

**Speech by Mr Lim Hng Kiang  
Minister for Trade and Industry,  
during the Committee of Supply Debate under Head V  
(Ministry of Trade and Industry) on 8 March 2010**

**MTI COS SPEECH 2010**

**“ECONOMIC OPPORTUNITIES & GROWTH STRATEGIES”**

**(A) INTRODUCTION**

1. Mr Chairman, first let me thank Members for their comments and suggestions.
2. Indeed, 2009 was a turbulent year for our economy. We went through a deep recession in the first half, but rebounded strongly towards the end of the year. GDP contracted by 2% over the year but employment increased by 38,800 jobs.
3. In 2010, our focus will be on recovery and setting the stage for the next phase of growth. I will briefly talk about the outlook for 2010 and our strategy for consolidating the on-going recovery. For the medium term we have to count on productivity to fill our growth. As DPM Teo Chee Hean said productivity also means increasing the top line. I will therefore spend some time discussing the economic opportunities and growth strategies for the medium term, In other words how to grow the “top line”.

**(B) 2010: CONSOLIDATING THE RECOVERY**

4. The Singapore economy should do well in the first half of this year. But uncertainties remain in the second half. We expect the fiscal stimulus in the G3 economies will fade and inventory adjustment will taper off in the second half. The underlying sluggish demand in private consumption and investment in the G3 economies, combined with fragile financial markets and tight credit conditions, may slow the pace of recovery. There are also new downside risks for us to monitor, such as the sovereign debt risk in Europe and asset inflation risks in Asia.

5. But overall, our economy should grow by between 4.5 to 6.5 per cent this year. This is slower than previous recoveries, but a decent performance nonetheless given the strains the global economy is undergoing.

6. Ms Jessica Tan and Mr Liang Eng Hwa have asked how we intend to manage our recovery, and whether business costs will start to go up again as assistance measures are withdrawn and demand picks up.

7. As the economy recovers, we must expect costs to go up, compared to last year when we were in a recession. But there is still some slack in the economy. As of the fourth quarter of 2009, the economy was around 4 per cent below its recent peak level of output. Office rents and industrial rents were 17 per cent and 29 per cent below their peaks respectively. Nominal wages last year were 2.6 per cent below 2008 levels. So we do have some buffer. Our forecast for inflation this year is between 2 to 3 per cent.

8. Mr Zaqy Mohamad asked for an update on the Special Risk Sharing Initiative, or the SRI scheme. In the 14 months from December 2008 to January 2010, more than 16,000 loans worth about \$8.9 billion have been catalysed under the SRI and other enhanced business and trade financing schemes. More than 90 per cent of these loans went to our SMEs.

9. We have extended these schemes for another year, with some scaling back on lending terms in view of the improving credit conditions. We expect the impact of this revision to be minimal as there had already been a decrease in the demand for government-backed loans prior to this scaling back. After the discontinuation of the SRI in 2011, SMEs will still be able to tap on the mainstay Government financing schemes, which were in place before the recession.

### **(C) ECONOMIC OPPORTUNITIES & GROWTH STRATEGIES**

10. Let me now turn to the economic opportunities and the growth strategies for Singapore. Ms Jessica Tan, Mr Teo Ser Luck, Mr Wee Siew Kim, and Dr Muhammad Faisal Ibrahim have all raised pertinent questions on this subject.

11. The Economic Strategies Committee has set out the broad directions for the economy for the next ten years., and the Government has responded with a slew of measures and programmes in our Budget. Let me focus on the five key growth strategies that my Ministry will pursue in order to raise the top line over the medium term.

