

**SPEECH BY MR LIM HNG KIANG, MINISTER FOR TRADE AND INDUSTRY,
DURING THE COMMITTEE OF SUPPLY DEBATE (MINISTRY OF TRADE AND
INDUSTRY) UNDER HEAD V, ON MONDAY, 9 FEBRUARY 2009**

WORKING TOGETHER TO WEATHER THE DOWNTURN

Introduction

Mr Chairman, first let me thank Members for their comments and their suggestions. Let me respond to the general questions on the economy and explain our strategies for the downturn. SMS Iswaran will deal with the questions on resource costs and tourism and then MOS Lee Yi Shyan will respond on SMEs, entrepreneurship and consumer protection.

(A) Economic Outlook

2 Mr Inderjit Singh and Mdm Ho Geok Choo asked about the global economic environment and the outlook for Singapore. Our GDP forecast of between -5% and -2% reflects a sober but realistic view of the economic prospects for Singapore for 2009. The critical uncertainty is the recovery of the G3 economies, particularly the US economy. The higher end of our forecast range is premised on the G3 economies recovering, albeit weakly, in the second half of 2009. The lower end of our forecast range is based on the G3 economies not recovering until 2010.

3 There are many uncertainties in the global economy this year. But what is clear at this juncture are the following:

- a. One, the de-leveraging process will continue and credit would be tighter going forward.
- b. Two, the synchronized global recession would have a negative feedback loop on the financial sector.
- c. Three, the collapse in global demand means overcapacity in many sectors. This is very obvious in the auto and steel industry. Other sectors will face different degrees of overcapacity. There will therefore be consolidation and a shakeout.
- d. Four, the global imbalances have to be corrected, and settle down to a new, more sustainable balance.

(B) Strategies for the Downturn

4 So, how do we deal with this extraordinary downturn and the expected changes in the global environment?

5 Our first priority has been to address our companies' cashflow issues, by introducing the Job Credit Scheme, facilitating credit and alleviating cost pressures.

(i) *Facilitate Credit*

6 On credit, Members are already very familiar with the Special Risk-Sharing Initiative (SRI) and the other enhanced credit schemes to stimulate bank lending.

- a. We introduced a new Bridging Loan Programme to assist companies in their working capital needs.

- b. We also introduced Trade Financing schemes to facilitate trade finance and export credit.

7 As several Members pointed out, the key is in the implementation. Let me assure the House that MTI agencies will actively facilitate this. I have explained previously why it is unwise for MTI agencies to replace our banks in the credit evaluation process, but nevertheless we will work closely with the companies and the participating financial institutions to make sure that credit flows to viable businesses.

8 One outstanding issue is trade credit insurance.

- a. We have received feedback from companies that demand for trade credit insurance is growing.
- b. Exporters are now more wary of buyers' credit risks and hence want to get coverage to protect against the risk of buyers default.
- c. But insurers have also become more selective.
- d. Furthermore, the cost of insurance is rising.

9 To address this issue, with effect from 1 March 2009, IE Singapore will introduce an **Export Coverage Scheme (ECS)** to provide better access to trade credit insurance cover for Singapore-based companies.

- a. ECS will protect our exporters and traders against the risk of default by their buyers.
- b. IE Singapore will, through the pooling of insurers and co-sharing of risk, increase the insurance coverage capacity of this programme.

- c. To help SMEs manage the rising costs of trade credit insurance, IE Singapore will subsidise 50 per cent of the insurance premium for SMEs.
- d. The ECS is expected to support up to \$4 billion worth of trade turnover and benefit around 1,000 Singapore based companies.

10 IE Singapore will separately provide more details of the ECS.

(ii) Alleviate Costs

11 On cost alleviation, the Budget has already provided various measures to help companies manage their costs in order to stay afloat, such as the Jobs Credit Scheme, property tax rebates and rental rebates.

- a. However, we should also bear in mind that many of the cost pressures we are facing have to be relieved primarily through market adjustments rather than through direct handouts from the Government.
- b. SMS Iswaran will elaborate on this later.

(iii) Boost Demand

12 Credit financing and cost alleviation are immediate solutions we have put in place to help companies in this downturn. Members, such as Mr Zaqy Mohamad, Mr Heng Chee How, Ms Jessica Tan and Mr Liang Eng Hwa have highlighted the importance of helping our companies source for demand by identifying opportunities where they still exist today. Our companies also need to build up their capabilities so that they can produce products and services to meet the opportunities of tomorrow.

