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Singapore Government

PRESS RELEASE

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**SPEECH BY DR TONY TAN KENG YAM, DEPUTY PRIME MINISTER
AND MINISTER FOR DEFENCE, AT THE ADMINISTRATIVE SERVICE
DINNER AND PROMOTION CEREMONY HELD ON MONDAY, 27
MARCH 2000 AT 7.30 PM AT SHANGRI-LA HOTEL, TOWER
BALLROOM**

**MOVING FROM THE OLD ECONOMY TO THE NEW ECONOMY:
IMPLICATIONS FOR THE FORMULATION OF**

PUBLIC POLICIES

Introduction

First, let me congratulate all the officers who have been promoted and those who have been confirmed or absorbed into the Singapore Administrative Service. I also congratulate all those who have been appointed to the Dual Career Scheme.

Tributes

2 This is a fitting occasion to recognise the contributions of three senior Administrative Officers who have retired from the Administrative Service in the past year. The three officers are Mr Lee Ek Tieng, Mr Ngiam Tong Dow and Mr Goh Kim Leong, all of whom have made sterling contributions to the Civil Service and to Singapore's development.

3 Lee Ek Tieng retired in September last year after 40 years of public service. As Head of the Civil Service in the last 5 years, he provided leadership in the development of the Service and in major public service programmes such as PS21. Ek Tieng served as Permanent Secretary in the Ministry of the Environment for 14 years where he led in programmes to minimise pollution and to make Singapore's waters clean and safe. Ek Tieng has also made significant contributions in his capacity as Managing Director of the Monetary Authority of Singapore, Managing Director of Government of Singapore Investment Corporation (GIC) and as Chairman of the Public Utilities Board (PUB). In MAS, he oversaw the supervision and development of the financial sector, and the conduct of monetary policy. In GIC, he was responsible for the sound investment of Singapore's financial assets. As Chairman of PUB, Ek Tieng transformed PUB into a world-class utilities provider and steered the organisation through its corporatisation of the electricity and gas undertakings. Ek Tieng continues to hold the appointments of Group Managing Director of Government of Singapore Investment Corporation (GIC) and as Chairman of the Public Utilities Board (PUB) even after his retirement. The Government is grateful for all the contributions of Lee Ek Tieng.

4 Ngiam Tong Dow retired in June last year after 39 years in the public service. As Permanent Secretary in the Ministry of Finance in the past 12 years, Tong Dow oversaw changes to budgetary and fiscal planning policies and strategies, including reforms in financial management. His astute advice in economic and fiscal policy has contributed to Singapore's financial strength and the high standing that Singapore enjoys globally. Tong Dow was also Permanent Secretary in the Ministries of Finance, National Development, Communications, Trade and Industry and the Prime Minister's Office. He has also led a wide range of important organisations, including the Housing and Development Board, Central Provident Fund Board, Economic Development Board, DBS Bank, Singapore Technologies and Singapore Telecoms. In all these areas of responsibilities, Tong Dow has made substantial contributions that have improved the socio-economic well-being of Singapore. Even after his retirement from the Administrative Service, Tong Dow continues to contribute as Chairman of HDB and CPF Board.

5 Goh Kim Leong retired in March this year. During his 28 years in the Civil Service, Kim Leong has served as the Permanent Secretary in the Ministry of Education, Ministry of Communications and Information, Ministry of Information and the Arts and Ministry of Law. As Permanent Secretary in the Ministry of Law in the last 7 years, Kim Leong provided the leadership for the efficient operation of the Ministry at a time when many changes to the law, especially those relating to reserves, had to be implemented.

6 Ek Tieng and Tong Dow are with us tonight but Kim Leong is unfortunately not able to attend tonight's function. I wish to place on record the Government's appreciation for their sterling contributions to the nation.

7 This evening, I want to speak on the subject "Moving from the Old Economy to the New Economy" and what this implies for the formulation of public policies.

THE THIRD INDUSTRIAL REVOLUTION AND THE NEW ECONOMY

8 Professor Lester Thurow, who spoke at a Conference in Singapore last week, argues in his latest book 'Creating Wealth' that the world is in a midst of a third industrial revolution brought about by the convergence of break-through discoveries in six key technologies:

- i. Microelectronics;
- ii. Computers;
- iii. Telecommunications;
- iv. Material Science;
- v. Robotics; and
- vi. Biotechnology.

