Mr Lim Hng Kiang, Minister for Trade and Industry, at the Committee of Supply Debate (Ministry of Trade and Industry) on Monday, 3 March 2008, in reply to cuts (a) to (j) under Head V

STRATEGY FOR GROWTH

INTRODUCTION

Mr Chairman, first let me thank Members for their comments and suggestions. As pointed out by Members, 2008 will be a challenging year. The global environment is more uncertain and we face increasing cost pressures. How do we remain competitive, grow the economy, and create jobs? These are the key issues raised by Members.

We had a good run in the last four years. Our economy has enjoyed 18 consecutive quarters of positive growth. Real GDP grew by a cumulative 36.3% from 2003 to 2007. We have created nearly 600,000 jobs. Not just more jobs, but high quality jobs. From 2004 to 2007, about two thirds of new jobs taken up by Singapore citizens were in the professional/ managerial/executive/technician or the PMET category of occupations. Wages have grown by a total of 17.4% during this period. Consumer prices, on the other hand, have increased by 5.3%, though the main increase took place in the second half of 2007.

STRATEGY FOR GROWTH

Our strong position today did not come about by accident. Previously, Mr Inderjit Singh, during the Budget Debate, described our approach as "growing at all costs", and thereby one of the primary cause of all the cost pressures. I think Mr Inderjit Singh exaggerates for impact. I am sure he is not advocating that we plan to just grow at a comfortable rate and forego opportunities if they do not fit our plan.

I would prefer to describe our approach as growing strategically, not tactically, by developing the clusters we are competitive in, and tapping the opportunities that arise within these clusters and across the clusters. Through this approach, we are also better able to address the resource needs and cost pressures within each cluster, a concern raised by Ms Jessica Tan. I hope that from a better understanding of our strategic clusters, Members will appreciate that our economy is now more resilient than ever. Mr Low Thia Khiang, Mr Teo Ser Luck, and Mr Zaqy Mohamad will also be convinced that we are building a top quality economy – one that is well-diversified across sectors and across markets, with a strong external wing that allows us to seize new opportunities overseas, and an innovative economy powered by R&D, enterprise, and entrepreneurship. Growing our market share in these strategic clusters, exploring new growth opportunities, building more economic linkages, and entrenching the spirit of innovation throughout the economy will give us the competitive edge we need in order to thrive and to succeed.

Developing Our Strategic Clusters

Mr Chairman Sir, we operate in a fast-paced and rapidly changing world, where there is intense competition. To build up our economic clusters, we need clear strategic directions for each of the cluster. We need to plan ahead, anticipate needs, seize the opportunities when they arise, and work hard to resolve any resource constraint.

Chemicals

Let me illustrate by going through the key clusters that we are concentrating on. First, the chemicals cluster. Jurong Island today has developed into one of the world's top 3 oil refining centres and a leading chemicals hub. It is home to more than 90 companies with investments in excess of S$30 billion. But even as we speak, the Middle Eastern countries are diversifying from oil and gas production to building petrochemical hubs of their own. China and India are also building up their own capabilities to meet their own needs. For us to remain a top petrochemical hub, we need to anchor a critical mass of refining and cracking capabilities in Singapore, which can in turn catalyse other developments in the chemicals cluster.

The petrochemical cycle peaks approximately every 7 to 8 years. In other words, we do not land a chemical cracker project at a time of our choosing. In fact, we have to catch the cycle. When we found out that ExxonMobil was planning to invest in a new world-scale cracker, we went the extra mile to secure the project. We knew that one critical consideration for ExxonMobil was sufficient space to integrate the new project with its existing facilities in Singapore. As a result, the Government proactively diverted and realigned a stretch of Jurong Island Highway, together with 17 live pipelines and 4 core fibre optic cables.

The Shell cracker project is also illustrative. The industrial land was prepared well in advance so that Shell could break ground and start work within a month of their final decision. Such advance planning is one of the reasons why we are attractive to investors. The Shell investment led in turn to the recent announcement by Lanxess AG that they will invest €400 million or over S$800 million in a state-of-the-art butyl rubber plant. Lanxess AG came in because they knew that they can rely on the feedstock from the Shell cracker by the time their plant is up and running.

These two multi-billion dollar projects are expected to double our current ethylene production to about 4 million tonnes per year. They open up a whole range of investments possibilities in downstream petrochemicals and in specialty chemicals.

