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SPEECH BY MR LEE YOCK SUAN, MINISTER FOR TRADE AND INDUSTRY AT THE EDB INDUSTRY 21 SEMINAR AT THE CANNING/PADANG ROOM, WESTIN PLAZA

ON WED 20 JANUARY 1999 AT 9.00 AM

Ladies and Gentlemen

The Asian financial crisis, which erupted in Thailand with the devaluation of the Thai baht in July 1997, caught many people by surprise. What was initially perceived as a passing problem turned out to be an economic typhoon which has devastated many parts of Asia. With the contagion spreading to Russia and Latin America, the crisis has taken on a global dimension. The devaluation of the Brazilian real has shown once again the interdependence and fragility of the world economy.

2 Despite continuing turbulence, a sense of relative calm appears to have returned to Asia. Some analysts are saying that the worst is over at least for certain countries in Asia. Much uncertainty remains but Asian countries are anxious to put recent unpleasant events behind them and get on with the process of repair and reconstruction.

3 In Singapore it is vital that we take stock of our situation and prepare ourselves for future events and challenges as they unfold. This Industry 21 seminar is timely as it will help to focus the minds of many key players in Singapore on the strategic issues and directions for future growth and competition within an increasingly globalised world economy.

## Singapore's Economic Performance

4 Since independence in 1965, Singapore has enjoyed rapid economic growth averaging 8.9% pa. Over the 33-year period, the economy has slipped into recession twice, in 1985 and now. Last year the economy grew by 1.3% but this masked the negative growth in the second half of the year. The outlook for 1999 is a flat -1% to +1% growth rate.

5 Singapore has been relatively less affected by the Asian crisis than our neighbours, mainly because of our strong economic fundamentals. Even in the midst of the crisis, Singapore remains relevant to investors. Foreign and local investors continue to show confidence in Singapore as a stable and competitive location to serve both regional and world markets.

6 Last year, EDB secured \$7.8 billion of manufacturing commitments in terms of investments in fixed assets. These investments will generate value added of \$4.2 billion per year and employ 16,000 workers of whom 46% will be skilled employees. In the area of exportable services, EDB has attracted projects which will incur total business spending of \$1.6 billion a year and employ 6,300 workers.

7 For this year, EDB is targetting to attract \$7.5 billion of manufacturing investments which will create 13,500 jobs. EDB also aims to attract investment in exportable services which will involve \$1.5 billion of total business spending per year and create 6,500 jobs.

## Cost-cutting measures

8 To sustain and grow the Singapore economy it is vital that we enhance our cost-competitiveness. In response to the recommendations of the Committee on Singapore's Competitiveness (CSC), the Government has implemented a S\$10.5 billion package of measures to cut costs and taxes.

9 Feedback on these measures has been positive. During a recent EDB investment promotion trip to Japan, many companies which had previously found Singapore expensive have said that they are now seriously considering Singapore as an investment location and are keen to conduct feasibility studies here. In addition, many have commended the resilience of the tripartite system in Singapore in accepting wage cuts while keeping social cohesion intact. This is a prime example of Singaporeans working together for the common good. We should continue to send a strong message to investors that as a nation Singaporeans will continue to do whatever is necessary to stay competitive and to emerge stronger after this crisis has blown over.

10 These measures will also help to position Singapore to enhance our longer-term competitiveness. In its report, the CSC has spelt out a vision for Singapore to become an advanced and globally competitive Knowledge-Based Economy within the next decade.

### The Knowledge-Based Economy

11 The essence of a Knowledge-Based Economy is its capacity to absorb, process and apply "knowledge" or "intellectual capital" as a key source of competitive advantage. In the past, economic growth was largely driven by the traditional factors of production, namely, capital and labour. While these traditional factors will continue to be important in the Knowledge-Based Economy, there has been an important shift of emphasis towards intellectual capital or knowledge as a source of value and wealth creation.

12 This concept is best illustrated through some examples. In the case of a CD-ROM, for example, it costs less than US\$1 to make it. The rest of its price accrues as return to intellectual capital. Even in agriculture, more than 70% of the value of a ear of corn comes from intellectual inputs such as plant breeding and crop management. The electronics in a car now cost more than the steel it is made from. Companies too are increasingly being valued for their intellectual potential and their ability to tap on the exponential growth of the Internet.

