

72	0032	1066
----	------	------

1/2/73

EMBARGOED UNTIL AFTER DELIVERY  
PLEASE CHECK AGAINST DELIVERY

SPEECH BY DR. AUGUSTINE H.H. TAN, (陳惠興)  
POLITICAL SECRETARY TO PRIME MINISTER'S OFFICE  
AT THE DINNER MARKING THE CLOSING OF THE EXPORT  
PROMOTION SEMINAR ORGANIZED BY THE TRADE DIVISION,  
MINISTRY OF FINANCE, THE SINGAPORE MANUFACTURER'S  
ASSOCIATION AND RELATED BODIES AT JURONG ROOM,  
SHANGRILA HOTEL AT 7.30 P.M.

29TH SEPTEMBER 1972

ON EXPORT DEVELOPMENT

Tonight, I have the pleasure and the honour of bringing to a close, 5 days of intensive deliberations on the very important subject of export promotion. The papers which were presented had many ideas to offer and, I am sure, your report and resolutions will be carefully studied by the Government.

In perusing the papers presented at the Seminar, I came across one point which I think summarises aptly the difficulties faced by developing countries in the export business. The point made was that the developing countries need to pay attention not simply to export promotion but to export development. For, promotion implies that only marketing aspects need to be looked into, while the more crucial problems may exist at the production and financial ends. Since I have a captive audience this evening, I would like to pursue the theme further.

We may note, first of all, every country has some degree of importing and exporting. No country in the world is completely self-sufficient. Even if a country like the U.S. could be completely self-reliant, if it chose to, it would not pay the U.S. to do so, for, some degree of specialisation is more rewarding than no specialisation. Modern economic life depends on three essential factors: resources or access to resources, technology, and markets. For a huge country like the U.S., for example, trade comprises only 3 to 4 % of her GNP. For us in Singapore, out of every \$ that we spend, 60¢ go to retained imports. The resource base of a small country is usually much slimmer than that of a big country. So also is its capacity for development/new technology. And, to compound the difficulties, the size of its market is also small. Therefore, we find that, the smaller the country, the more

dependent that country is on international trade, because the necessity and the benefits of specialisation become more obvious.

If we study the exports of different countries in the world, we find two striking patterns of exports for the great majority of countries.

First of all, many developing countries are primary producing countries like Malaysia. The development of the export products like rubber and tin was stimulated by industrial demand in the advanced countries. Malaysia had the right climatic and soil conditions for rubber, and the importation of capital, technology and labour did the rest. For such primary product exports, there is negligible domestic demand; Malaysia, for instance, uses little of her own rubber in production of shoes, tyres etc. Moreover, for such primary products, export promotion plays a negligible role, since, price and demand are largely determined by the industrial health of the advanced countries.

As for industrial exports, for the large majority of countries, the typical pattern is where exports serve as an outlet for surplus domestic capacity. Typically, a product is introduced, tested and developed in the national market before exports are promoted. Historically, the present-day advanced countries developed their industries behind the shelter of their domestic markets. Industries grew behind trade barriers like tariffs and quotas and became efficient enough later to enter the export market. Sometimes the process was speeded up by special subsidies on exports. Moreover, by helping to soak up the excess capacity, exports helped to prevent unemployment from occurring.

Large countries have the advantage of a big home market in which to nurture industries. For small countries, however, the same strategy of first developing behind a protected market and then venturing into exports is very costly and uncertain. The reason lies simply in the fact that the domestic market is too small to support industrial plants of optimal or efficient size. In Singapore, for example, for the great majority of industrial products, even the smallest available plant would have great excess capacity over the requirements of the domestic market. For small countries like Singapore, therefore, we have no choice but to be export-orientated right from the start.

The difficulties of attempting to do so are by no means easy to cope with. Our exporters have to face well-organized and well-financed, if not subsidised export competition from Japan and other advanced countries. One of the ways of getting around the problem is to bring in foreign manufacturers, especially the multi-national corporations, which have the established marketing channels already. This we have been doing. At the same time, attention is being paid to the problems of local manufacturers who attempt to export. The export promotion unit within the Trade Division of the Ministry of Finance was established for this purpose. It takes time to build institutions, especially institutions of the right calibre. I have no doubt that the export promotion unit will develop in the years ahead to service your needs.

Over the last 13 years, Singapore has made the leap from entrepot to manufacturing. As pointed out in one of the Seminar papers, domestic exports have grown rapidly, both absolutely and as a proportion of our total exports. Before long I have no doubt that domestic exports will overtake re-exports. However, as I pointed out at the Opening of this Seminar, our industries have been mainly of the low technology type.

For both internal and external reasons, it is imperative that we move on to a higher-grade technology. In the first place, we want to improve our standard of living and, in our context, the only way is to upgrade skills via higher technology industries. Moreover, even if we chose not to make the transformation, our simple technology industrial exports will face increasing competition from the Third World as more and more developing countries learn to make simple-technology goods.

We have no choice, therefore, but to move on to more sophisticated industries, but, the higher we move up the technology ladder, the closer we get to competition with the advanced countries. The relative smallness of our economy may, however, prove to be an advantage for us, for we are unlikely to account for much of a slice of the market of an advanced country. Besides, one way of circumventing trade barriers is not to get into mass-production type industries but to get into small, high value-added, science-based industries.

When I visited Sweden earlier this year, I had occasion to look at a small electronics factory which employ some 30 workers. The factory specializes in new patented electronic products which have a very small worldwide market. One of its products is an electronic device for recording the movements of mentally-ill patients. You know, sometimes a mental patient may not really be mad - he may only pretend to be so when he has an audience. So this electronic device enables the psychiatrist to record the patient's movements when he is alone. The market for such a product is obviously small, but by virtue of its **uniqueness**, the company has a monopoly and can sell it for a very handsome price. Tariffs, quotas and other trade restrictions do not pose any real problem to the product. Furthermore, no costly basic research is necessary, for such products are based upon ingenious applications of well-known electronic principles. Such industries would also have a high capacity for coping with change.

The more serious difficulties posed by the need to upgrade on technology are internal in nature. We would have to develop the managerial, technical and marketing skills rapidly, in order to achieve the technological transformation. Ultimately, whether we can build up a self-sustaining mechanism for growth would depend on whether we can breed a modern entrepreneurial/managerial class who have a good grasp of modern technology, organisation, finance and marketing. This would be a very special breed of men and women.

In a modern economy, the divorce between ownership and control of industry has often been noted. That is, the man with marketable ideas may not be the man with the finance to implement the ideas. One way out is for the man of ideas to marry a woman of means. Hopefully he can put her money or, more likely, her father's money, to more productive uses, and thereby, increase the GNP. The more realistic way is to develop a money market and to provide Government finance to small industries with good potential. Some government assistance in acquiring patents not only locally but also worldwide may be helpful in this.

May I thank you for the kind honour this evening and wish you all a pleasant time?

Date: 29 SEPTEMBER 1972

Time Issued: 1300 HOURS