13 Mr Chairman, Sir, as part of the Resilience Package, my Ministry will set aside **\$660 million over the next two years to assist companies to seek new markets and growth opportunities, and to build up their capabilities.**

- a. IE Singapore, STB, SPRING and EDB will enhance their existing programmes in these areas, and will also introduce a range of new initiatives.

14 IE Singapore will set aside \$66 million to **enhance its internationalisation and export-promotion activities** to help companies seek new markets and growth opportunities.

- a. IE Singapore will launch the Exporter Development Programme to develop the export competencies of promising Singapore exporters, particularly our SMEs which have limited export experience.
- b. All in, the enhanced schemes under IE Singapore are expected to benefit almost 5,000 companies.
- c. The increased funding will allow IE Singapore to support our Trade Associations and our Chambers of Commerce to organize participation in more than 340 international trade fairs and business missions, an increase of 55% from the 220 business missions that we conducted last year.
- d. These efforts will support companies to go into new or niche export markets where opportunities remain despite this downturn and where the Singapore brand is highly regarded.

(iv) Build Capabilities for the Future

15 Let me now turn to our strategies to build capabilities for the future, to be ready when the downturn ends.

16 SPRING will enhance its capability development schemes under a new \$200 million programme called **BUILD, or Business Upgrading Initiatives for Long Term Development**. MOS Lee Yi Shyan will elaborate on this later on.

17 EDB had earlier announced a \$100 million programme called PREP-UP (PREParing for the UPTurn). This programme will assist companies to **preserve jobs and develop capabilities**, particularly targeting professionals in the field of science and technology.

- a. EDB will also set up a \$200 million **Living Lab Fund** to make Singapore a “living lab” for companies and entrepreneurs to nurture new ideas, to test innovative solutions and to develop future global businesses.

(C) Positioning Our Industry Clusters for the Upturn

18 Mr Chairman, Sir, I have explained our strategies for the downturn to facilitate credit, to alleviate costs, to boost demand and to build capabilities. This is what we term as improving the “horizontals”. MTI agencies will complement this approach by working with our partners at the cluster level to develop appropriate sectoral responses. In other words, addressing the “verticals”.

19 This is how we organize ourselves. We have about 160,000 SMEs and more than 1,000 large companies. MTI agencies engage our companies broadly through the SBF, our Chambers of Commerce, SMa, and ASME etc. We have EDCs as touchpoints at these organisations. In addition, we have about 30-odd industry and trade associations representing the different sectoral clusters. MTI agencies work with the industry associations through the LEAD programme and other projects.

20 Last year, I spoke of our growth strategy of developing clusters of industries, exploiting synergies across related activities. Mr Inderjit Singh asked about how this downturn has impacted manufacturing. Going forward, we can expect the consolidation process to affect the sectors differently. It will be a changed landscape. Some activities will lose relevance while others will become more important. We will need to be nimble in seeking new competitive positions. Let me illustrate by examining a few of our sectors.

(i) Petrochemicals

21 In the petrochemicals sector, we are experiencing a double hit - falling demand because of the global economic recession and oversupply because of significant new capacity coming up in the Middle East.

22 But our major projects remain very much on track.

- a. Shell's cracker plant will come on-stream in 2010 and ExxonMobil will have its Singapore Parallel Train ready in 2011.
- b. Other projects such as Mitsui's TAFMER plant are also scheduled to start up by 2010.

- c. These various projects are expected to create approximately 1,000 jobs over the next few years. The prospects for our engineering SMEs which provide maintenance services are also very good.

23 In the petrochemicals sector, our competitive strength lies in our efficiency, our integration of the various products and processes, our use of technology and our connectivity to the rest of the world.

24 We will continue to invest in the Institute of Chemical and Engineering Sciences on Jurong Island to undertake more world class research programmes so as to develop new processes and applications that can move our petrochemical industry up the value chain.

25 We will also support our engineering service providers, members of the Association of Process Industry (ASPRI), to upgrade their capabilities in areas such as plant management, design engineering, machinery upgrading, and maintenance management, so that they can handle larger and more complex projects. In this way, both the big MNCs and our SMEs can leverage on each other to compete more effectively. I believe the business community in the petrochemical sector is quietly confident about their future.