The third industrial revolution has created a New Economy which is drastically revolutionizing the way business is conducted, wealth is created and economic growth generated. The third industrial revolution includes but is not limited to the explosive growth of the Infocom business, particularly those areas related to the Internet which is making its influence felt in all sectors of business today.

9 Professor Thurow believes that the key source of wealth creation for individuals and countries in the New Economy is the possession and control of knowledge and that the acquisition of skills is the single most important requirement for individuals to thrive in a knowledge-based world. For countries to prosper in the New Economy, three requirements are essential.

- i. Good infrastructure;
- ii. Heavy investment in education and research and development; and
- iii. Acceptance of the concept of creative destruction to replace old business models and practices with new models and new practices which are more relevant to a fast-changing, technology-intensive world economy.

10 If we look around the world today, there are many countries in Europe and some countries in Asia which would be able to satisfy the first two requirements specified by Professor Thurow for countries to prosper in the New Economy. What separates countries which can transit successfully from the Old Economy of the industrialized world, where wealth is generated by exploitation of natural resources

and mobilization of people, to the New Economy, where wealth is generated through creating possessing and controlling knowledge, is the willingness of a country's society and economy to accept that economic and business practices which they have got used to and which have been successful have now to be discarded in favour of new economic and business practices which are unsettling, uncomfortable and often disruptive to large sections of society.

11 The same point was made by Senior Minister Lee Kuan Yew when he emphasized at the Singapore TechVenture 2000 Conference in San Francisco on March 9th that to enjoy the kind of productivity gain that the US has achieved in the New Economy, Governments and their peoples will have to be bold enough to not cling on to past successes but instead let "creative destruction" take place to chart new paths. Senior Minister believes that Singapore can succeed in transiting to the New Economy because "we do not have that same irreversible attachment to what we have done. That which did us good in the phase that was will not do us good in the next twenty, thirty years. We start changing our mindsets now."

12 Why is it so difficult for Governments and society to abandon economic and business models and practices which have been successful? To answer the question, it is useful to use an analogy. Since Singapore started to industrialize in the 1970s, we have lived in a world where change has come gradually and incrementally. To prosper in this world, we constructed an economic engine based on political stability, good infrastructure, disciplined and educated workforce and openness to multi-national corporations which has given us above average economic growth over the last thirty years and created wealth for the country and for Singaporeans. Our present economic model can be likened to a car which we have fine-tuned to trundle along the Old Economy road at a good speed with the car's passengers i.e. Singaporeans sitting comfortably and enjoying the progress that is being made mile by mile. Admittedly there are bumps along the Old Economy road e.g. in 1985 and 1998 but we know that with some modifications in our driving habits, the bumps are not disastrous and we can pick up speed after we have crossed the bumps. Just as we are speeding comfortably along the Old Economy road, we suddenly see to our consternation that there is a new super highway called the New Economy where cars are flashing by us at speeds which are much higher than what we can achieve on the Old Economy road. Our dilemma is whether and how we can safely turn off from the Old Economy road, which we are comfortable with, to the New Economy super highway which is unfamiliar and

where we do not know what modifications we need to make to our present car and driving habits to enable us to speed along the super highway and not be left behind by other faster moving vehicles.

CHARACTERISTICS OF THE NEW ECONOMY

13 It will be a mistake to identify the New Economy with the dot com companies which have risen so spectacularly in the stock exchanges in the world. Dot com companies are the most visible symbol of the New Economy but they are only a part of it. It is useful to think of the New Economy as having three major characteristics.

14 First, the New Economy is built on technology particularly fast advancing technologies like Infocommunications and Life Sciences. The Infocom technology, centred around the Internet has enabled radically new business models to emerge. Insurgent start-ups are posing severe threats to established incumbents, not just in one particular industry but across a whole range of industries. Many incumbent companies, fearing cannibalisation of their existing businesses, have been slow to change their operations. However, if they do not cannibalise themselves, new comers will and that will be a worse fate eventually. Recognising this danger, Jack Welch, the CEO of General Electric, set up an in-house company called "destroy-your-own-business.dot.com" to galvanise his staff to embrace change.

