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**ADDRESS BY DPM BG LEE HSIEN LOONG
AT THE INTERNATIONAL TRADE AWARD
1996/97 CEREMONY
ON TUESDAY, 5 NOVEMBER 1996
AT 8.15 PM
AT RITZ CARLTON MILLENIA BALLROOM**

I congratulate the recipients of the Trade Development Board's (TDB) inaugural International Trade Award (ITA). The companies come from diverse sectors of the economy, and engage in different businesses. But they share one common characteristic: they have all stayed ahead of the competition and made inroads in the international market place. These companies have all contributed to Singapore's international trade, and hence economic growth.

Importance Of Trade To Singapore

Singapore is a small economy. With a limited domestic market, and no resources save for our people, we have had no choice but to be open to the world in order to survive and prosper. Trade linkages provide us access to world markets to export our goods and services and earn a living for ourselves. This has been a crucial factor sustaining our economic growth over the last three decades.

Our economy is now more developed, but that has not diminished our dependence on trade. Our total trade is three times our GDP – the highest ratio in the world. In 1995, two-thirds of GDP growth came from the export of goods and services. Our exports expanded rapidly by 13 per cent per annum in the last decade, providing a major impetus for our strong economic growth.

While we are still very small compared to other economies, we have steadily become a more significant player in the world trading system. Our share of world merchandise exports doubled in 10 years, from 1.2 per cent in 1985 to 2.4 per cent in 1995. We are now the 13th largest merchandise exporter, up from 21st a decade ago. Similarly, our share of world exports of commercial services rose from 1.5 per cent to 2.1 per cent over the same period. We have also become a significant trading partner for both developed and developing nations.

Influence Of Global Demand Cycles

Being open and dependent on world trade means that our economic performance is closely coupled to the external environment. On average we can grow much faster, by taking advantage of global markets and advanced technology, and by riding on opportunities like the worldwide electronics boom which has prevailed over the last few years. But inevitably, our openness exposes us to the downs as well as the ups of global business and demand cycles. When market conditions change, we are rapidly affected.

We cannot get off this roller coaster without paying a heavy price. What we can and must do is to stay internationally competitive, even during boom periods when opportunities are plentiful. Then when a slowdown happens, we will have the resilience to weather it, and can use the respite to consolidate our economy, to be ready to rebound when market conditions change again. But if we become uncompetitive, in a global or regional slowdown we will lose our markets faster than others, and enter a painful recession, as happened during the last recession in 1985.

Economy Slowed Down Further In 3Q96

Our experience this year illustrates how quickly the economic environment can change. In 1996, the economy still grew very strongly, by 11.4 per cent. But in the second quarter our growth moderated substantially, to 7.5 per cent. (These are revised figures, which are slightly higher than the figures originally published.) We had been affected by the global slowdown in the electronics industry, caused by a softening of demand, excess capacity and an oversupply of components like chips. Such cyclical slowdowns are inherent in the electronics industry. Although electronics has been one of the fastest growing industries over the past decades, it is prone to cycles of excess production and correction, which happen every few years.

In the third quarter, MTI reports that the economy has slowed down further. 1996 growth was only 3.2 per cent. We are now in a cyclical downturn.

A major reason for this downturn is the weak performance of manufacturing, particularly the electronics industry and related supporting industries. The global electronics industry has not yet picked up. Since electronics accounts for 44 per cent of value added in our manufacturing sector, the Singapore economy has been significantly affected.

Apart from electronics, several other manufacturing industries are also weak, for various reasons. Ship-repair, printing and petrochemical industries have been affected by keen competition. Pharmaceutical output has also been cut back, for reasons specific to the industry.

Singapore is not the only country whose economy has been affected by the current electronics downturn. So have other regional economies, especially Korea, Thailand and Malaysia. Their growth has moderated, and their exports have slowed down sharply. For East Asia as a whole, exports grew by 20 per cent in 1995, but only five per cent in 1996. In turn, this lower regional growth has affected our hub related activities, for example entrepot trade and sea transport.

However, some sectors of our economy are still doing well. Business services like Information Technology (IT) and OHQ services remained healthy. And construction continued to perform well, due to the strong pipeline of projects. Public sector residential construction, i.e. HDB building and upgrading programmes, has been particularly strong. This has given a useful counter-cyclical boost to the economy.

Positive Factors Remain

MTI's assessment is that the current economic slowdown is cyclical rather than secular. It reflects a cyclical slowdown in external demand, rather than structural problems in the Singapore economy.

(a) First, we have made steady progress in restructuring our economy. Productivity growth in recent years has been high – three to four per cent per annum. Manufacturing productivity has been especially strong, averaging 8.2 per cent per annum between 1994 and 1996. This has been driven in particular by the electronics industry.

In the present slowdown we can expect the productivity figures to deteriorate, because output has fallen but companies have not cut back proportionately on their workforce. But overall our productivity performance in recent years has been much better than in the 1980s. This reflects our sustained emphasis on education and worker training, and the heavy capital investments by companies to upgrade their equipment and processes.