Electronics

The electronics cluster provides another example of competitive pressures that we have to strategically seized the opportunities in order to move up the value chain. From our roots in assembling simple transistor parts, we moved to hard disk drives, and now we have moved into semiconductor wafers. Wafer fabrication produces high value-add jobs, anchors capital and knowledge, and also attracts other innovative-intensive activities to Singapore.

The competition for wafer fab projects is intense, coming from both developing and developed economies. Moreover, industry players tend to invest their wafer fabs in one single location over time, so as to achieve economies of scale. If we miss out on a single window of opportunity, we in fact miss out on a whole slate of future investment opportunities, and hand the advantage over to our competitors. Today, we have successfully landed 14 wafer fab plants. As global demand grows, we will need more than 20 wafer fabs in Singapore to consolidate our position and to establish critical mass.

Transport Engineering

The strategy for the Transport Engineering sector is to push the envelope. For the marine sector, we have successfully gone beyond ship repair and ship building to specialised oil and gas platforms. Now we set our sights on the air transport sector. Singapore is located in the fastest growing air travel market in the world, accounting for 36% of new aircraft orders by value. We have therefore moved to take advantage of this. The aerospace industry is one of the fastest growing industries in Singapore. It registered a 10% growth last year, reaching a record S$6.9 billion, and employs 19,000 people, the majority of whom are Singaporeans. Today, Singapore has a leadership position in the Asian aerospace industry, capturing one quarter of the Asian maintenance, repair and overhaul sector, or the MRO sector.

Two weeks ago, Rolls Royce broke ground for their Singapore plant. It is the first in Asia to assemble and test large commercial aircraft engines. We faced keen competition when we try to secure this project. Having this plant here is significant because it moves us up the value chain, from maintenance and repair, into a whole new area testing and assembly of aircraft engines.

The growth of the aerospace industry will create good jobs. I was pleased to learn that an aerospace career programme organised by the Association of Aerospace Industries Singapore (AAIS) and its partners during the Singapore Airshow gathered overwhelming response, with 1,100 students participating. Since its launch in 2005, NTU's aeronautical engineering programme has been oversubscribed several times. According to NTU, the eventual entry cut-off points were similar to those for Medicine. Obviously, many students see aerospace engineering as an exciting course leading to an even more exciting career.

Precision Engineering

Mr Chairman Sir, we have gone after wafer fab plants and aerospace engineering not just because they provide good economic benefits, where many of our SMEs are but also because they drive the growth of supporting industries. Precision Engineering (PE) is one cluster that has benefited from other strategic clusters. In the early years, PE sector grew predominantly from supporting our electronics sector. As other lower cost locations became more attractive to low-end electronics manufacturing, we developed PE to support other sectors, such as the growing aerospace industry. This allows us to reduce the pain of restructuring away from lower-end electronics.

About 90% of the companies in the PE sector are SMEs, contributing to 42% of the sector's output. Precision Engineering SMEs have been constantly upgrading themselves to move up the value chain and create higher skilled jobs. Our SMEs have reinvented themselves from manufacturers of ordinary commodity parts to producers of higher-value products and systems. As a result, we now have a large pool of suppliers in the Precision Engineering cluster, who provide services to both local and foreign companies across diverse industries, ranging from the semiconductor equipment and aerospace and oil & gas equipment, to medical devices and automotive components.

Biomedical Sciences (BMS)

Our economic strategy is also to diversify across sectors. That was the driving force for developing the Biomedical Sciences or the (BMS) sector. BMS sector made sense for us. It fits in with our strengths and our capabilities. Its manufacturing is not easily uprooted, and the heavy investment required in science and technology cannot be easily replicated by our competitors. It is high value-added in nature and is resilient to economic downturns.

In the six years since we embarked on developing the BMS sector, BMS manufacturing output has almost quadrupled in size. Today, BMS manufacturing alone accounts for 5.5% of Singapore’s GDP, creating over 11,500 jobs. Singapore has established itself as a highly competitive and trusted site for pharmaceutical bulk actives and for secondary manufacturing. But we face very stiff ongoing competition with developed centres such as Boston, the Bay Area, Ireland, and Puerto Rico. We need to continue investing in scientific, industry and physical infrastructure, such as the Biopolis and Tuas Biomedical Park. We also need to train our talent pool through our educational institutions, re-skill our employees through conversion programmes, and support company-level training in order to meet future demand for manpower in the BMS sector.