12. **First**, we will facilitate existing industries to move up the value chain by helping them to deepen and expand their capabilities. **Second**, we will take advantage of global trends such as new growth areas at the intersection of the manufacturing and services sectors. **Third**, we will build a more diverse and vibrant corporate landscape. Last year, I explained that the value-added of our economy is contributed by the four groups : foreign MNCs contributing one quarter of our value-add; foreign SMEs, another one quarter; local large companies, one-quarter, and local SMEs, one quarter. Going forward, we want to strengthen our corporate landscape by adding new players, for example, global mid-sized companies and Asian MNCs. Our **fourth** strategy, we will strengthen our integration with our ASEAN neighbours to sharpen our competitive edge. And **fifth**, we will support the internationalisation of our companies by leveraging on our existing Free Trade Agreements (FTAs) as well as pursuing new FTAs. Let me elaborate on each of these strategies in turn.

## ***Deepening and Expanding Capabilities of Existing Industries***

### *Cluster Approach to Industry Development*

13. Singapore has adopted a cluster approach in our industrial development strategy by promoting the growth of the wider ecosystem that supports each industry. Ms Penny Low asked how some of these cluster strategies were progressing, particularly, our hub strategy for each of these clusters. Overall, we have done reasonably well. Let me provide a quick update on a few major clusters and how we are deepening and expanding their capabilities, which is our first strategy.

### *Biomedical Sciences*

14. Let me start with the Biomedical Sciences, or BMS. We started developing the BMS sector in 2000. Today, we are a highly competitive and trusted site for manufacturing pharmaceuticals. Our recent investment in building capabilities for biologics manufacturing has paid off. Despite the difficult conditions in 2009, we attracted new BMS projects resulting in 1,200 new jobs and over S\$1 billion in fixed investments. For example, GlaxoSmithKline opened a plant that will produce compounds used to manufacture its innovative vaccines, such as a new vaccine that protects against meningitis.

### *Logistics*

15. The Logistics sector is also another key sector. Over the years, we have built upon our natural attributes and strengthened our position. Singapore was ranked by the World Bank in 2009 as the Number 2 logistics hub in the world. Today, 17 of the world's top 25 leading logistics companies have a significant presence in Singapore. DHL, the world's largest logistics player, has expanded the responsibilities of the Singapore office to manage operations as far away as the Middle East.

*International Organisations and Disaster Relief*

16. Ms Penny Low has asked whether we can become a Humanitarian or International Organisation Hub. We are making good progress. We are home to more than 80 International Non-Profit Organisations - a number that has more than doubled since 2005. EDB in fact set up a dedicated International Organisations Programme Office to assist international organisations interested in Singapore. We agree with Ms Low that our strategic location in Asia and our excellent logistics connectivity lend ourselves naturally to play the role of a disaster rescue & relief co-ordination hub. This is, in fact, what is happening.

*Electronics*

17. The electronics sector has been with us since the 1960s. It is a good example of how we have moved up the value chain. We started with semiconductor packaging, then moved up to the Hard Disk Drive assembly in the 1980s, and then semiconductor wafer fabrication. Today, nearly half of the world's hard disk media are made in Singapore. Electronics is a key demand driver for our logistics, chemicals and precision engineering industries. It is also an important capability enabler for new clusters such as avionics and medical technology. But Electronics is a sector that changes rapidly. So, we must also continually adapt, and change in order to seize the opportunities in this very exciting sector.

18. Looking at the future of electronics, we have identified four new growth areas. First, concerns about climate change have raised awareness and need for green electronics products, such as energy-efficient computing solutions, green automotive and green lighting solutions. Second, demand for bioelectronics products, such as ingestible pill-cameras and bio-sensors, will increase as the developed world ages. The final two areas are security technologies, such as biometric access systems, and plastic electronics such as flexible e-book displays. These four areas are very high-tech and build upon the competencies that we have already established. They illustrate that our electronics sector has the potential to continue to grow.

19. Time does not permit me to go into all the sectors, but suffice to say, we have similar strategies to deepen and broaden our capabilities in each of our key sectors.