(ii) Biomedical Manufacturing

26 Let me turn to the pharmaceutical industry. This sector is facing key challenges from the slowing global economy. But demand for effective medicines will continue to grow because people become more affluent and people age. Companies want to gear up to access the expanding market opportunities in Asia and Singapore is well positioned to tap into this. In fact, this sector will be increasing its hiring by bringing in 900 jobs this year, with expansions by companies such as Wyeth, Abbott, GSK Bio, Schering Plough and Perkin Elmer.

- a. 11 of the world's top pharmaceutical and biotechnology companies have already invested in more than 25 commercial-scale manufacturing facilities in Singapore.
- b. Seven new plants are expected to open in Singapore in the next three years.
- c. We are confident that more will come to Singapore so that they can reach out to the Asian market more effectively.

27 We should also prepare for the upturn by anchoring ourselves in new niches.

- a. Within biomedical manufacturing, we need to continue to push into areas beyond small molecule pharmaceuticals, such as biologics and medical technology.
- b. Biologics manufacturing is expected to be a key growth driver for Singapore's biomedical sciences industry. The global compounded annual growth rate for biologics is 13%, compared to just 0.9% for the traditional pharmaceutical market.

- c. We will also continue investing in infrastructure development in Biopolis and the Tuas Biomedical Park, and in our strong scientific foundation through R&D.

28 Eli Lilly is one example of a leading company which is investing more in R&D despite this downturn, with their opening of the expanded Lilly Singapore Centre of Drug Discovery in October last year. This expansion, worth US\$150 million, is slated to take place over the next five years.

29 We also encourage more companies to explore partnerships to tap on the growth opportunities that result from synergies between our R&D start-ups and mainstream firms based in Singapore.

- a. S*Bio, a homegrown oncology-focused drug discovery firm, recently made headlines with its partnership with Onyx Pharmaceuticals, pairing their complementary capabilities, intellectual properties and technologies in a winning combination.
- b. We believe that more opportunities similar to that of S*Bio will arise during this global financial crisis. So in the pharmaceutical industry sector, we are facing competition from traditional areas like Puerto Rico and Ireland, and also new centres, but because our plants are new and more technologically advanced, we believe we can be competitive.

(iii) Precision Engineering

30 Let me now turn to the Precision Engineering sector, which is probably one of the most adversely affected by this downturn.

- a. As you all know, the demand for precision engineered parts and components across the manufacturing industries has declined sharply.
- b. However, this sector has been reinventing itself since the previous downturn and has diversified beyond electronics into medical technology, aerospace, oil and gas equipment and, more recently, clean energy.
- c. Even within electronics, our PE companies have moved from producing parts for high-volume consumer disk drives to focusing on parts for higher end enterprise drives and disk media production.
- d. Nevertheless, given the fall in demand in all related sectors, our PE sector has to adjust in tandem. They have to shift their production to other sectors which are holding up better than others. They also have to focus on new skills in design, manufacturing technologies, supply chain and materials processing.
- e. Already, the original equipment manufacturers (OEMs) are partnering our suppliers to co-design product and manufacturing processes beyond the traditional “build-to-print” model.

31 a. The additional support that we have for internationalisation would enable our suppliers to develop access to new markets.

- b. Our companies can also tap on the BUILD programme to work with the Precision Engineering Centre for Innovation, that we set up in SIMTech, so as to leverage on technologies for innovation and for growth.
- c. This will also help our PE companies to deepen their capabilities and become more flexible and adaptable, and position them better for the upturn.

32 Mr Chairman, Sir, MTI agencies are engaged with each sectoral cluster to develop the appropriate response for this downturn. Time does not permit me to go into detail into the other sectors. However, SMS Iswaran will be able to cover the Tourism sector to illustrate how this complementary “vertical” approach works.

(D) Conclusion

33 Mr Chairman, to summarise:

- a. We recognise tough challenges that lie ahead of us.
- b. But we are in a position of strength because we grew all our clusters and we anchored strategic capabilities here when the global economy was going strong.

34 Singapore is small. We have no choice but to adopt an outward oriented strategy and to make the world our market.

- a. We will feel the pain of global market corrections more sharply, because we are small and exposed.
- b. But because we are small, we are also nimble.

- c. This gives us an edge over others in good years, as it allows us to take advantage of opportunities when they arise.

