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SPEECH BY DR TONY TAN KENG YAM, DEPUTY PRIME MINISTER AND MINISTER FOR DEFENCE, AT THE EDB SOCIETY INAUGURAL DINNER HELD ON 26 MARCH 1999 AT 7.30 PM AT THE BEAUFORT HOTEL, GRAND SALON

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I would first like to thank your President, Dr Tan Chin Nam, for very kindly inviting me to join you this evening and for giving me the opportunity to address the EDB Society at your inaugural dinner.

The history of EDB is inextricably bound up with the growth and development of the Singapore economy. Since its establishment in 1961, EDB has played a crucial role in two major transformations of the Singapore economy, the first in the 1960s and 70s from a trading economy to a labour intensive, low-wage manufacturing economy and the second, in the 80s and 90s to a capital-intensive manufacturing and services economy.

When Singapore became independent in 1965, we were plagued with high unemployment, widespread poverty and stagnating entrepot trade which was not able to create sufficient employment opportunities for the thousands of school leavers who

entered the job market each year. Although many developing countries at that time looked suspiciously on Multi-National Corporations (MNCs) as unwelcomed remnants of an imperialist era, Singapore went against the conventional wisdom, and actively courted MNCs, attracting them to locate operations in Jurong and other new industrial estates which had been quickly established. During this period, EDB was a one-stop centre for investors, co-ordinating industrial policies, identifying new business opportunities, overseeing manpower development and providing finance when necessary. Government supported EDB's work by fostering a liberal and investor friendly investment regime which allowed MNCs freedom in corporate ownership and repatriation of profits. EDB's success in attracting MNCs to Singapore was the key to Singapore's rapid growth as a manufacturing centre for export-oriented industry in the 1970s.

With the success of industrialisation, Singapore not only achieved full employment by the 1980s but was importing increasing numbers of foreign workers to ease the growing labour shortage. Rising wages and inflation became concerns for Singapore's economic competitiveness. The second transformation of the Singapore economy in the 1980s and 90s saw companies moving away from labour-intensive activities towards capital-intensive manufacturing industries which provided high-wage, high-value-added jobs. The growth of seaport, airport, telecommunications, tourist and particularly financial services strengthened and broadened Singapore's economy. By the 1990s, Singapore had joined the ranks of the newly industrialised economies and had built up a diversified economy where trade was supplemented by manufacturing, transport and communications, banking and finance and tourism.

Although the strategy of developing Singapore as a multi-faceted manufacturing and services hub has been successful, this does not mean that we can rest on our laurels. We have to take cognizance of fundamental changes in the world's economy and adjust our economic strategy in order to continue our growth and progress.

The world economy today is characterised by two major trends: globalisation and rapid technological advancement, resulting in companies having to make frequent and rapid changes in order to remain competitive.

Even large MNCs which are currently doing well, worry constantly about their ability to compete in this new world where drastic changes in the market and emergence of new innovative enterprises are the rule rather than the exception. Paradoxically, the success of the companies presents the greatest threat to the companies' continued growth and progress.

Being currently successful, many of these companies find it difficult to make major changes in strategy and operations until a crisis develops by which time the changes may come too late to save the companies.

Singapore is not exempt from this predicament. Our relatively good showing during the economic crisis over the last two years could give us a false sense of security. Our return to a reasonable growth rate will depend not just on when and how the region recovers, but how we restructure ourselves in response to the driving forces in the world economy. These challenges, sharpened by the regional crisis, have to be set against the increasing aspirations of our society and concomitant increase in costs as we develop.

With the constraints to Singapore's long-term growth brought about by our supply constraints and present dependence on manufacturing and regional services, EDB's key task in the 21st century is to work with NSTB and other Government agencies to rapidly transform Singapore's economy from a capital-intensive manufacturing and services economy to a globally competitive, advanced knowledge economy within the next decade. To manage this transformation successfully, it is useful to keep in mind three characteristics of a knowledge economy.

