

**SPEECH BY MR LIM HNG KIANG, MINISTER FOR TRADE AND INDUSTRY,
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DEBATE ON PRESIDENT'S ADDRESS

INTRODUCTION

Yesterday we heard the Prime Minister announce the setting up of the Economic Strategies Committee or the ESC. This is a timely move because the last time we did a very in-depth strategic review of the economy was in 2001 during the Economic Review Committee, or the ERC. It has been 8 years since. More importantly, the future environment that we are facing would be vastly different.

2. The Prime Minister has outlined the tasks for the ESC and has identified 5 areas for us to take a closer look. What I like to do this evening, is to review what has happened since the ERC and in so doing, I would like to address some of the key issues raised by some Members regarding the structure of our economy, as well as the role played by the different players, the multinational companies, our local companies and the SMEs.

OUR PROGRESS SINCE ERC

[Slide #1: Singapore has grown faster than other developed and regional economies, while enjoying lower inflation]

3. The first chart shows the performance of our economy in the last 8 years, from 2001 to 2008. As you can see, Singapore has in fact grown faster than other developed economies as well as regional economies, while at the same time, enjoying lower inflation.

4. The ERC assessed that the Singapore economy has potential to grow by an average of between 3 to 5% p.a. Indeed we have enjoyed greater than expected growth; about 6% p.a between 2001 and 2008. If we include the performance that we expect this year, even so, the growth rate would be between 4 to 5% p.a. over that period.

5. Our GDP was \$153 billion in 2001; now it is \$257 billion. Even though we've enjoyed good growth, let me remind Members that we are still a very small economy and this is a very important fact which I will refer to later.

[Slide #2: We have retained manufacturing as a key sector but have diversified our manufacturing base]

MANUFACTURING HAS BECOME MORE DIVERSIFIED

6. In the next chart, I'll like to highlight what's happening in our manufacturing sector.

7. The ERC highlighted the importance of keeping manufacturing and services as the twin engines of growth. We made a very conscious decision to keep

manufacturing as a key sector of our economy. Unlike some developed countries which have experienced a hollowing out of their manufacturing sector, we have in fact successfully retained manufacturing at between 20-25% of our economy (Note: Manufacturing share dipped to 19% in 2008 because of the economic downturn. However, the production base has not shrunk and potential share can still be ramped up if there is demand).

8. I think Members realise that Singapore is not naturally a manufacturing country. It requires a lot of effort for us to keep manufacturing as a key sector in our economy. We have made long-term investments in training skilled science and technology manpower in our schools, universities, and research institutes; we've also devoted resources to developing infrastructure and research and development and we are able to maintain manufacturing.

9. The reason why we have done so, I think many of you are familiar. We do not just see manufacturing as an important sector itself, but also for its spillover effects and its linkages to the other sectors.

10. What I would like to highlight are the changes between 2001 and 2008, the very significant expansion of the biomedical services sectors. This was in line with the ERC's assessment that we should diversify the manufacturing sector; reduce the reliance on electronics and build up other sectors. And that we have done, we have grown the biomedical sectors to contribute a very significant part of the economy.

11. The ERC recommended that we do not pick winners or losers, but adopt a cluster approach towards developing our industries. Through experience from the success that we had in building up the petro-chemical sector, this is in fact still the approach that we take. In each of the clusters, we put in place a strategy and within that strategy, we embrace both local firms and well as foreign firms to come and participate in that sector.

WE ARE TOO SMALL TO DEPEND ON DOMESTIC DEMAND ONLY

[Slide #3 : Hitching to external demand has allowed us to enjoy higher income growth]

12. The next slide addresses some of the points which members have raised. And it is to show that by hitching on to external demand, in fact, it has allowed us to enjoy a higher income growth over the last 8 years.

13. We have a very small domestic economy and we do need external demand to build up our economy. In the last 8 years, we have been very fortunate that the global conditions have been very benign. There was very strong global growth.

14. In fact, external demand has grown twice as fast as domestic demand by 10 per cent compared to 5 per cent, and we have benefitted from this growth. If we had not pursued an export-led growth model, in fact, we would have foregone a significant amount of the growth over the past 8 years.

15. Unlike other countries, domestic demand cannot replace external demand in our small economy. This means that we are more reliant on the health of the global economy. Our growth strategy may be more volatile but it also means that it can be higher on average than if we rely mainly or entirely on our domestic demand.

16. So, our strategy has been to try to capture the growth opportunities when growth is good, so that we have enough resources to ride through more difficult times.