(b) Second, as a result of this strong productivity growth, our unit labour costs in manufacturing have remained stable in Singapore dollar terms. They are at about 1993 levels, even though wages have been going up steadily. Unit business costs have risen, but only slightly, by 4.2 per cent since 1993.

(c) Third, if we factor in the S$ exchange rate, plus productivity trends, and compare our labour costs with our competitors, our position has been fairly stable since 1992. In other words, although in nominal terms the S$ has appreciated steadily, the real effective exchange rate, which takes into account the relative movements in manufacturing unit labour costs vis-à-vis our competitors, has not gone up.

(d) Fourth, investment commitments remain strong, unlike in the 1985 recession. Economic Development Board (EDB) attracted $6.4 billion of investments in the first 9 months of this year. For the year as a whole, EDB expects to exceed its target of $7.5 billion of investments, and set a new record of $8 billion. We also have a strong pipeline of probable investment projects which are likely to be committed in the near future.

This reflects the hard work put in by the EDB team, selling Singapore's strengths to investors. It also shows that Singapore remains a competitive investment location. When these investments come on stream and start production in the next year or two, we can expect manufacturing output to pick up again.

(e) Fifth, we have been building up key capabilities in manufacturing, and the sector has seen healthy growth in recent years. Manufacturing output has remained a steady 25 per cent of Gross Domestic Product (GDP). In electronics, we have maintained our market share in the US market at about 10 per cent in the first half of this year.

Overall, therefore, our domestic economic fundamentals remain sound. Externally, there are also positive signs that the current slowdown will not be too severe or prolonged.

(a) First, the external environment is still healthy. The US and Japan are expected to post reasonably good growth, although European Union (EU) countries remain sluggish. The Newly Industrialised Economies (NIEs) and regional economies are also expecting steady, albeit slower, growth this year. China's growth has slowed down, but will still be close to 10 per cent this year.

(b) Secondly, the industry consensus is that the current global electronics slowdown has hit bottom. The semiconductor book-to-bill ratio has picked up, though it is still just below one. The personal computer market is still growing, with US new orders increasing by 14 per cent in the first nine months of 1996. Companies like Compaq are doing very well, despite the overall sluggishness of the industry. So demand is still growing, although more slowly. The excess inventory of components has been considerably reduced over the last few months. Lower inventories mean that a pick up in demand will quickly translate into higher production and exports.

Some Restructuring Pains

Our steady productivity growth shows that the economy is restructuring to keep up with changing technology and markets. But it does not mean that all industries are upgrading with equal ease.

The retail industry has been facing difficult conditions for several years, well before the present slowdown. The number of retailers has increased, but the volume of purchases has not increased proportionately. The retailers face keen domestic and regional competition. As Singaporeans become more affluent, they travel more and spend more overseas, and less at home. Shopping centres have sprung up in Johor, catering to Singapore shoppers. Singaporean consumers benefit from wider choices and lower prices. But as a result, sales per 1,000 square metres of retail space declined from $8.2 million in 1991 to $6.9 million in 1995. This excess supply in the retail trade will take a while to work out.

In manufacturing too, the high productivity growth reflects not just the efforts of each industry to improve efficiency and performance, but also the phasing out of older, more labour-intensive industries, to be replaced by newer, more productive ones. This means some individual companies will be under pressure, even though the manufacturing sector as a whole has been growing.

This restructuring is an inevitable part of economic growth. P postponing restructuring will mean paying an even higher price in terms of slower growth, a less competitive and robust economy, and more difficult problems later on, when we find ourselves further out of line with global and regional conditions. it is better for us to facilitate the restructuring process rather than slow it down.

Policy Stance

Since our assessment is that this slowdown is mainly cyclical, and has not been caused by a loss of competitiveness, we do not need to make any drastic policy adjustments to cope with the downturn. We should continue to monitor developments watchfully, so that if the situation changes we can react promptly. Meanwhile we should maintain an even course, and accept slower growth for a few quarters until external demand picks up again.

To cope with the structural changes taking place in some sectors of the economy, the Government has been helping companies to upgrade their operations, retrain workers, and improve their performance to remain competitive. The PSB is playing an active role, using SDF funding and working together with industry associations. The Government will continue to do so.

In manufacturing, one cost issue which has been worrying investors has been the cost of industrial land. This has escalated sharply in the last three years, in line with the rise in the residential property market. Industrial land prices have come down from their peak last year, but are still much higher than they were two or three years ago.

Multi-national Corporations (MNCs) are our most important customers for industrial land. They can choose to put their projects in many other countries where they can get land much cheaper and sometimes for free. While choosing Singapore means significant advantages, they will not pay an excessive premium for land. Singaporean companies who do high technology manufacturing have the same choices. If we try to sell industrial land to these companies at prices which are inflated by our residential land prices, we will have a serious problem in the long run.