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15 Life Sciences have not yet had the same impact as Infocoms but, with the completion of the Human Genome Project, Life Sciences will generate the next big wave of technological innovation and possibly rival the Internet as a major area of business enterprise. Already, pharmaceutical companies are preparing themselves to tap new discoveries in genomics to achieve breakthroughs in producing new drugs.

16 Second, the New economy is characterized by a risk taking business culture which seeks to create wealth rather than merely preserve wealth. Companies are

focussed on creating value for shareholders and will not shrink from major restructuring, including selling or closing down profitable divisions, if they are not appropriate to the company's business model. Executives are paid very well but they are also subjected to high demands. Any shortcoming in performance by the company or its executives is mercilessly punished. An announcement by Procter and Gamble that its profits will be less than analysts' projections is immediately followed by a one third decline in the market capitalization of the company. Two quarters of poor results by a company and the CEO is shown the door by the company's Board of Directors. The net result is a relentless focus on increasing a company's profitability to enhance shareholder value and justify a high price for the company's shares.

17 Third, the New Economy has fostered a capital market environment which values concepts, ideas and knowledge just as much as and, in some cases, more than physical assets and financial resources. New start-ups attract venture capital, and if they are successful and go IPO, attract even more funds in the stock market. The most extreme example of this characteristic is the dot com companies, many of which are making losses but which have huge market valuations because investors believe that the companies' concepts will eventually lead to huge profits. Take for example Price-Line.com from the United States. Price-Line.com sells airline tickets through the Internet. Its revenues are a miniscule fraction of the revenues of the major American airlines but Price-Line's market valuation is larger than the total combined valuation of all the US airlines. While the market valuations of the many of the dot com companies are undoubtedly excessive and will suffer severe correction in due course, the valuations are not simply froth. They give the dot.com companies the financial clout to buy up substantial Old Economy companies e.g. AOL's takeover of Time Warner and nearer home, Pacific Century Cyberworks' acquisition of Cable and Wireless Hong Kong Telephone. This has created a huge flow of resources towards innovative ventures enabling New Economy start-ups to combine their ideas with the assets of Old Economy companies.

MOVING TO THE NEW ECONOMY

18 Uncomfortable as it may be, we cannot wish the New Economy away. It is

here to stay. What differentiates the New Economy from the Old Economy is not so much technologies, business models or flow of funds but a radically new way of thinking and doing things. What we have to decide is how we can modify or change our present economic policies in order to give us the best chance of surviving and prospering in the new economic world. Changes in many areas will be needed but I want to comment this evening on three areas:

- a. Promotion of economic growth;
- b. Determination of workers' compensation;
- c. Revision in labour practices.

I will say a few words on each.

19 In the incrementally changing world which we have been used to, our basic strategy of promoting economic growth is to try and identify fast growing industries, and then attract MNCs in such industries to locate in Singapore, or grow our own companies to flourish in these fast growing areas. With radical changes in the economic environment, it will be increasingly difficult to identify in advance the fast growing industries or sectors. Our present strategy of allocating resources to promote certain sectors will not be as effective as before in promoting economic growth.

20 In the New Economy, speed, flexibility and nimbleness in seizing market opportunities will be critical. So too the presence of entrepreneurial talents and technological expertise. Rather than allocating resources to particular sectors, the key roles of Government in the New Economy will be to upgrade our infrastructure, impart skills to our people, build knowledge and expertise in key technologies, remove regulatory obstacles and create a responsive capital and labour market to allow innovation and entrepreneurship to thrive. Singapore's economic growth in the coming years will come not only from MNCs, which are still vitally important for our economy, but also from incumbents who are prepared to make wrenching changes to embrace the New Economy, as well as from young "insurgent" start-ups who can catch the next wave of technological change and globalize their operations rapidly from a Singapore base.

21 We must create the right conditions to encourage and enable existing companies to change, and change swiftly. In short, they must be encouraged to re-

invent themselves, just as we too must continually re-invent the public sector to be more responsive to changes sweeping across the world. This will also make it easier for our economic agencies to attract a wider range of new players and new talents. At the same time, this environment will encourage our young people to create new companies, riding on new technology in areas like Infocomms and the Life Science field, in order to build great fortunes just as their predecessors built great fortunes in banking and property.