35 Our growth strategy in the last 5 years has served us well. We managed to grow strongly yet enjoy low inflation.

- a. I have distributed a chart comparing Singapore's growth and inflation record with both regional as well as advanced economies.
- b. It shows that we have grown faster than most economies in this region and certainly faster than any other economy with a comparable level of per capita income; while enjoying lower inflation.
- c. While our growth has been more volatile, our average has been higher than in the other economies. This is not bad.

36 The reason why our economy has contracted more sharply than others has to do with our small size, our openness and our dependence on global markets.

- a. Other countries that grew at a more moderate pace in the past have also entered into recession.
- b. Some, such as Taiwan and Ireland, are expected to contract just as sharply as Singapore this year. Others whose economies do not rely on exports as much as we do have also seen similar or even steeper declines in their exports than we have.

37 We are on the right track in pursuing strong economic growth.

- a. Growth has helped us to build up healthy balance sheets at the Government, corporate, and household levels. This has enhanced our resilience.
- b. Growth has helped us to build up valuable skills and capabilities in our industry sectors and in our workers. This has enhanced our competitiveness.
- c. Growth has made possible a strong investment pipeline that is helping to create jobs even through this recession.

38 Even during this downturn, we continue to think long-term.

- a. Over the long term, the Asian growth story is still intact.
- b. Asia is in a position to experience rapid recovery once the global economic situation improves.

39 Therefore, we must not lose the capacity, the capabilities and the skills that we have built up over the years. This is why preserving jobs and keeping companies afloat are so important.

- a. We will continue to engage our companies and industry associations on a sectoral basis to tailor to the specific needs of each sector
- b. Policies and measures will be reviewed and adjusted to meet new changes and challenges.

40 The world will eventually settle into a new balance, and we must be ready to capture the new opportunities that surface with the tides of change.

41 Mr Chairman, let me now address a couple of the specific issues raised by Members.

USSFTA

42 Ms Sylvia Lim asked whether the US-Singapore FTA has delivered the expected benefits to Singapore. Let me explain the changing nature of trade between Singapore and the US. Part of the reason why the trade deficit has grown over the years is because a large proportion of goods from Singapore is not exported directly to the US but through China. Because we have gone up the value chain, we are exporting the more value-added components to China; China finishes up the product and sends it to the US. So the trade is still growing but is not reflected in our trade statistics.

43 Traditionally we have had a deficit in services but over the years, I think the deficit has grown smaller because Singapore is also becoming more competitive in services. What has benefited us particularly with the US-Singapore FTA is foreign direct investments. The foreign direct investments (FDI) stock from the US has increased from S\$37 billion as at end 2003 to S\$49 billion as at end 2007. So the FTA has encouraged many more US companies to invest and to re-invest in Singapore

44 Mr Heng Chee How raised a concern about protectionism, I think this is something that we are very concerned about. Our FTAs with our partners allow us to keep this issue alive. At the various forums, whether within ASEAN, APEC or WTO, we will continue to raise the voice against protectionism.

Corporate Rescue Task Force

45 Mr Inderjit Singh asked about how we can engage with our companies and suggested the formation of a Corporate Rescue Task Force. As I mentioned just now, we are engaged very effectively with the companies at all levels. I mentioned that we have about 30-odd industry and trade associations. Each association has about 300 to 400 members. So we are plugged in with all the key players in every sector and we know the status and the situation in all the clusters.

MNCs vs SMEs

46 Both Mr Inderjit Singh and Mr Liang Eng Hwa asked about how we can anchor more local companies to complement our MNCs. I think this is what we have done effectively. As I mentioned, the petro-chemical, with the MNCs, but our ASPRI members are SMEs and they are working very effectively. Similarly with the pharmaceutical and precision engineering. Another example is our Marine and Offshore Engineering industry, where in fact the 'queen bees' are our local shipyard companies, Keppel and SembCorp Marine, and supporting them are some 500 local SMEs with various capabilities. So we have taken a cluster approach rather than a divide between MNCs and local SMEs.

47 If I may borrow Deng Xiaopeng's observation, that "it doesn't really matter if it's a black cat or a white cat". So, similarly for us, we look at a company and assess its value-add, its ability to generate jobs, its commitment to Singapore and its contribution to our economy. It doesn't really matter if it is an overseas MNC, an overseas SME or a local company. Of course, if it's a local company, we are even more cheered by the prospects of helping our own companies



Now let me turn to ask SMS Iswaran to continue on resource costs and on tourism.