### ***Riding on the Convergence of Manufacturing & Services in New Areas***

#### ***The “Servitisation” of Manufacturing***

20. Let me turn to our second growth strategy: riding on the convergence of manufacturing and services in new growth areas. The key to this strategy lies in understanding that the line between manufacturing and services is blurring. Some commentators have questioned why Singapore is still holding on to its manufacturing base. They are missing the point. It is not a choice between manufacturing or services, but whether we can successfully seize the new opportunities emerging in the space that spans manufacturing and services. Many manufacturing firms no longer simply transform raw materials into finished products. Rather, they now see themselves as entities that turn ideas into products and services that provide integrated solutions for the end-consumer.

21. Let me illustrate with an example. Teo Garments is one of our largest local textile and garment manufacturing SMEs. They started off manufacturing apparel to meet the specifications of their customers. Today, they complement their manufacturing activities with a full range of services, from product development and design, to merchandising, to logistics management. Their customers, who include well known western brands such as Osh Kosh B'Gosh, benefit because it conveniently delivers both the products and the services they require. And, of course, Teo Garments benefits through the additional revenue and market opportunities that they can now reap.

22. Economists call this the “servitisation of manufacturing”. We expect this development to gain momentum and see this being replicated in many other sectors, blurring the once-clear distinction between manufacturing and services.

Capitalising on servitisation

23. Leading manufacturers are therefore moving beyond production to develop a full suite of services such as R&D, design, supply-chain management, and after-sales support. These are activities that Singapore is well placed to capture. We already have well developed professional and business services that complement our manufacturing activities, but to capitalize on these new opportunities, we need our manufacturing base, . By being a home to companies' entire suite of solutions, we can entrench them further in Singapore. We are therefore not just deepening our capabilities in each cluster or sector, but also capturing the value between the sectors.

***Building a More Diverse and Vibrant Corporate Landscape***

Singapore as a global business hub

24. Ms Penny Low and Ms Jessica Tan asked for the prospects of our global business hub strategy. Our third strategy is to build on this business hub position by attracting new players, as I mentioned just now. We intend to attract global mid-sized companies as well as Asian companies looking to internationalise, and facilitating the growth of our own globally competitive companies.

Attracting G3 Mid-sized Companies

25. Mid-sized companies from the G3 economies who wish to tap into opportunities in a rising Asia want to base their regional operations in a modern, business friendly environment that is able to manage both India and China from one location. This is because some of these mid-sized companies do not want to set up one base in China, one base in India, and a third in South East Asia. Singapore is well-positioned to be their pan-Asia headquarters. We have already done relatively well in attracting MNCs from the G3 economies to invest in Singapore. We are now attracting mid-sized companies who are responding to the Asia growth story and may grow into the MNCs of tomorrow. For example, Pall Corporation is an American clean-tech company specialising in fluid management technologies. They are keen to expand into Asia, and have chosen to set up their Asia-Pacific HQ in Singapore.

*Attracting Asian Companies*

26. At the same time, companies from India and China have started expanding their presence overseas. Singapore's excellent connectivity to G3 companies and markets offers them the option to take a small, calibrated, step out of their borders but which immediately connects them to the developed world. We are aiming to attract to Singapore such companies from Asia who are looking to step out into regional and global markets. We have already had some initial success. For example, Tata Communications from India has set up an international HQ and data centre here.

*Facilitating Growth of Local Companies*

27. Our locally based companies have grown quickly in the past decades. Some of them have managed to achieve regional and even international success. As Mr Liang Eng Hwa pointed out, our economy benefits when our local companies become industry champions in their own right and become "queen bees". We would like to see more home-grown industry champions. We will take a multi-pronged approach to achieve this. Schemes such as the PArtnerships for Capability Transformation, or PACT, have already been announced by MOF, and we will announce the details in May. We have in place many other schemes, Mr Liang counted 150 over schemes, to help our local companies grow and succeed. I leave it to MOS Lee Yi Shyan to elaborate on these schemes in his response later on.

*Institute of Asian Consumer Insights*

28. Riding on the Asia growth story, we think we can strive to be a leading consumer business centre in Asia where consumer insights are developed and consumer-centric businesses managed and grown. In this way, we will build a cluster of companies in the consumer-related fields of marketing, branding, consumer research and market intelligence. We will establish an Institute of Asian Consumer Insights in Singapore to conduct such research and analytics that will draw insights from consumer data to create value for companies that are established here.



