

**SPEECH BY MR LIM HNG KIANG, MINISTER FOR TRADE AND
INDUSTRY (TRADE), DURING THE COMMITTEE OF SUPPLY DEBATE
UNDER HEAD V (MINISTRY OF TRADE AND INDUSTRY)
ON THURSDAY, 7 APRIL 2016**

**“Staying The Course with Singapore’s Economic Transformation
As the Global Economy Rebalances”**

INTRODUCTION

1. Madam Chairperson, I would like to thank Members for their comments and suggestions.

UNCERTAIN OUTLOOK AS THE GLOBAL ECONOMY REBALANCES

2. Mr Liang Eng Hwa asked about the global economic outlook and the implications for Singapore’s economy. The global economic recovery has been weaker than expected, and the International Monetary Fund (IMF) has again downgraded its global growth forecasts. It has done so almost every year since the Global Financial Crisis. We are now in a paradigm of slower growth as compared to the previous decade. Meanwhile, there are significant global rebalancing forces that must work themselves through over the next three to five years.

3. First, key **developed economies** have been implementing loose monetary policy through measures such as quantitative easing and low interest rates in an attempt to revive their economies. Some of them have even introduced negative interest rates. This is unsustainable in the long run, and these economies will have to normalise their monetary policies at some point. As the monetary policies normalise, it will affect financial and currency markets, as well as capital flows around the world, especially in emerging economies.

4. Second, **reforms in China** are creating a ‘new normal’. Besides rebalancing towards consumption and services-led growth, China has also been increasingly in-sourcing the intermediate goods and services required to produce its manufacturing output, rather than importing them. While China is making this transition, the

countries which trade with China will also be affected because supply chains will have to adjust. In Singapore, we will need to find new growth niches in order to remain relevant as China makes its adjustments.

5. Third, in **commodity markets**, there has been an oversupply of oil in the global market due to over-investment, leading to a sharp drop in oil prices. With growth in global oil demand expected to remain weak, further adjustments in global oil supply will have to be made. As a result, there may be continued uncertainties surrounding oil prices.

6. In addition, we will face **structural adjustments domestically** because of our demographics and ageing population. The local workforce will continue to grow, but at a slower rate than before as more baby boomers approach retirement age. Overall workforce growth will be about 1-2% per annum for the rest of the decade. While all sectors will have to adjust to the tighter supply of labour, labour-intensive services sectors such as food services will likely be more adversely affected.

7. The factors above point to an uncertain economic environment for the next few years. Against this backdrop, we expect Singapore's economic growth to remain modest at 1-3% this year. When we are on a slow growth trajectory of 1-3%, some sectors will grow more strongly than the 1-3% range and some sectors will be below the 1-3% range. As Mr Liang Eng Hwa observed, this means that for some sectors, they are contracting and feel like they are in a recession. This is one of the consequences of a low growth trajectory. And that is why we are also addressing the challenges at the sectoral level.

GOVERNMENT WILL WORK WITH COMPANIES TO OVERCOME CHALLENGES

8. Given the current global economic outlook, Mr Liang asked how the government will help companies ride through this difficult period. We recognise that companies are facing headwinds. The Government is watching the situation closely and we are prepared to take further action, if necessary. We remain committed to

working with companies to overcome these challenges. Let me highlight a few key initiatives.

9. First, given the tightening credit situation, we are introducing measures such as the **SME Working Capital Loan**. This will allow SMEs to access unsecured working capital of up to S\$300,000 to complement existing financing schemes to support viable SMEs. Mr Leon Perera asked whether the loan scheme would sufficiently incentivise the banks to extend loans when they otherwise would not. As the government will co-share 50% of the default risk of the loan portfolio with Participating Financial Institutions, we expect this to catalyse approximately S\$2 billion of total loans to companies over the next 3 years.

10. The second broad thrust is to provide more support to help companies restructure and transform as well as develop critical capabilities. One way is through the **Automation Support Package**, which can help companies improve productivity by scaling up through automation adoption.

11. The third broad thrust is through the provision of infrastructure. The needs of the different sectors are quite diverse. JTC has therefore developed a **pipeline of innovative developments for the various sectors to better cater to their different needs**. Some of the facilities that will be ready this year include Aviation Two @ Seletar Aerospace Park, Chemicals Hub @ Tuas South, Space @ Gul and Space @ Tampines North. Others, like the Food Hub @ Senoko, Furniture Hub @ Sungei Kadut and Logistics Hub @ Gul will be ready in the next few years, and were developed together with the Trade Associations and companies to ensure that they meet the specific needs of these sectors. Companies should therefore take this opportunity to consider regrouping and consolidating their space and land requirements, and leverage these new facilities to achieve better operational efficiency and higher productivity.