Manufacturing is a key pillar of our economy. We must never price ourselves out of the market for new, high quality investments. We are currently studying this problem, and will work out a basis for pricing industrial land which will keep Singapore an attractive destination for manufacturing investments.

Outlook

Ministry of Trade and Industry's (MTI's) last forecast, in August, was that the economy would grow by seven to eight per cent in 1996. Given the weak third quarter, continued weakness in global electronics demand and the high production levels of 1995, MTI has revised its forecast of 1996 growth down, to about 6 per cent.

The outlook for 1997 depends on how quickly the electronics industry picks up worldwide. This is difficult to predict, although the industry consensus is that it will happen by 1997. Assuming this materialises, MTI expects the economy to grow in 1997 by five to seven per cent, slightly lower than our medium term growth potential of six per cent to eight per cent.

MTI will release details of the 1996 performance and the economic outlook for Singapore on Friday 8 Nov 96.

Sustaining Growth In The Medium Term

The current economic slowdown is a sober and timely reminder of Singapore's dependence on the external environment. We have done well in the past by seizing the opportunities which the world and the region presented us. We can continue to do well in the future, but only by staying competitive, and remaining nimble and responsive to the external environment.

Our most recent recession was in 1985, when Gross Domestic Product (GDP) growth turned negative. It gave us a sudden, sharp shock. That was ten years ago. Younger Singaporeans today, who had not started working in 1985, may not even remember that recession, much less the painful but effective policies we adopted to make the Singapore economy competitive again – cutting the CPF rate by 15 per cent, implementing a wage restraint policy, reducing our business costs to get back in line with our competitors. The result has been ten years of uninterrupted, robust growth averaging 8.5 per cent per annum. This was an exceptionally long run, even by Singapore standards.

We are in strong position to ride out the current downturn. We have not allowed ourselves to become uncompetitive, during the years when growth seemed effortless. We have a robust fiscal position and a sound economic framework. The Government has managed the economy prudently and accumulated surpluses during the good years. It has invested heavily in economic infrastructure, and in education and training to upgrade the knowledge and skills of our workforce. We are an efficient, well-organised society, operating by transparent rules and rational principles.

These fundamental long-term strategies have created a conducive business environment in Singapore. Investors know that Singapore is an exceptional place to do business. Last year, Fortune Magazine ranked Singapore as the World's No

One City for Business[1]. This year, Fortune ranked Singapore top in Asia and 3rd globally, after Toronto and London, as the best city "where the living is easy": "where you can perform great work but also have a life. A safe, comfortable life. Maybe even a wonderful one"[2]. Fortune described Singapore thus: "Clean, green, orderly, efficient, Singapore runs like clockwork under the watchful eyes of a government that leaves nothing to chance".

This is a valuable and hard-earned reputation. We should husband and build upon it to assure our longer term growth. What we do is easy to describe, but hard to replicate. We can do what other countries find very difficult, because in Singapore the government and the population enjoy a close rapport, and there is a consensus among Singaporeans that we should put aside our differences, and work together to achieve national goals.

These are essential political preconditions for economic success. If we undermine them, we will lose our most important edge over other cities or countries with richer natural resources, larger hinterlands, more qualified people, and the same zeal to get ahead. There are dozens, if not hundreds, of such cities in the Asia-Pacific. If Singapore is just one of them, and nothing more, we will soon lose our exceptional position, and cease to enjoy one of the highest standards of living in this part of the world.

Conclusion

This will not be our last economic slowdown, or our most severe one. The current slowdown has not changed our longer term assessment – that Asia is set to boom for the next 20 years, that we are well placed to take advantage of this regional prosperity, and that we can aim to grow by six to eight per cent per year over the next decade. But even under the best conditions, with the region stable,

[1] Fortune Magazine, November 13 1995.
[2] Fortune Magazine, November 11, 1996.

at peace, and booming, every few years the external conditions will become less favourable, and our economy will slowdown for a time.

We must take these temporary setbacks in our stride. We cannot fully control or avoid these external factors. But such a bracing environment need not be bad for us. It will keep us on our toes, aware of our vulnerability, and always ready to cope with the unexpected. So long as we stay competitive and keep on making a special effort to excel and outperform others, we can weather these passing cloudbursts, and grow steadily year after year.

The Government will continue to adopt sound fiscal and economic policies to develop our economy, improve our business environment, and make Singapore an outstanding place to work and live. But government efforts, no matter how well planned and executed, can only succeed if workers and employers share the vision of a more developed, more prosperous Singapore, and work together as one nation to realise this vision.

The companies receiving the inaugural ITAs have demonstrated that they not only have this vision, but also the ability to turn the vision first into plans, and then into bottom line results. They have stayed ahead of the competition, developed new markets for themselves, and added depth and resilience to the Singapore economy. We need more companies like them.

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