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Subject: (EMBARGOED) SPEECH BY BG GEORGE YEO, 5 JAN 2000, 9.15 A.M.

# *Singapore Government*

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### **SPEECH BY GEORGE YEO, MINISTER FOR TRADE & INDUSTRY AT THE OPENING OF SME 21 CONFERENCE ON 5 JAN 2000 AT 9.15 AM**

## **SME 21** National Archives of Singapore Strengthening the SME Sector

1. There are about 100,000 SMEs in Singapore today. They represent over 90% of business establishments. Although SMEs employ more than half the workforce in Singapore, they generate only one-third of the total value-added. This is to be expected because, being small, SMEs tend to be less efficient.
2. On the whole, Singapore's SME sector is not as dynamic as Taiwan's or Hongkong's. After the Communist takeover on the Chinese mainland, both Taiwan and Hongkong received large numbers of refugees a number of whom were businessmen. In Taiwan, local Taiwanese were excluded from

governmental positions causing many of the more able ones to go into business. In Singapore, we depended much more on MNCs to generate economic development. This was a correct policy because our population base was and still is small, being only half that of Hongkong's and a fraction of Taiwan's. Furthermore, because we had to build up a whole range of governmental institutions, including the SAF and other critical services, the public sector absorbed a large share of the available talent in the last 35 years. We must therefore take a realistic approach to what our SME sector is able to achieve.

3. However, despite these limitations, there is much more we can do to strengthen the SME sector in Singapore. There are a few trends which are favourable. For example, our educational profile will continue to see dramatic improvements in the coming years. Among Singaporeans above the age of 40, less than 1 in 2 have more than 6 years of education which is very much a Third World profile. Below the age of 30, the profile is that of a First World country. The point of inflection is between the ages of 30 and 40. These better educated younger Singaporeans are helping to create a new economy. They provide a solid foundation for the growth of strong SMEs in the future. Furthermore, as the public sector is no longer sucking in a disproportionate share of our young talent, more will be available to the private sector. The globalization of the Singapore economy, our widespread use of English and the attraction of foreign talent onto our shores will also be helpful.

#### Challenge of Globalization

4. Traditionally in many countries, SMEs dominate the areas where the forces of globalization are least able to penetrate. So-called mom-and-pop shops survive because their local environments are protected. Not surprisingly, it is the tradeable sector which enjoys the highest productivity, and the non-tradeable sector which lags behind. Globalization is increasingly making all sectors tradeable to a greater or lesser degree. Instead of fighting globalisation, we should work with it to make our economy more efficient.

5. Take our local provision shop as an example. Nowadays, it is not only competing with NTUC Fairprice, it must also reckon with foreign supermarkets like Carrefour. Unless the local provision shop upgrades itself – supply management, inventory control, accounting, marketing, the whole value chain – it will come under severe competitive pressure. Very often, unless better educated younger family members enter the business, such SMEs have no future. In the

same way, the chicken rice stall is being forced to compete with fast-food outlets like KFC and McDonald's. One solution is to become a franchisee but even that requires a certain knowledge of computer systems, modern accounting methods and marketing.

6. With the Internet explosion and e-commerce, the forces of globalization will become stronger in the future. It is therefore crucial for us to anticipate the trends early and make adjustments to them. No sector will be spared.

### SME 21 – by Sector

7. The objective of SME 21 is to facilitate this process of adjustment so that many of our SMEs will emerge as winners in this global game. The key is information and education. To be forewarned is to be forearmed. For example, PSB has done a good job promoting franchising in Singapore. This has enabled many of our SMEs to take short cuts to the future. Some of our own local companies have in turn franchised their products to others in the region like Bee Cheng Hiang, the sweetmeat manufacturer. I am surprised that our world-famous chicken rice has still not been franchised overseas.

8. SME 21 is a plan developed by PSB in broad consultation with industry representatives to help the development of successful SMEs in Singapore. As SMEs cover a broad range, PSB will give particular attention to key sectors like construction and retailing. For construction, we have already announced the Construction 21 plan which is jointly led by the Ministry of National Development and the Ministry of Manpower. PSB plays a critical role in setting standards and promoting standardization for the construction industry.