OUR ECONOMY IS DRIVEN BY A MIX OF COMPANIES

[Slide #4 : Our growth has been driven by both foreign and local enterprises, both SMEs and large companies]

17. Let me now turn to the fourth slide which is probably the most interesting slide, showing the changes over the last 8 years. It shows that our growth has been driven by both foreign and local enterprises, and by both the SMEs and large companies.

18. You find that the economy has grown as you have seen to about \$250 billion and that in 2007, $\frac{1}{2}$ of the contribution comes from small companies, and $\frac{1}{2}$ comes from big companies. Also, for $\frac{1}{2}$ of the economy, the contribution of the value-add comes from foreign companies, and $\frac{1}{2}$ comes from local companies.

19. But what is more remarkable in this breakdown is that in fact, it is almost equal contribution. Among the SMEs, $\frac{1}{2}$ of it is local and $\frac{1}{2}$ of it is foreign, and among the larger companies, $\frac{1}{2}$ of it is foreign, and $\frac{1}{2}$ of it is local. So our economy, in fact, is as diversified as it can be. One quarter of value-add comes from foreign MNCs; $\frac{1}{4}$ comes from local big companies; $\frac{1}{4}$ comes from foreign SMEs; and $\frac{1}{4}$ comes from local SMEs.

20. This is a huge coincidence. It may not represent the ideal combination but clearly, for some of the MPs who harp about the role of the MNCs, I just wanted to present this slide to show that conditions have changed quite significantly. And that we should not hold on to the old stereo-type picture that the economy and particularly, the manufacturing sector is dominated by foreign MNCs.

21. When you dwell deeper into the data, you will find that the increased foreign share of GDP is largely due to our very successful efforts in attracting more foreign companies, particularly the SMEs or subsidiaries of the big companies to set up operations in Singapore.

22. More importantly, these foreign companies do not just come from our traditional sources of the G3 economies but it now comes from a wider range of countries, from other parts of Europe, from China, India and the Middle East. So, Singapore now has an increasingly diverse and richer corporate landscape.

[Slide #5 : Not all industries are dominated by Foreign MNCs]

23. The next slide requires a bit of explanation. It shows the role of the different companies that we have for the different sectors. So we are trying to drill down on a sectoral basis.

24. The first slide is on manufacturing. Potentially, if the sector is in the upper half, it shows that Singapore companies play a bigger role. If it is on the right hand half, it shows that SMEs play a bigger role. If you are on the top right quadrant, then it means that the sector is largely dominated by local SMEs. Similarly, if it's on the top left quadrant, then it's local big companies. If it's the bottom left quadrant, it is large foreign companies and if it's the bottom right quadrant, it is foreign SMEs

25. In the manufacturing sector, general manufacturing is dominated by local companies particularly the SMEs. Here you have the food manufacturing, furniture, printing, textiles, garments and our local companies are able to hold their own in that sector. In transport engineering, you also have very strong participation from our local companies, particularly, some of our bigger companies, whether it's the shipyard like Keppel and SembMarine or in the aerospace sector, in the maintenance, repair, and overhaul of aircraft we have SIA Engineering and ST Aerospace, supported by a whole cluster of local SMEs.

26. Precision Engineering has a combination of both foreign and local SMEs, but I guess what some MPs refer to would be the three other sectors like Electronics, Chemicals or Biomedical Sciences, where the sectors are dominated by foreign MNCs. Here the question that we have to ask ourselves is if we want to be able to promote the diversification of our manufacturing sector and if we are not prepared to embrace foreign MNCs in our strategy, then we must be prepared to lose out in very

important competitive sectors such as Biomedical Sciences or Petrochemicals where our local companies do not have a strong presence.

27. If you think about the future of the strategy that we want to adopt going forward, and we think of the new sectors that Singapore can compete well in, for example, renewable energy; I'm afraid we do not have that many good Singapore companies building up in scale to play in that arena. We have been able to attract companies such as REC from Norway in solar panel manufacturing. We have been able to attract Neste Oil from Finland to build an 800,000-tonne biofuel facility in Singapore and these will be the "queen bees" that can allow us to build up a new competitive sector in renewable energy. But if we are to wait for our own local companies to build up to size, then we may lose out on the opportunities of this sector over the next few years.

28. Other sectors that we are hoping to build up, for example environmental engineering, we do have significant Singapore companies in this sector and we are working with them to build up this sector. The third sector that we are targeting, in interactive digital media, again we have Singapore companies but they are fairly small and at this juncture, we have to bring in bigger foreign companies to add capability in that sector.

[Slide #6 : Local players more active in service sectors]

29. The next slide is on the services sector. In the services sector, I think you'll see Singapore companies being better represented, being more active. It shows

better representation of Singapore companies participating in the services sector. Let me highlight the two in the bottom half (of the slide).