12. Such transformation will require deep partnerships between the government and industry, and among industry players to develop a more competitive sectoral response. We recognise that implementation is key. The Trade Associations and

Chambers (TACs) can do more, and in fact, they want to do more but they are constrained by their limited resources. This is why we are introducing a new **LEAD-Plus** programme, which will help TACs to strengthen their in-house capabilities in 4 ways:

- (i) Strengthen leadership within the TACs, such as through consultancy support for strategic plan development;
- (ii) Build capability in TAC secretariats, including training to manage corporate functions. The government is also prepared to second up to 20 public service officers over the next 5 years to TACs under this LEAD-Plus programme;
- (iii) Develop robust processes, particularly in the areas of Human Resource, Information Technology and Finance, and enhance the branding of the TACs, and;
- (iv) Enhance TACs' ability to provide services to companies, such as market research and technology mapping.

13. Apart from strengthening the TACs' capabilities, we will also partner the TACs to drive 30 Collaborative Industry Projects (**TAC-CIP**) over the next 3 years. TACs will source for bottom-up, scalable solutions to industry-specific productivity and innovation needs. We expect this programme to benefit over 3,000 SMEs. For example, the Waste Management and Recycling Association Singapore (WMRAS) led a project to encourage the mass adoption of automated canvas covers for the trucks used in waste collection. A total of 6 service providers were engaged to pilot this adoption for 39 companies in the waste management industry. Expected outcomes include a 25% increase in productivity of each truck, improvement in working conditions and therefore manpower retention, and improvement in workplace safety. MOS Koh Poh Koon will elaborate on our partnership with TACs when he responds on the segment on SMEs.

14. Madam Chairperson, as we stay the course on economic restructuring, we will continue to ensure that Singapore remains open and attractive to foreign investments. Mr Cedric Foo asked about our foreign investment attraction strategy.

We have adopted a targeted approach towards attracting foreign investments that takes into account our competitive advantage, growth opportunities as well as constraints in manpower, land, and planned international commitments on carbon emissions. For example, we will continue to pursue opportunities arising from growth drivers, including the rise of consumerism and urbanisation in Asia. Our investments in advanced manufacturing capabilities such as robotics, 3D printing and digital manufacturing will also position our manufacturing sector well for the future. More importantly, our efforts must translate into good job opportunities for Singaporeans. We have a comprehensive suite of manpower development initiatives, in partnership with the industry and the Institutes of Higher Learning (IHLs), to ensure that our workforce has the right skillsets to take up the new jobs that have been created. Parliamentary Secretary Low Yen Ling will elaborate on this later.

SEIZING OPPORTUNITIES FROM REGIONAL INTEGRATION

15. Beyond attracting companies to Singapore, we are also working to establish stronger trade linkages to support Singapore companies looking to expand overseas. Associate Professor Randolph Tan asked about our 2015 services trade performance and the opportunities from the ASEAN Economic Community (AEC) and Trans-Pacific Partnership (TPP). While our services trade balance is indeed negative, the deficit has generally narrowed over the past 10 years. In fact, over the period 2010 to 2014, our services exports have actually recorded robust growth of 8.6% on a compound annual growth rate (CAGR) basis, and services continue to be a good engine of growth. The slowdown in Singapore's services export growth in 2015 was in line with the weakening global trade environment. Nonetheless, amidst this slowdown, we observed that export growth in financial services, as well as telecommunications, computer and information services sectors remained healthy.

16. Over the longer term, the outlook for these services sectors remains promising given the rise of the middle class and urbanisation in regional economies like ASEAN. Specifically, the AEC and TPP will provide opportunities for us to expand the reach of Singapore's services exports and facilitate services trade flows to our major services export markets.

17. Mr Cedric Foo and Mr Pritam Singh asked about the benefits of the AEC and TPP to Singaporeans and Singapore companies. The AEC will benefit Singapore companies over a broad spectrum of sectors. Virtually all goods now flow throughout the ASEAN region tariff-free. This allows our businesses to trade and gain market access into the region while bearing practically zero customs duties. Restrictions have also been eased in at least 80 services sectors. ASEAN countries now allow majority foreign ownership in many sectors. Along with ASEAN's commitments to facilitate, promote, protect, and liberalise cross-border investments, Singapore companies can now venture into the region at lower costs and with greater investment protection.

