

**Speech by Mr Lee Yi Shyan  
Minister of State for Trade and Industry,  
during the Committee of Supply Debate under Head V  
(Ministry of Trade and Industry) on 8 March 2010**

**A) Introduction**

1. Mr Chairman, let me start by thanking Members who spoke enthusiastically about supporting our SMEs in raising productivity and competitiveness.

2. SMEs as a group contribute half of Singapore's GDP, and they account for 6 out of every 10 persons employed. And yet, they are only half as productive as the average firm in Singapore. There is much room for improvement, and SMEs play a critical role in determining the success of our productivity drive. MTI is committed to supporting SMEs to build up capabilities to raise productivity and increase competitiveness.

3. I will set out MTI's strategy for supporting businesses to raise productivity at three levels:

- i) At the *national* level, we must ensure that our overall business environment remains favourable to large and small businesses alike;
- ii) At the *sectoral* level, we will support our industries in working together to address productivity gaps;
- iii) At the *firm* level, we will help SMEs build capabilities and create value.

**B) An pro-business environment that supports entrepreneurship and renewal**

4. At the macro-level, we need to ensure that our business environment remains conducive to all businesses. Entrepreneurs must be able to start and grow businesses easily. We have been quite successful in this area. For four years in a row, the World Bank has ranked Singapore as the easiest place to do business, out of 183 economies. And yet, we must continue to improve.

Through the Pro-Enterprise Panel, we have received close to 1,800 suggestions from businesses to cut red tape. We have adopted half of them. We will continue to find ways to reduce, simplify, or to do away with bureaucratic complexities.

5. Mr Liang Eng Hwa asked whether the entrepreneurial culture has taken root in Singapore. I would like to take the opportunity to thank the Action Community for Entrepreneurship ('ACE') for their work in promoting an entrepreneurial culture in Singapore. Successive batches of entrepreneurs have contributed to this movement. Today, we celebrate entrepreneurship. We have many more successful role models. There is also greater social acceptance of entrepreneurship as a career choice among our young and educated. A survey shows that more than 60 per cent of start-up founders<sup>1</sup> are below 40 yrs old, and about three quarters of them have at least tertiary-level education<sup>2</sup>. NUS, NTU, and SMU house 120 promising start-ups in their incubators. ITE and polytechnics run business plan competitions. Even our primary schools have children educated on entrepreneurship programme today.

6. Mr Inderjit Singh, who is a passionate advocate for entrepreneurship, asked if the Government can do more in this area. The answer is: Yes, we can and we will.

7. We clearly must build up our entrepreneurship eco-system to anchor a critical mass of start-ups, angel investors, VCs, and deal flow network.

8. In an effort to render Singapore as a meeting place amongst business angels from Asia, SPRING Singapore, ACE, and the Singapore-based "Business Angel Network of Southeast Asia or BANSEA, are organising an inaugural Asian Business Angels Forum today and tomorrow. The forum brings together 150 business angels, entrepreneurs and their respective networks from 14 different countries. And in line with this, the newly announced ***Tax Deduction for Angel Investors Scheme*** will catalyse more of such investments in our start-ups.

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<sup>1</sup> ACE STEP Survey 2008 (2007 data). The sample consisted of 1521 start-ups (registered for less than 3 years).

<sup>2</sup> Tertiary-level education refers to A-level/diploma education.

9. A vibrant business environment is not only one where new firms form readily. It is also one where there is a continuous advancement towards higher value activities in a virtuous cycle of renewal. Economists would call this “creative destruction” – the basis for “disruptive innovation”.

10. Mr Low Thia Kiang has asked what the ESC recommendations will mean for low-value activity in Singapore. I think he cited the sundry shop and car repair shop as examples. Well, economically speaking, in any free market competition, the fittest survive. Companies engaged in low value activities cannot hope to do things the same way as they have been in the past 10 or 20 years. They must upgrade, innovate, and focus on value creation, or they will lose their customers to competition.

11. And this is exactly how the furniture industry in Singapore has transformed itself over the years. In 1993, as an EDB Centre Director based in Washington DC, I received an incoming delegation from the Singapore Furniture Industries Council (SFIC). After meeting up, we went to call on the leading furniture distributors in the East Coast of the US, hoping to convince them to “buy Singapore”. When SFIC showed their brochures to a leading US furniture retailer, the Vice President receiving us said: “Let’s be frank, for furniture of this standard, I can make it in my own garage!” Imagine the shock on our faces then. What a blunt rejection! It was a wake-up call. SFIC came home to Singapore. They went back to the drawing board.

12. The furniture scene in Singapore is completely different today. We have ‘graduated’ out of the space of low-cost manufacturing. Our furniture companies are now moving towards ‘Original Design Manufacturers (ODM)’. Many market their products under their own brands.

13. Mr Low Thia Kiang in his speech, asked what the government is doing for the sunset industry. In this case, what was once a sunset industry in Singapore has been completely rejuvenated and given a new lease of life. I think, you are sunset when you think you are sunset.