General Manufacturing

As we develop our strategic clusters, we also ensure that the General Manufacturing cluster, which has many SMEs, can tap on the many opportunities made available. The Government's approach is to help these companies to upgrade through the Local Enterprise and Association Development or LEAD programme. So far, SPRING has tied up with 16 industry associations to develop their sectors. Each industry association accounts for between 0.1 to 0.3% of our GDP. So collectively, the 16 industry associations contribute to some 3% of our GDP. The government and the associations have pumped in some S$78 million to the SMEs' projects. When realised, these projects are expected to contribute S$1.4 billion in Value Added (VA) and S$3.4 billion in revenue, as well as create 10,000 new jobs.

One example is the furniture sector, which has evolved from mostly small family-run businesses to become a global player. Its output grew 15% annually in the lpast 5 years to more than S$2.4 billion today. Many Singapore Furniture companies maintain their higher value-adding activities – like R&D, design, marketing and IT – in Singapore, while leveraging on innovative designs to compete successfully overseas. HTL, Koda, and Design Studio are listed among the top 200 furniture manufacturers in the world, and they are about to keep their most valuable activities in Singapore.

I have spoken extensively on our strategic manufacturing clusters. We also have a robust strategy for developing our services. Tourism is one example. MOS Iswaran will speak more on this.

Growing our External Wing

Beyond developing our strategic clusters, we need to expand our economic space, as suggested by Mr Teo Ser Luck.

Deepen Presence in Existing Markets

We grow our external wing in three ways. First, we deepen our presence in existing markets. In the West, we want to deepen our links with top export destinations like the US and the EU. In Asia, we tap on the rapid growth of China and India through our strong trade and investment links. For example, since the comprehensive economic cooperation agreement (CECA) came into force in August 2005, our total bilateral trade with India has increased by more than 40%. India has moved up two notches to become Singapore's 11th largest trading partner in 2007.

Closer to home, we are committed to ASEAN. The Blueprint for the ASEAN Economic Community, which we signed last year, aims for a single market and production base in ASEAN by 2015. There are many prospects for Singapore companies when we achieve such an environment.

Seek New Markets

The second approach is to seek opportunities in the emerging markets. We have new platforms for economic and business cooperation with the Middle East, where some of our companies have clinched significant deals. The Gulf Cooperation Council (GCC)-Singapore Free Trade Agreement was substantively concluded in end January this year. For Latin America, the Singapore-Peru FTA and the Singapore-Mercosur MOU, concluded last year, will enhance our market access in Latin America. Russia has also huge economic potential for our companies. In April, we will host the 3rd Russia-Singapore Business Forum to showcase the business opportunities in Asia, Russia, and the CIS countries.

Help Singapore-Based Companies Internationalise

The third approach is to continually seek to expand our network of 13 Free Trade Agreements (FTAs). The value of our exports which benefitted from preferential FTA tariff concessions increased by more than 120% between 2004 and 2006. This is to address Mr Inderjit Singh's concern that indeed we are making full use of the FTAs that we have signed. IE Singapore, for example, introduced new outreach mechanisms, such as an FTA Symposium and created an FTA Panel of Advisors. They also conducted a series of outreach workshops last year. As a result, our companies enjoyed S$380 million in tariff savings in the first three quarters of 2007 – an increase of S$60.2 million from the equivalent period in 2006.

Investing in R&D

Looking ahead, we need to continue to move up the value chain, and this calls for an innovation-driven and knowledge-based economy.

To drive innovation, we have invested heavily in mission-oriented R&D. R&D, as you know, is a long process. I am glad to report that we are making good progress as Mr Low Thia Khiang noted in A*STAR's annual report. You all know that the key is talent and we must keep investing heavily to build a pipeline of our local talent. Presently, we have a pool of more than 700 A*STAR scholars. Our goal is to train 1,000 local PhDs by 2015.

Our investment in R&D brings real benefits to the manufacturing sector. Let me illustrate from the biomedical sciences. Because Singapore is able to support cutting-edge drug discovery research, several large pharmaceutical companies – Lilly, GlaxoSmithKline, Novartis, and Takeda – have set up drug discovery and development centres in Singapore. The base of our local and international biotechnology companies – such as S*Bio, Merlion, and CombinatorX – is growing. They were seeded by EDB's Bio*One Capital, which has supported 30 innovative growth companies. There are also more MedTech players undertaking R&D in Singapore. As we continue investing in our R&D, we can expect more of such cross-sector benefits to accrue to us.