18. The engineering services sector provides a useful example of how our companies can benefit from the AEC. Singapore companies can now own a 100% stake in Indonesia's engineering design and advisory services, as well as in Myanmar's engineering and construction services sectors. Our companies can also benefit from legally-binding guarantees of preferential services market access in the ASEAN region.

19. Madam Chairperson, regional integration is critical in strengthening Singapore's value proposition as a gateway into Southeast Asia. The tighter the regional integration, the stronger our value proposition as a gateway to ASEAN. Therefore as a small country, Singapore must adopt an inclusionary approach towards trade agreements. This is why we are a founding member of key trade agreements like the RCEP, TPP and the eventual Free Trade Area of the Asia Pacific (FTAAP). Being part of such agreements allows us to influence the rules of engagement and where possible, enable us to enhance demand of manufactured goods and services from Singapore.

20. Regional trade deals like the TPP enable us to improve our market access, beyond what we already have under our bilateral trade agreements. For example, despite the fact that we have the US-Singapore FTA (USSFTA), few of our automotive parts manufacturers would export to the US today. This is because the

US also has the North American Free Trade Agreement (NAFTA), which has created a very competitive automotive supply chain amongst the US, Canada and Mexico. However, when the TPP enters into force, Singapore will have direct access to all the NAFTA markets, and because the rules are applied commonly to all TPP countries, Singapore automotive parts manufacturers may become a competitive supplier of auto parts to TPP countries over time.

21. In other sectors, such as textiles, our companies likewise have difficulties utilising the USSFTA to enter the US market at a preferential rate, because too little of the raw materials are produced in Singapore. With the TPP, however, more of the raw materials that we process will count towards being “TPP or Singapore made”. Our garment manufacturers can therefore look forward to sourcing more competitively from the TPP region and focus on keeping the high-value aspects of production in Singapore, knowing that their exports will now enjoy a comparative advantage because of this “regional cumulation” effect. This is a very significant development, especially for our SMEs in the textile and garment sector.

22. MTI has been actively engaging businesses on the benefits of the TPP through platforms such as the recent SME Convention 2016. We will work closely with TACs and our economic agencies will develop more sector-specific outreach sessions.

23. Madam Chairperson, agreements like the AEC, RCEP and TPP will enhance the competitiveness of our companies and workers, and support the creation of good jobs for Singaporeans. The SkillsFuture movement will prepare Singaporeans to take advantage of the evolving job landscape and opportunities provided by these regional economic integration efforts. Specific sector plans will be targeted at upskilling workers in both the traditional areas, such as retail, as well as the emerging areas, such as finance technology. MTI is one of the key agencies supporting SkillsFuture and we will continue to work with the various government agencies to support our companies and workers.

STAYING THE COURSE AMIDST GLOBAL REBALANCING

24. Madam Chairperson, we can confidently address the regional and global changes facing us, because Singapore has a strong foundation that we can work from. This includes our strong legal and physical infrastructure, our well-diversified economy, and an educated workforce. We need to build on these strengths and continue to implement measures to stay competitive. That is why it is timely to reiterate the key principles that will continue to remain relevant in the years to come:

25. First, as a small economy, we must remain open and connected to **grow the external wing of our economy**. Our external economy can continue to contribute significantly to GDP and good jobs. So we must look at opportunities that lie beyond our shores in markets such as ASEAN and beyond.

26. Second, we need to leverage the small size of our economy to our advantage, and be more **nimble, adaptable and flexible**. We must adapt to changes brought about by the rebalancing of the global economy. We cannot simply remain business-as-usual and we cannot be afraid of change, or we will be left behind.

27. Third, we need to leverage key trends and our strengths to develop growth areas that can **create value**, and invest in future growth engines to spur our economy. We must prepare ourselves for the future and the Committee on the Future Economy was therefore established to leverage these opportunities.

CONCLUSION

28. Madam Chairperson, through these efforts, we will ensure that Singaporeans will continue to benefit from our economic growth. As the global economy rebalances, we will continue to work with businesses to stay the course on economic transformation, and ensure that Singapore remains attractive to foreign investments. Our economic growth strategies will enable us to seize regional and global opportunities to create more value. Together, we can continue to create good jobs for Singaporeans and ensure that we are well positioned for the future.