22 Rather than targeting particular industries and allocating resources to these, we should focus on attracting and developing clusters of expertise and talents to succeed in the New Economy. We must also remove regulatory obstacles that impede enterprise and innovation, and change policies which impede new activities from flourishing in our country. Building on platforms like Technopreneurship 21 and Industry 21, we can attract talent and enable the private capital market to channel resources to promising new ventures and start-ups. In other words, rather than have the Government allocate resources to particular fields, we should create the environment to allow increasingly more resources to be attracted to particular areas or particular companies through the process of the market place.

23 Pursuing this strategy will give an impetus to the development of the private sector which, rather than the Government, will be the engine of growth for the Singapore economy in the 21st century. Then Singapore will become an exciting node in the New Economy.

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24 Next, Workers' Compensation. Workers in Singapore today are paid for their work in cash through salaries and bonus. To better align the interests of workers with that of the companies they work in, we will have to move away from a primarily cash driven compensation system to one where the larger part of workers' salaries will come from their ownership of shares in the company they work in or the exercise of stock options in those companies. In future, talented workers, whether in start-ups or in our present established firms, will no longer be content to work for cash. They will want to be participants and partners and to share in the company's success through the value of the company's shares in the stock market rather than simply be paid a salary. The key to an entrepreneurial economy is widespread use of stock options. This is why the taxation of stock option acquires

such importance not only for the benefit of the holders of the stock options but also as a signal that Government accepts stock options as an important component of workers' compensation. A modest start towards a more favourable treatment of taxation of stock option was made last year by allowing the tax on the gains from the exercise of stock options to be deferred for up to five years. Due to lack of time, it was not possible to finalize a more comprehensive scheme for announcement in the Budget earlier this month. The Ministry of Finance will make a comprehensive statement on the taxation of stock option by May this year.

25 Finally, revision in labour practices. Our present labour practices are designed towards ensuring an employee's loyalty to a company. Employees are told that if they work hard, are loyal to the company and produce good results, then the company's profit will increase and the employees will be rewarded with higher salaries. This is true when economic and business conditions change incrementally and gradually and there is time for the company to retrain its workers and to adjust to new economic condition. In the New Economy, however, the changes come at such a rate that the usual procedure of adjusting a company's operation to new business conditions is often not effective. Instead, companies are continuously restructuring, even selling off profitable divisions in order to enable the company to compete more effectively. When such divisions are hived off, the workers in those divisions are often hived off as well.

26 Many societies try to protect the workers from the difficulties of unemployment by making it difficult for companies to lay off workers. Europe and Japan have very restrictive labour legislation which make prohibitively expensive for companies to lay off workers to adjust to new business conditions. The US has a different philosophy. The US labour policy is based on hiring workers when they are needed and laying them off when the company's operations change. Job churning is therefore more prevalent in the US than in Europe or Japan. Paradoxically this has resulted in lower unemployment in the US as compared to Europe and Japan. In May last year, the US Federal Reserve Chairman Alan Greenspan suggested that the strong tendency of US employers to lay off workers, where necessary, actually promotes job creation ere companies may be reluctant to hire new workers if they have difficulties in letting them go, the knowledge that companies can easily let workers go if conditions warrant, make the companies less reluctant to increase employment in response to greater demand for their goods and services. The American Management Association's

latest annual survey on nearly 1,200 major companies tend to support this proposition. While the ranks of US companies eliminating positions, as well as those companies adding new positions, rose last year, the share of employers who reported doing both i.e. dismissing employees as well as hiring employees has jumped to its highest level in the last five years. Significantly, business restructuring and re-engineering of operations play an increasing role in job creation. Five years ago, such factors were cited more as a rationale for job cuts rather than for job additions. And more companies say today that automation and new technology actually lead to job gains. In the last count in mid 1999, one quarter of the respondents to the American Management association's survey said that they had downsized their workforce in the past twelve months. While the companies had laid off people, they have also created new positions and as a group, the companies have created five new jobs for every three jobs that were cut and this means a net increase in employment. The unexpected position therefore is that the country which makes it easiest for companies to lay off workers ends up with the lowest unemployment rate and the highest economic growth.