This was possible because SFIC members innovated and transformed. SFIC even created a strategic blueprint describing where they want to be in the next five years.

14. The success of our companies and industries ultimately rests on their own drive, innovation, and entrepreneurial effort. Entrepreneurs such as Ron Sim of OSIM and Olivia Lum of Hyflux, established their successful businesses with very little in the beginning and with sheer resourcefulness throughout. The furniture industry in Singapore made the bold decision to renew itself and we have supported them in doing so. For all who are willing to upgrade and innovate, the Government is always ready to support.

**C) Enterprises should work together to tap synergies across the sector**

15. There are often productivity gains to be found by looking across companies to identify scope for collaboration. One example, raised by Dr Ahmad Mohd Magad, would be the sharing of resources such as infrastructure and services among SMEs. Indeed this is a great way for SMEs to aggregate demand and leverage on economies of scale.

16. Mdm Ho Geok Choo suggested that one such initiative could be the setting up a HR service outsourcing hub, and to give more focused support to SMEs in this important area. It is a good suggestion which SPRING will look into.

17. Consider the example of the hotels and restaurants sector, as highlighted by Mr Heng Chee How. It may be amongst the productivity laggards today. But there is no reason why our hotels and restaurants cannot aspire to become the most innovative, most service-oriented, and most technology-savvy in the world. To make this happen, it is crucial that the industry work closer together to pursue common productivity improvements.

18. Years ago, I was told that the Raffles Holdings Group realised that they were paying high prices for daily consumables such as tissue paper, soap, combs, and other toiletries. So they came up with an idea: to build a web-based purchasing system open to other hotels in Singapore, so that by aggregating demand,

they can secure the best pricing from suppliers. One participant recalled that he experienced 10 to 15 per cent savings from using the system. In this case, the leadership of one company in the industry led to cost savings for all the players.

19. Industry associations can play an important role in rallying their members to secure sectoral productivity gains. Consider for instance, the Textile and Fashion Federation, or TaFf in short. Many of their members wanted to re-engineer their systems and processes for greater production efficiency. But none were in the position to employ full-time engineers. So what TaFf did, was to train up a pool of engineers and deploy them across their members. As a result, members were able to tap on much-needed expertise in a cost-efficient manner. This is a good initiative on the part of TaFf.

20. We have good mechanisms to support industry associations which aspire to improve. Since 2005, SPRING and IE Singapore have committed \$50 million under the Local Enterprise and Association Development or **LEAD** programme, to help 22 associations run projects just like the one I have described. The additional \$100 million that the Minister for Finance has announced will further scale up the support for business associations. I strongly encourage our associations to work closely with SPRING and IE Singapore to help member companies raise productivity and expand their presence overseas.

21. Mr Heng Chee How asked about the development of a centre for research on productivity and innovation. I would like to highlight that SMEs can already access five Centres of Innovation (or COIs) set up by SPRING with polytechnics and research institutes. The five centres cover food manufacturing, marine and offshore engineering, environment and water technology, precision engineering and electronics. This sectoral infrastructure, each capital-intensive in nature, allows SMEs to tap on scientific expertise and resources in the form of manpower training, technology consultancy, prototyping and testing to become better in their processes and products.

22. We will study how to strengthen further the existing network of Centres of Innovation or to create new ones if need be. We are studying the modalities and appropriate models for doing so. These centres will do applied research on sector-specific productivity, identify international best practices, and develop productivity benchmarks that benefit the entire industry sector.

**D) Enterprises can focus on value creation in raising productivity**

23. As many Members have emphasised today and during the Budget Debate, boosting productivity does not mean working harder and longer. As Mdm Ho Geok Choo stresses, employers must take the lead, including training their workers to be more skilled and more effective at what they do.

24. Mr Zaqy Mohamad has raised concerns about high costs running counter to our productivity efforts. Given Singapore's size and circumstances, it is inevitable that we will face resource constraints. But this does not mean we cannot create business models that will help us overcome these constraints and prosper. Growing revenue top line and profitability through innovative products and services becomes an imperative.

25. This is why we should shift our focus to value creation. Much has been said about the 'hows' – that is, the efficiency of doing things, or ***doing things right***. But I think it is important to take a step back and ask about 'what'- meaning what should we do, or ***doing the Right Thing***. Are we competing based on value creation or on cost efficiency?

26. Let me illustrate with some examples of innovative companies that have done exactly this.

### ***Tippling Club***

27. Many of us cannot do without our daily staple of KOPI-O and soft-boiled eggs for breakfast. But Tippling Club at Dempsey has taken it one step further. They have come up with a fancy cocktail drink based on KOPI-O which is served with eggs. To create its menu of unique “food-cocktails”, they invest substantially in food science technology and introduced the concept of ‘molecular gastronomy’ to their concoctions. In fact, it was through much research and experimentation that the mixologist discovered that the optimal temperature for the eggs has to be at 62 degrees Celsius – not higher, not lower, to taste its best. With food science as their edge, the Tippling Club creates not just cocktails, but an experience its customers have never had before.