***Strengthening Integration with ASEAN***

29. Our fourth growth strategy is to strengthen our integration with our ASEAN neighbours and thereby sharpen our competitive edge.

30. ASEAN provides two key advantages for our businesses. First, with a middle class of more than 75 million people, the ASEAN nations provide a growing market that serves as a very natural first step out of our borders. In fact, many of our successful companies, such as Raoul, Crystal Jade, and AceCom, first started serving the ASEAN market before they expanded more widely onto the global stage.

31. In addition, our companies have also leveraged on ASEAN as a competitive production base, conducting entire value chains of activities within ASEAN. For instance, STMicroelectronics conducts R&D, IC design, application support, and wafer fabrication in Singapore, while the packaging of chips is carried out in Malaysia, and the final testing of the chips is conducted in Malaysia/Philippines, or outsourced to other players in the South-east Asian region.

32. ASEAN aims to achieve an ASEAN Economic Community (AEC) by 2015. The AEC will accelerate ASEAN's journey towards a single market and a synergistic production base, with enhanced transport and business connectivity. ASEAN-based businesses, including Singapore-based businesses, will produce, operate, and export more seamlessly across the region. We must take full advantage of this new development occurring in our neighbourhood.

***Enhancing Existing FTAs, Pursuing New FTAs***

33. Our fifth growth strategy is to support our companies as they internationalise by leveraging on our existing FTAs, and pursuing new FTAs.

34. Mr Wee Siew Kim asked about the benefits from our existing FTAs. Our FTAs have helped to reduce costs, lower risks, and open new markets for our companies. Let me elaborate.

35. Today, Singapore has a network of 18 FTAs in force. As an export-oriented economy, Singapore thrives on the free flow of trade and better linkages to major economies and new markets. Last year, companies based in Singapore enjoyed more than \$700 million in tariff savings as a result of our FTAs.

36. Our service suppliers and investors in key sectors enjoy more predictable and better access to the markets of our FTA partners. Furthermore, overseas investments by our companies have enjoyed increased protection both through our FTAs and Investment Guarantee Agreements.

37. Trade facilitation measures under our FTAs help to lower business costs for our companies. For example, Mutual Recognition Agreements eliminate duplicate testing and certification, yielding cost and time savings. In the case of consumer electronics, such MRAs save our exporters between \$3000 to \$8000 on testing costs per type of product.

38. Mr Wee Siew Kim has also asked about the areas where additional effort is needed. We already have FTAs with nearly all our top trading partners, covering 66 per cent of our exports.

39. This year, we have embarked on two deeply significant FTAs. The first is with the European Union, our largest trading partner in 2009. We look forward to substantial tariff savings and improved market access there. The second is the Trans-Pacific Partnership FTA, together with 7 other APEC economies including the United States. This FTA can be the building block for eventually achieving an FTA for the Asia-Pacific region. The Closer Economic Cooperation Agreement with Egypt is also another important FTA this year. This will give us access to the Egyptian market. When done, this will be our first FTA with an African country and will give us access to both North and East Africa.

**(D) CONCLUSION**

40. Mr Chairman, let me conclude. We are small and open, and will always be vulnerable to the fluctuations of the global economy. There are still some uncertainties in the near future, but we must chart the course for long term growth and resilience during this period of recovery.

41. The first three strategies I outlined, of strengthening our existing clusters, capturing new growth areas, and building a more vibrant corporate landscape, will expand the scope and capabilities of our companies as they compete in the new landscape.

42. Our fourth and fifth strategies, of deepening integration with our ASEAN neighbours and leveraging on our trade agreements, will expand the market space for our companies.

43. Together, these five strategies will put us on the path of a broad-based growth for our economy, and create better jobs for all Singaporeans.

44. Thank you.