### Manufacturing and Services as Twin Engines of Growth

13 To realise this vision of the Knowledge-Based Economy, one of the key strategies proposed by the CSC is the promotion of manufacturing and services as twin engines of growth.

14 The regional economic crisis has shown how important the manufacturing sector is to the Singapore economy. Strong external demand from OECD economies for our manufactured goods provides a strong ballast to our economy. If our economy were predominantly service-oriented, the regional crisis would have impacted us more. We must continue to promote technology-intensive, higher value-added activities, such as petrochemical, pharmaceutical, and semiconductor projects and encourage companies to move up the value chain of activities.

15 However, the traditional boundaries between manufacturing and services are blurring. More and more manufacturing companies are now outsourcing services that were traditionally done in-house, such as logistics, IT and financial services. As a result, both sectors are increasingly inter-related. This synergy will fuel the growth of both sectors. Capabilities developed in the two sectors will help move Singapore up the knowledge chain.

16 Hence, for the services area, we will continue to develop Singapore as a leading provider of a broad range of services for the Asian region. We will also have to add a global dimension to our services to increase the resilience of the sector. Singapore should aim to be a world-class player serving the global market in selected services such as communications and media, education and healthcare. Traditional hub services where we have excelled in the past and have developed strong competencies such as logistics, will continue to be promoted. Newer services such as healthcare, education, communication and media, and IT services will be groomed as new high growth areas.

## EDB's response - Industry 21

17 EDB's Industry 21 is a plan to operationalise the thrust to develop manufacturing and services as twin engines of growth. When the Industry 21 study was initiated in 1997, the focus was initially on manufacturing. In 1998, EDB expanded it in line with the CSC's thrusts to include exportable services such as communications and media, logistics, headquarters, education and healthcare.

18 Industry 21 envisions Singapore as a vibrant and robust global hub of knowledge driven industries. Industry 21's emphasis on moving up the value chain into knowledge driven industries makes the programme a key vehicle in propelling Singapore towards a Knowledge-Based Economy.

## Stronger Government Support for Manpower and Innovation Development

19 Under Industry 21, the emphasis will be on quality, high value-added and knowledge driven industries. Manpower capabilities and the ability to innovate will be key to developing such knowledge driven industries. I am therefore pleased to announce that the Government will be increasing the funding support for manpower and innovation development. For developing manpower capabilities in leading edge technologies, \$500 million more will be allocated to the Initiatives in New Technology (INTECH) grant scheme for manpower development. In the area of innovation development, a further \$250 million will be allocated to the Innovation Development Scheme (IDS). This will bring the total amount allocated to \$800 million and \$750 million for INTECH and IDS respectively. These enhancements will provide strong impetus to the strategic thrusts to develop human and intellectual capital as a key competitive edge, and to leverage on science, technology and innovation.

## A National Effort

20 I would like to stress at this juncture that the effort to develop into a Knowledge-Based Economy cannot be solely a government effort. Becoming a Knowledge-Based Economy requires a cultural shift that cuts across every level of society. Companies must focus on their core competence and constantly innovate. They must be receptive to know-how, have the ability to see its commercial potential and have the flair in spotting new customer needs and fresh business opportunities. Employees too must shift their mindset from one of 'earning a living' to "learning a living". We all have a responsibility to help engender this change in mindset.

## Conclusion

21 In conclusion, I would like to reiterate that Singapore is committed to remaining relevant to the needs of investors. As a small, tightly-knit economy, Singapore is able to respond quickly to the challenges and opportunities thrown up by the Asian crisis. The cost-cutting measures have enhanced Singapore's competitiveness and will put Singapore in a strong position when the region recovers. But we must continue to build on the strong base of capabilities if we want to develop Singapore into a Knowledge-Based Economy in general and a vibrant hub for knowledge-driven industries in particular.

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22 I look forward to your active participation in the rest of the seminar. Your deliberations provide important feedback for shaping and implementing the Industry 21 Plan.

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