30. Wholesale and retail trade would have a lot of Singapore companies. The wholesale sector has been very successful in the last 20 years in building up offshore trading. And in this sector, through the Global Trader Programme, we have now got a trading community of about 260 companies of which about $\frac{1}{4}$ are local and $\frac{3}{4}$ are foreign companies. Because of the $\frac{3}{4}$ foreign companies that we have, we have built up a critical mass, a very competitive trading community that other countries would find very hard to replicate. In fact, it is very 'sticky' and we are able to retain that capability in Singapore but to do that you need to bring in the foreign companies to build up the critical mass, you can't just depend on the Singapore companies alone.

31. Similarly, you look at the financial sector. Despite our very traditional role as the commercial and financial hub for this region and with the titans of local players, we still need significant foreign banks and financial institutions. Because of the liberalisation since 1998, we have been able to do so and today, financial services contribute 11 per cent to our GDP and has very strong potential and good prospects; again with a combination of local and foreign players

WE ARE COMMITTED TO GROWING LOCAL COMPANIES

[Slide #7 : We are committed to growing local companies]

32. The final slide I have is a rather crowded slide but it shows in a nutshell, the challenges facing us and how MTI tackles it. Basically, we have about 120,000 local companies. The vast majority of our companies are small. At the base, we see a very benign, a very conducive eco-system that allows new companies to start-up and how we can nurture them in the early, building stages.

33. In the middle of the pyramid, we have about 20,000 SMEs. And the SMEs, if you look at them in the different sectors, we have about 30 to 40 industrial sectors. Each industrial association or each sector has about 300 to 500 members.

34. When we approach them sectorally, they are able to develop strategies for their sector across the items – whether it is in financing support, in-market or promoting their products overseas, training for their management, or in know-how or building up their technology, in making available our research and development efforts, so that they can take full advantage of new technology in their development.

35. At the peak of the pyramid, we have around 700 very big companies, and these are the ones that you want to continue to help them grow and contribute to the economy. And I believe what many of our colleagues and MPs would want us to do in Government, is to say how we can target some of the companies in the middle range of the pyramid and try to grow them into bigger companies. We do have a strategy for that – we call them Growth-Oriented Enterprises (GOEs) – on how we provide and facilitate their growth.

CONCLUSION

36. So this, in a nutshell, is our strategy. We have explained this several times, but it is useful to explain the challenges facing us. We have a very big task ahead of us with the ESC and its set of objectives. More importantly, we need to understand the structure of our economy, the opportunities and also the constraints that we face if we want to develop a pragmatic and positive strategy for Singapore.

37. I just want end with a word of caution. When we hear calls for Government to extend assistance to our local companies to help them compete and grow, that we do so in a way that we do not become or appear protectionist ourselves. Many of our MPs here have warned or alerted us to the risk of protectionist actions by other countries. So let's not indulge in such protectionist policies ourselves.

38. Some countries have argued for national champions. Under that guise, they adopted protectionist policies. Singapore clearly cannot win in such a strategy.

39. In addition, we have free trade agreement obligations. Whenever we sign a free trade agreement, we fight very hard for our companies to be given the Most Favoured Nation Treatment or National Treatment. By National Treatment, it means our companies are treated the same as the local companies in the countries they operate. Most Favoured Nation Treatment means our companies are given the same treatment as other companies in other countries. If they extend privileges to other companies from other countries, we get the same privileges.

40. So when we sign such FTAs, we are expected, in fact we have the obligation to reciprocate accordingly. So let's make sure we don't end up out-of-bound with our agreements.

BUY AMERICAN PROVISIONS AND AMERICAN TAX MEASURES

41. Finally, let me take this opportunity to respond to Mr Low Thia Kiang's question yesterday about the 'Buy American' provision and also on the America tax measures.

42. As you are all aware, the 'Buy American' provision was implemented on 17 February 2009, when they brought in the American Recovery and Reinvestment Act. Because of the very adverse reaction from the international community and some of the US business groups, the 'Buy America' provision went through several changes. The final formulation requires that it be applied in the manner consistent with the US obligation under international agreements – both under the Government Procurement Agreement under WTO, as well as bilateral agreements.

43. As you know, agreements are only as good as you are able to enforce them. More recently, we already have some reports from some of the states in US which are implementing the 'Buy American' policies in their state procurement actions. This has caused Canada to be very concerned. Canada and other countries are now taking action against some of the states.

44. With regard to the proposal to tax US multinational companies' offshore income, again this proposal has raised a lot of concern, particularly among the US multinational companies. This is still under review, so we would like to continue to work together with our partner, the US business community, to make sure or to try and get the message across that changes like this would put the US companies at a great disadvantage. But this is still early days, and we have to monitor this very closely.

Thank you.