The first characteristic of a knowledge economy is : "Talent is the key resource". The primary determinant of economic success in a knowledge economy is not capital or physical resources but trained manpower. Mr Lim Swee Say put this point succinctly in his speech to Parliament earlier this month and I quote: "I remember in my days at the EDB, many investors decide on investment locations on four criteria. First one is physical infrastructure : Do we have the facilities to support the operation? Secondly, cost of operation ; thirdly, availability of manpower; lastly availability of capital .

Today it has changed. The first criteria is manpower : Do we have the knowledge workers to support the operation? Secondly, do we have the knowledge, the global infrastructure to support the globalisation of operations? Thirdly, availability of capital because most of these operations are capital-intensive; Lastly, cost".

Successful entrepreneurial nodes, like Silicon Valley, flourish because of their ability to attract and retain large pools of human talent including Singaporeans. More and more talented Singaporeans are venturing overseas to explore new business opportunities and could choose to stay behind when they become successful or simply because of the seemingly greater opportunities overseas particularly in the developed countries. If we do not become a entrepreneurial node ourselves, we will lose many talented and entrepreneurial Singaporeans.

The second characteristic of a knowledge economy is : "Change is the only constant". No company today, whatever its size or dominance of a market, can afford to cruise on its past success and present strengths. To ensure continued success, companies have to constantly look over their shoulders to see who might overtake them and make them obsolete with new technology or processes. The need for constant awareness to change and readiness to adapt to change is perhaps best summed up in the famous quote attributed to Andrew Grove, Chairman of Intel who said "Only the paranoid survive". In Singapore, we have seen how large companies which were supreme and apparently unassailable have been overtaken by upstarts which no one had heard of as recently as twenty years ago. When the Institute of Systems Science at NUS was established in 1981, our partner in setting up the Institute was IBM which was then the largest and most dominant computer company operating in the world. Microsoft was then just an idea in Bill Gates' head. Today, only 18 years later, the positions of IBM and Microsoft have been reversed. While IBM continues to be a large and important player in the computer industry, Microsoft has grown explosively and overtaken IBM to become the largest company in the world, in terms of market capitalisation, with a market capitalisation which exceeds that of Exxon and Mobil combined and is more than double that of IBM. The lesson for Singapore is that the transition from a successful leading economy to an also ran economy, can befall us very rapidly if we do not take action now.

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The third characteristic of a knowledge economy is : Innovation and creativity are the norm rather than the exception". As Minister George Yeo said in Parliament when talking about the knowledge economy and I quote :

"We are not talking about particular industries or particular companies. The knowledge economy is not an add-on. What we are talking about is a total national orientation towards brain work as opposed to manual labour. The key is working with the human brain. Which means educating the young, teaching them to network, not just within Singapore but in the whole world, understanding where the value-added is the greatest and getting the maximum return from the effort that we put in. Of course, not everyone can be a hi-tech hotshot, but we must have a significant hi-tech sector in Singapore to pull us along".

The cutting edge of a knowledge economy is a strong, vibrant technopreneurship sector which will provide the additional boost to drive the whole economy forward by infusing a culture of creativity, innovation and risk-taking in society to create an environment where people seek to identify opportunities and exploit intellectual property to sell to the global market.

Singapore is well positioned to encourage technopreneurship given our investments in R&D, our capabilities in electronics manufacturing and information technology and our high standard of science and engineering education in our education system. What Singapore lacks is a critical mass of technopreneurial talent. The talent includes not just researchers and innovators to generate ideas and technologies, but also key players like investment bankers, analysts, marketers, venture capitalists, and patent and corporate lawyers who are capable of valuing and investing in intellectual assets in the technopreneurship sector. It is through the interaction of such diverse groups of players and deal makers that a vibrant community for technopreneurship can evolve and technopreneurial companies start up and grow. The T21 Ministerial Committee, which I chair is working out a comprehensive strategy to build up such a critical mass of technopreneurial talent in Singapore. We expect to be able to announce this comprehensive strategy next month.

As members of the EDB Society, you are well placed to work with EDB and other national agencies in Singapore to manage Singapore's transformation to a knowledge economy. With your background in EDB work, you will have the national perspective as well as your own business interest. Your advice and feedback to the Government will be valuable as it will be considered and balanced. I urge you to contribute your ideas and suggestions on how Singapore can transit successfully to a knowledge economy to maintain the verve and vitality of our country.
