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SPEECH BY MR MAH BOW TAN, MINISTER FOR NATIONAL DEVELOPMENT AT THE SINGAPORE CONTRACTORS ASSOCIATION LTD (SCAL) ANNUAL DINNER AT RAFFLES BALLROOM, WESTIN STAMFORD, ON MONDAY, 23 OCT 2000 AT 7.30 PM

Mr Tan Kian Hoon, President SCAL;

Members of SCAL;

Ladies and Gentlemen:

INTRODUCTION

1 Over the last 25 years, the construction sector underwent two business cycles. The first cycle was in the 1980s, when the construction demand peaked in 1983 at about $14.4 billion in real terms. The second business cycle started from the early 1990s when construction demand rose sharply to peak in 1997 at $22.3 billion. This figure was an all-time high. Last year, the construction

industry was at the trough of its second business cycle. However, this was still 3 times higher than the trough after the first cycle in terms of the value of contracts awarded.

2 The economy has shown a strong recovery this year but as usual, the recovery of the construction sector lags the other sectors. The Building and Construction Authority (BCA) has forecast that the total construction demand, in terms of contract value, will reach $17.3 billion this year, an increase of $5.6 billion or 48% over 1999. This is due to the demand for reclamation projects. However, the demand for building works this year is likely to remain weak.

CHALLENGES AHEAD

Intense Competition

3 While the construction industry is not at its lowest point in terms of construction demand over the last 25 years, there is greater competition for projects now than ever before. This is because the construction boom in the 1990s had spawned an explosion in the number of construction firms. In 1990, there were slightly over 900 building and civil engineering companies registered with the former Construction Industry & Development Board (CIDB). Over the last 3 years, the number doubled to almost 1,800 registered contractors, although annual demand had dropped substantially.

4 The intense competition for projects is even more pronounced in the building sector. In 1990, there were 36 G8 building contractors (who were then eligible for contracts above $30 million) vying for about $8.3 billion of contracts. By 1999, there were 93 G8 contractors competing for $9.9 billion of contracts.

5 While the construction sector has shown signs of recovery, in the foreseeable future, it is not realistic to expect it to reach anywhere near the 1997 peak. Hence, competition in the sector will remain intense and the challenge for contractors is to find new ways of doing business to stay relevant.

New Landscape and Playing Field

6 The construction sector also faces other challenges ahead. The C21 Report envisages a new landscape and playing field where many aspects of the construction industry will be re-shaped and re-engineered. Companies that understand these changes and are prepared to change, adapt and aspire to be a "world -class builder in the knowledge age", will survive and thrive.

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For example, with the legislation of buildable design and the accelerated tightening of man-year entitlement (MYE), contractors whose competitiveness come mainly from their ability to source cheap foreign labour, will lose this advantage. Instead, contractors adept at prefab construction and those who invest in labour-efficient construction technology will be the preferred service providers.

8 The trend towards more Design & Build procurement will favour companies with in-house design capability. The ability to provide the most competitive design will be the key to the company's competitiveness and profitability. In fact, most of the successful top international contractors from USA, Europe and Japan have strong in-house design capabilities and are leaders in the Design & Build market.

9 With the rapid growth of IT and Internet, contractors who rely on the traditional supply chain will be disadvantaged. They may lose out to companies who make use of IT to improve communications and offer better service to clients. The Internet savvy companies will stop relying on middlemen by buying directly from manufacturers through the electronic platform to reduce their base costs. They will also use Internet and Information Technology to better manage their projects and improve efficiency.

Size Matters

10 Increasingly, size may be a major advantage in the new playing field. Bigger players can buy their materials and labour cheaper because of their greater purchasing power. The advent of e-procurement will accentuate this trend. Already, there are examples of big boys banding together in e-procurement portals to maximise their commercial clout with suppliers.

11 Bigger players also stand a better chance of attracting quality staff because of the better career opportunities that they can offer. Moreover, they will be in a better position to compete with large international contractors for jobs both locally and overseas. These international contractors by virtue of their size, have the technical expertise, management skills, financial strength and professional resources to secure big projects. These, in turn, further strengthen their expertise

and enhance their track record.
12 The advantage of size is not unique to the construction sector. With globalisation and opening up of markets through free trade, many sectors, such as the banking, financial services, telecommunications and IT have seen players seeking strategic alliances and mergers to capitalize on the advantages of size.