Exploit Technologies Pte Ltd (Exploit), which is A*STAR's commercialisation arm, has successfully spun-off many new technologies that have been developed. But this is just the beginning, we will continue to encourage the commercialisation of new technologies and the results of our R&D efforts.

<u>Keeping Singapore Competitive</u>

Mr Chairman, Sir, in the increasingly competitive global environment, what keeps investors coming to Singapore? Let me quote an example from a recent project that we landed - Renewable Energy Corporation from Norway. They recently chose Singapore to invest a multi-billion project in solar panel manufacturing. Its President and CEO, Erik Thørsen said, "Singapore does not have the cheapest land, labour or electricity, but it offers the best combination of such factors, along with things like access to technology centres and research programmes, market access, stability and security."

Sir, a key part of our growth strategy is to create the total package of conditions to keep Singapore competitive. I recognise Members' concerns about rising costs and how this will impact on our competitiveness. But really, the final factor of competitiveness is value creation. My Ministry continues to monitor our competitiveness closely. We advanced 1 notch to 7th place on the Global Competitiveness Index in 2007. On the softer side, Monocle ranked Singapore as the 17th most liveable city[1] in the world. In fact, MTI monitors a whole host of rankings to make sure that we continue to remain competitive.

GOING FORWARD

With our fundamentals and growth strategy in place, then what is our outlook going forward? <u>Mr Inderjit Singh</u> has pointed to tough global conditions. He is right. Despite these challenges, the outlook for Singapore is for slower but still healthy growth in 2008. MTI's forecast for the Singapore economy for 2008 is 4 to 6%. 6% if the US slowdown is short and shallow, and 4% if the US economy goes into a deeper and longer recession.

[1] The top 10 rankings are (in order): Munich, Copenhagen, Zurich, Tokyo, Vienna, Helsinki, Sydney, Stockholm, Honolulu, and Madrid.

More importantly, thanks to the restructuring and reform efforts since 2001, Singapore is in a strong position to weather these storms. We have a very strong investment pipeline. We have built up strong market positions in our strategic clusters. Our global footprint is spreading, and R&D and innovation will take us further up the value chain.

We will therefore use this period to consolidate our gains, strengthen our fundamentals, and position ourselves for the upturn. In a slower growth period like this, we must pay more attention to training and upgrading our workers to be ready for new jobs that are coming their way. We will continue to address our growth constraints, restructure ourselves, identify new areas of growth, and add further ballast to our economy.

CONCLUSION

My Ministry intends to make growth work for Singapore. We should not stop growing or take a grow-slow approach when the going gets tough. I have set out how we can stay in the race, and in the lead. Besides remaining competitive, we should also look to set the pace, break new ground, and set fresh benchmarks. While doing so, we keep enabling our businesses to make the most of the opportunities available. I believe that we are on the right track, and that we have the right growth strategy for Singapore.

Mr Chairman, let me now address a couple of the issues raised by the Members. Mr Inderjit Singh asked about JTC's role. JTC's role remains the same. You must look at JTC's role in two key areas - land and prepared industrial estates like flatted factories. For the flatted factories space, JTC is a small player in the market. JTC's market share is around 20%, so we take our cue from the market and it is this sector that we are divesting because we believe that industrial space in Singapore is a fairly competitive market. So JTC need not stay in this area. JTC will concentrate on land. For the pricing of JTC's industrial factory space, this is set by the market. But for the pricing of land, we benchmark ourselves against our competitive locations, and we are very careful to make sure that we do not price ourselves out of the market.

Ms Lee Bee Hwa asked about our efforts to promote a culture of buying Singapore products. We cannot force or make it mandatory for Singaporeans or Singapore agencies to buy Singapore products. What we do is to promote the quality, value, price competitiveness, brand and reputation of Singapore products, so that Singaporeans will buy Singapore products because they give better value. This is also the approach for encouraging the export of Singapore products and services overseas. So it is the same strategy – both domestic and overseas.

Miss Penny Low asked about social innovation. Innovation and R&D cut across the entire economy, not just in the manufacturing sector but also in the services sector. As I have said, this is a very long process, the Ministry of Finance has announced schemes to help encourage innovation and R&D in our SMEs. I am sure we will adapt and improve these schemes as we gain more steam.