27 Going over to this new philosophy on labour market flexibility will require fresh thinking and wrenching changes for our manpower policies and trade unions. For workers, the change in philosophy will require a change in mindset, from looking towards life-long employment in a company to preparing for life-long employability in an industry. This will require workers to embrace continual learning and re-skilling. The tripartite partners, Government, employers and unions, who have worked so well to maintain industrial peace and full employment in Singapore must come together to work out new work relationships and effective ways to safeguard the welfare and interests of workers when tenure of jobs becomes shorter. We need to draw up new legislation and new codes of practice to ensure that our workers will be able to adapt quickly and thrive in the New Economy.

ROLE OF GOVERNMENT

28 To sum up, if Singapore is to compete effectively in the New Economy, we must be prepared to discard practices and models which have been successful up till now and replace them with new models and new practices which initially will be uncomfortable and unsettling but which will eventually create a new platform of competitiveness for our economy.

29 Government must lead this change in mindset and practices. The task of the Administrative Service is to work with the political leadership to manage the change and to prepare workers, employers and Government agencies to adopt new models and practices. This is a huge challenge. Transiting successfully from the Old Economy to the New Economy is as full of perils as it is overflowing with new opportunities from the discontinuities that arise as business changes from one model to another.

30 The public sector has a critical role to play in Singapore's drive towards becoming a more innovative and enterprising society. The public sector's role has two aspects. The first is to create the environment that can draw out greater innovation from all sectors of our society. The second is to transform the public sector itself to be innovative so that it can move synergistically with the private sector to be in time for the future. This does not mean that public servants have to leave the public service in order to realise their entrepreneurial spirits or aspirations. But it does require public servants to realise and accept that it is equally satisfying for public servants to help facilitate the private sector to bring the nation into the next stage of its development. That is the shift in the meaning of service to the nation that we must now work towards. Of course, we do not expect public servants to help others get rich while they remain poor. We will provide adequate compensation to public servants so that most will be comfortable, and a few may even be well-off. But a public service career cannot lead to fabulous wealth for the public servant. We assume that after a certain comfort level is reached, the public servant will be motivated by a sense of commitment and dedication to the nation. This must still remain as a distinguishing feature between working for a private company and working for Government.

31 To foster a more innovative environment in Singapore, the Civil Service must be prepared to take more risks in policy making, just as we urge the private sector to do so with their ventures. Great uncertainties lie ahead, quite unlike the last 35 years of the Old Economy. Policies will have to take such uncertainty into account. The Civil Service must be prepared to experiment, and be quick to amend and revise policies and regulations to keep pace.

32 To have a more innovative public sector, the Civil Service must be at the forefront to embrace change. While the Civil Service must retain its traditional values of integrity and being corruption-free, a new spirit of innovation must permeate all levels of public sector employees. All of you, as officers of the Administrative Service, as leaders in the public service, have a key role to play not just in introducing innovative policies and initiatives, but also in nurturing the innovative capabilities of all staff in your respective organisations. To achieve this, you must act in a manner which recognises that every officer has talent and ability. What they need is motivation and recognition. Everyone thinking together will achieve more than if the thinking is restricted to a few persons at the top.

33 As we keep pace with the rapid changes in the economic environment, we must not forget that not everyone can keep up with or even follow the changes taking place. We must not allow our transformation to a knowledge-based economy to result in a fragmented society. We must ensure that the benefits from innovation and enterprise are shared widely to uplift the quality of life for our society as a whole. We should not neglect Singaporeans who are less prepared for the knowledge-based economy and we must provide them with the opportunities to upgrade their skills to embrace the new technology at a level they can manage.

CONCLUSION

34 With initiatives like Technopreneurship 21 and Industry 21, we have made a modest start in transiting from the Old Economy road to the New Economy super highway. We now have to take the major step of making large changes to our existing economic policies and implementing these changes with a minimum of social unrest and unhappiness. We have no choice. As a small country, we cannot afford to wait until force of circumstances causes us to change. However risky it may be, acting proactively is safer than reacting to change.

35 While there are many challenges, dangers and risks, moving to the New Economy is ultimately about creating new opportunities, providing better paying jobs and making possible a better life for our people. With determination, courage and a united people, I am confident that we can succeed in again transforming our economy and, in so doing, usher Singapore into the 21st century.

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