MEASURES TO ASSIST THE INDUSTRY

13 The Government will continue to provide strong support and incentives to help the construction industry prepare for the challenges ahead.

Incentive Schemes

14 At the BCA Awards Ceremony in May this year, I announced various new and repackaged incentive schemes to help the industry upgrade and to achieve the various C21 targets. The response has been good. BCA will assist and facilitate applications by interested firms.
15 I am particularly pleased that the professional institutions and associations are leading this response. For instance, SCAL is championing the setting-up of a buyers-driven portal for e-procurement. It is committing about 400 contractors and suppliers to support and kick-start this effort. They are applying for the Industry Productivity Fund (IPF) to help these companies go on-line.

Facilitate Re-Strategising and Restructuring

16 For firms seeking to re-strategise their businesses, financial assistance is available through the Local Enterprise Technical Assistance Scheme (LETAS) under PSB. This scheme subsidises the cost of engaging a consultant to study and propose a strategic business plan for the firm. A grant of up to 70 % will be considered.

17 I am pleased to note that BCA and SCAL intend to get funding from LETAS to conduct a joint study to explore ways and means to help the industry restructure. One area of study can be to see how the construction industry can evolve from having a large number of small and medium-sized construction firms into a smaller number of large entities with enhanced competitive advantages.

Review of Contractors Registry System

18 You may wish to know that BCA is currently reviewing the Contractors Registry System or CRS, which supports public sector procurement. This is in response to suggestions from some contractors, who are of the view that the CRS may need to be revamped to keep pace with the changes in the industry and encourage firms to grow in size.

Study Experiences of Other Countries

19 In addition, BCA will be collaborating with NUS and NTU to study the experiences of countries like Sweden, Holland and Finland, where the size of their construction industry and its contribution to GDP are similar to ours. However, they have been able to produce large world-class construction firms like Skanska (Sweden) and NCC (Sweden) and HBG (Holland). BCA hopes to have a better appreciation of how these countries have achieved this and develop measures to help nurture promising Singaporean contractors to be large world-class players.

Other Government Support

20 The workforce of a construction company is the most important resource

that it can leverage for competitive advantages. BCA will continue to provide strong training support to the industry to enable the management, professionals and workers to upgrade their skills and professionalism and be better prepared for the changing environment in the industry.

21

BCA is also developing a "Process Quality Control System" (PQAS) to help contractors achieve higher CONQUAS scores to improve their competitive edge. This quality assurance system is based on the information on good practices that BCA has collated and distilled over the last 10 years. It is expected to be ready by the middle of next year.

ROLE FOR SCAL AND CIJC

22 This is an opportune time for SCAL to show its leadership by guiding its members through the tough challenges ahead. For instance, many building contractors, especially those who are heavily reliant on HDB contracts, may want to consider diversification into other construction, or even non-construction activities. SCAL could help promote these alternatives to their members.

23 I am also pleased to know of the recent formation of the Construction Industry Joint Committee (CIJC), of which SCAL is a member. Both SCAL and CIJC can act as platforms for feedback from the industry to BCA. This will help BCA to be responsive to the needs of and developments in the industry.

CONCLUDING REMARKS

24 BCA will work closely with SCAL and the CIJC to upgrade the construction industry. BCA also welcomes feedback from the industry on how it could help the industry. In fact, I understand that BCA has briefed SCAL and some 400 contractors over the past 2 weeks on the trends and prospects in the construction sector. BCA will study all the suggestions given to help the construction industry meet the current and future challenges.

25 But ultimately, the industry must also take concrete steps to help itself. It must be a leaner and more flexible construction industry, with greater professionalism, and making use of advanced construction and information technologies. If we work together, in the right spirit, we can build up the industry. Singapore needs a strong construction industry, which can produce quality buildings and infrastructure for our nation.

Thank you.