### ***Azimuth Watch Company***

28. Another innovative company is Azimuth. When we think of luxury watches, we think of Swiss brands like Rolex and Patek Philippe. But Azimuth is Singapore’s home-grown luxury watch company that designs in Singapore and manufactures in Switzerland. It takes an unconventional route to design. It created the world’s first single-hand watch that moves anti-clockwise. So it’s not an optical illusion when you look at the watch face. It has another watch that is modelled after a robot. There is even one that has a functioning roulette wheel as a watch dial to commemorate the opening of the IRs here. By making watches that do not look like a traditional 3-hand watch, Azimuth defines a niche for itself. Azimuth’s watches retail at between \$5,000 to \$120,000 a piece. Only five years old, Azimuth has a steady following among watch lovers in Singapore and over 20 countries.

29. One study shows that the profit from selling a Swiss-made time-piece is more than selling four cars combined. Of course, if you measure this last year, it may be infinity because most of the car-makers were losing money. If you were a start-up thinking of new areas to venture to, or a precision-engineering firm seeking new markets to specialise, which path would you take? Azimuth’s approach is instructive.

30. Several members, Mr Inderjit Singh, Mdm Ho Geok Choo, Mr Heng Chee How, and Mr Zaqy Mohamad have asked about how we will help SMEs in raising productivity.

31. Well, let me say that the drive for productivity must come from the SMEs themselves. For the willing and determined, SPRING offers a comprehensive range of capability development programmes to assist them. In fact, Mr Liang Eng Hwa earlier mentioned that 154 schemes can be found on the website. The programmes range from IT upgrading, HR and process innovation, to design, product development, branding and business management systems. In 2009, SPRING helped more than 3,000 companies in the many areas mentioned. We will ramp up our capacities to help at both the firm and sectoral levels.

**E) Enterprises need to look to internationalisation for growth**

32. Mdm Ho Geok Choo and Mr Wee Siew Kim asked what we are doing to enable SMEs to internationalise.

33. Going forward, IE Singapore's new ***SME Market Access Programme*** will complement its existing suite of schemes to help internationalising SMEs. The programme will help SMEs defray the developmental costs of entering new markets, such as fees incurred for engaging distributors, professional services and certification.

34. Mr Wee Siew Kim and Mr Zaqy Mohamad have correctly pointed out the importance of "hunting as a pack" in entering overseas markets. By doing so, companies can complement their product offerings and achieve economies of scale, and hence strengthen their overall competitiveness and maximise their chances of success. I encourage companies to tap on IE's iPartners programme to form and develop such business alliances.



35. Finally, Mr Inderjit Singh has asked if an agency called “Enterprise Singapore” is required to help Singapore companies grow into globally competitive companies. While there may be benefits to combine several agencies into one as proposed by Mr Singh, there would also be operating trade-offs too. I think the most important point about his suggestion is that there should be seamless and integrated support provided to growing SMEs, whether in the area of capacity building, internationalisation or productivity enhancement.

36. In fact, in recent years, our economic agencies have been working towards a more seamless service model for SMEs. At the board level, EDB, SPRING and IE Singapore are represented on each other’s boards. At the operational level, SPRING and IE Singapore share information on account management of key accounts in key sectors. Certain capacity building programmes, such as branding capability and SME financing, are jointly administered by the two or more agencies.

37. In enterprise development, SPRING served 3,000 SMEs in 2009. In the same period, IE Singapore provided support to 4,700 companies in internationalization-related services. Enterprise development requires active cooperation among agencies with complementary expertise. SPRING and IE Singapore will continue to work closely together to support SMEs in raising their productivity in a seamless fashion.

**F) Other issues:**

***Social Enterprise***

38. I will now turn to Ms Penny Low’s query on the role that we can play, in supporting the development of social enterprises.

39. MTI’s mission is to maximise economic benefits for Singapore. As long as enterprises, including social enterprises, are able to create jobs and contribute to Singapore’s economy, upgrading support for productivity improvements will be available to them. In fact, social enterprises can also tap on other assistance schemes provided by MCYS, such as the Comcare Enterprise Fund (CEF).

40. City College Holdings Limited, is one example. It is a social enterprise which provides effective and affordable education to private candidates taking the GCE 'O' level examinations. Under SPRING's LETAS grant, City College implemented an Academic Information Management System to improve the efficiency of its administrative process.

**G) Conclusion**

41. Sir, in conclusion, let me re-iterate that the new productivity drive is a national effort that requires everyone to play his part. At the broad level, what the Government can do and will do, is to ensure that we have a conducive environment for all businesses, large and small, to conduct their businesses with ease. Industries and enterprises must take the lead in drawing up their own roadmap towards higher productivity. For those who are ready to rise up to the challenge, the Government stands ready to provide our maximum support.