through the ACE Speakers' Circuit, for instance successful entrepreneurs share their experiences to inspire students and youths on entrepreneurship. So far, more than 150 Speakers' Circuit sessions have been held, reaching out to about 30,000 students and teachers.

Growing Innovative Enterprises

Finally, the third prong is to grow innovative start-ups. Today, we are happy to see that many of our SMEs such as Hyflux, OSIM, Inter-Roller and Breadtalk establishing themselves regionally and internationally. These companies were once small. But because they are resourceful and innovative, they get to where they are today. New startups are important to us for they may be just a startup today, they could become a Starbucks, a Face book, a Google or a YouTube tomorrow.

We thank Mr Singh for his suggestion of looking into financing for growth-stage enterprises. I would however add that the Government is also mindful not to intervene in the market unless there is a clear market failure. It is our belief that direct investments into companies are best left to the private sector.

Mr Singh has also pointed out the gap which innovative companies in Singapore face: between taking an idea from concept to commercialisation. He also cited the apparent success of the Small Business Innovation Research, (or SBIR⁴) programme in USA in commercialising new technologies. We will study his suggestions.

Still on the subject of helping startups in R&D, SPRING intends to support the establishment of 'full service' incubators in our RIs and the private sector. These incubators could provide start-ups with a one-stop service for mentorship, business connections, technology matching services, capital and access to other resources.

⁴ The Small Business Innovation Research (SBIR) is a US government programme started in 1982, which required federally funded agencies to set aside 2.5-2.8% of their R&D funds for contracts and grants to SMEs and start-ups. The grants are awarded to start-ups in three phases, to enable recipients to perform proof-of-concept and prototyping activities.

Consumer Protection: Update on CPFTA

Let me now move to the topic of consumer protection. Mr Yeo Guat Kwang and Mr Lim Biow Chuan both touched on the Consumer Protection (Fair Trading) Act, or CPFTA. Mr Chairman, allow me to provide an update.

The CPFTA was reviewed in late 2006 by a taskforce led by the Consumers Association of Singapore (CASE) and MTI. The taskforce submitted various recommendations, which my Ministry has accepted. We conducted a public consultation in October last year and are now finalising our proposals, taking into account the feedback received.

I will elaborate on some of the main proposals under consideration. First, financial services such as banking and insurances are currently excluded from the CPFTA. We are working to remove this exclusion, which would give consumers the option to seek redress through the CPFTA. Consumers will also benefit from additional protection in areas such as undue pressure on consumer during sale, which are currently NOT covered by the financial services-related legislation.

Second, businesses sometimes send goods or provide services to consumers without their prior consent, and subsequently demand payment from them or goods or services may also be provided on a free trial basis, placing a burden on consumers to opt out from the arrangement. We will introduce new regulations to allow consumers to treat all unsolicited goods and services as unconditional free gifts from the businesses, unless the consumer has acknowledged in writing his willingness to accept and pay for them. For goods and services provided on a free trial basis, the regulations will require businesses to remind consumers that the trial period is ending.

Third, motor vehicle dealers often package the purchase and financing of a vehicle together, and then collect a deposit from the consumer. There has been feedback that some dealers have been confiscating the deposits, citing a failed loan application as a reason but without providing any proof. We will introduce new regulations to require dealers to disclose their deposit policies clearly in their sales contracts, so that consumers can make informed decisions.

Fourth, specified bodies, namely CASE and STB can take various actions against errant businesses to court. Currently, the specified bodies have to do so within a time frame of one year. In light of experience gained, we will extend the time frame to provide them with sufficient time to perform their due diligence.

Fifth, the CPFTA's prescribed limit is currently set at \$20,000. We will increase this to \$30,000 to take into account larger consumer transactions over the years.

These changes will enhance the level of consumer protection provided by the CPFTA, strengthen CASE's efforts and ultimately improve consumers' welfare. We intend to make the necessary legislative changes this year.

MTI shares CASE's concern over the number of complaints against timeshare industry. We will therefore strengthen the CPFTA's regulation of timeshare products. The CPFTA currently allows consumers to cancel their timeshare contracts within a three-day cooling period. We intend to extend this to five days.

However, I would like to caution against rushing to regulate any industry that shows its first sign of consumer disputes. First, legislation adds to compliance cost; and over-legislation can also stifle new businesses and innovative businesses formation. Second, the principle of "Caveat Emptor" or "Buyers beware" remains the cornerstone of the consumer protection framework in Singapore. For it is in exercising their judgment, including rejecting shoddy goods, that our consumers could develop a sharper instinct in differentiating quality offerings from bogus claims.

Lemon Law and Product Liability

Let me now move to other consumer issues. Products with latent defects are known colloquially as "lemons". Consumers today already enjoy a certain level of protection against such products, as they can reject these products and seek damages. Nevertheless, we welcome Mr Yeo's suggestion to jointly study the feasibility of a lemon law in Singapore.

Promote accreditation and industry self-regulation

Consumer protection is not just about mandating rules. We must take a balanced approach that seeks to safeguard the interests of consumers without imposing an onerous regulatory burden on industry.

So instead of government prescribing standards all the time, we will encourage industry-accreditation and self-regulation to the highest standard possible. We will also continue to work with CASE on the best ways to educate consumers.

Conclusion

Mr Chairman, allow me to summarise in Mandarin.

主席先生，中小企业是我国蓬勃经济结构的一个重要的支柱。过去三年里，十六万个中小企业就以高于全国 7.7% 经济成长速度增值，同时为我们创造了三十三万个新就业机会。

为了创造一个更亲商，更适合中小企业成长的大环境，政府将继续改善运作环境，减少繁文缛节。除此之外，为了提升中小企业的竞争力，贸工部也继续在融资，人力培训，企业实力发展和走出去，四个方面投入充足的资源，提供全面的协助。

新加坡未来的经济前景，我们的综合竞争力，不在乎于跨国公司的多少，而是取决占了企业总数 99% 的中小企业。中小企业是否能大批的成功转型，跨出传统和守旧的低效益模式，走向知识型，利用智慧制造财富的行业。这个转型的工作，对于我们未来的经济结构有至关重要的关系，是政府密切关心的课题。

所以政府呼吁中小企业努力学习，吸收新的知识，接纳新的做法。建立自己的核心技术，开发独特的运作模式。

我们希望小的企业能像雨后春笋般的萌芽，而较大的企业则绿枝茂叶，开花结果，填谱出一个欣欣向荣的美景。

我深信，只要我们能将眼光放在建造长远的实力基础上，并以不屈不挠的精神，努力学习，创新，奋斗，我们的中小企业必能克服近期的困难，迈向富有生气和美好的将来。