9. For the retail sector, PSB's objective is to double the productivity from \$28,000 per worker today to \$56,000 in 10 years' time. This is not overly ambitious a target because the present productivity of the retail sector is only one-third that of the manufacturing sector. Singaporeans love shopping. We should make it cheaper and more pleasant for them to do so. Our retail density is one of the highest in Asia. In 1997, there were 18,000 retail establishments in Singapore employing about 75,000 workers. Some consolidation is necessary.

10. In addition to the construction and retail sectors, PSB is identifying other non-tradeable domestic service sectors to target. These are likely to include the

hotel, food and cleaning sectors. We hope also to double their productivity in 10 years.

### SME 21 – Individual Firms

11. While PSB can offer all kinds of courses and schemes, individual firms must take on the challenge of globalization themselves. The most important message to register is that no one can stand still. If we don't change, we'll be changed. And those who are able to change early will enjoy an advantage over those who are slow.

12. The first thing we must change is the way we look at the world. Whether we like it or not, the competition will increasingly be global. To respond to such global competition, we must learn from others and make use of foreign ideas and foreign expertise. Take our most successful local 'pao' (dumpling) manufacturer Kong Guan. It grew from a little coffee shop stall into its present 1,000-outlet business. Kong Guan has 50% of the local 'pao' market. The company makes use of modern manufacturing technology and engages foreign consultants to improve its management methods. It is now expanding rapidly into the region.

13. PSB's intention is to increase the number of SMEs like Kong Guan. Under SME 21, PSB hopes to triple the number of SMEs with annual sales turnover of \$10 million or more in 10 years, from 2000 now to 6000 in 2010. PSB has also set a target to quadruple the number of SMEs transacting on the Internet from about 8,000 now to 32,000 before the year 2010.

### SME 21 – Strategic Orientation

14. To help our SMEs plug into the global network quickly, PSB will develop Singapore into an SME hub. We already have a German SME centre and a French SME centre in Singapore. A Nordic centre is being planned for. We will encourage other countries to establish similar SME centres in Singapore. This will provide good information to our local SMEs, and enable them to source more cheaply and sell more dearly. Hopefully, good local-foreign partnerships will also be forged to exploit opportunities in other countries.

15. The presence of foreign SMEs in Singapore will encourage the cross-fertilization of best practices, expertise and ideas, and help our own local SMEs to upgrade themselves and find new markets. What we want to develop in Singapore is a lively entrepreneurial culture with links to all four corners of the world.

16. We should build on the good progress made in recent years. Between 1988 and 1997, the value-added per worker increased substantially by 73% from \$30,000 to \$52,000, though this is still significantly lower than the non-SME sector. The improvement is partly the result of systematic deregulation in Singapore. For example, our sale of HDB shops has transformed the SME sector in our housing estates and put resources to much better use. Our coffee shops are visibly more productive enjoying much higher turnovers. We are now seeing interesting new business configurations all over the island. We should continue to free up the SME sector so that our smaller businessmen will have more room to explore new possibilities. I have asked PSB to work with HDB, JTC and other economic agencies to see what else we can do.

### Local Entrepreneurship

17. During the recent economic crisis, Singapore weathered the storm much better than many other countries in the region. This is principally because of good government and the strength of our institutions. We have emerged stronger as a result of the crisis. But we are entering a new period with global competition becoming more intense. As a city-state, Singapore's strategy is to link up with other global players, big and small, in order to strengthen our overall competitive position. MNCs will always play an important role here. In fact, we must make Singapore their command and control base for the entire region. At the same time, however, we must build up local entrepreneurship so that we are also their partners, not just their employees. This is an important challenge for Singapore in the next phase of our economic development. We need more local entrepreneurship in all sectors, not just in traditional areas like trading, real estate and banking, but also in new areas like high-tech manufacturing, creative services, Internet and e-commerce.

18. The SME sector is our nursery to produce world-class local entrepreneurs for the 21st century. Some will fail but others will succeed. The recent changes

to our bankruptcy laws make it easier for those who fail to try again. This is important. We must also encourage our students in the polytechnics and universities to be interested in business. As part of SME 21, PSB will do more to promote the student enterprise clubs in our tertiary institutions. We should continue publicizing the success stories of young Singaporeans entrepreneurs so that they become models for others to follow. Sim Wong Hoo's recent book 'Chaotic Thoughts from the Old Millennium' is an inspiring book to read. The Government can play its role, PSB can assist particular sectors but, in the end, we need individuals to take up the challenge, and I hope many will.

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