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ADDRESS BY MR GOH CHEE WEB,
THE MINISTER OF STATE FOR TRADE AND INDUSTRY, SINGAPORE,
AT THE ASIA-PACIFIC ECONOMIC COOPERATION (APEC)
SMALL AND MEDIUM-SIZED ENTERPRISE (SME) MINISTERIAL MEETING
IN ADELAIDE, ON 14 SEPTEMBER 1995

OPPORTUNITIES WITHIN THE ASSOCIATION OF
SOUTHEAST ASIAN NATIONS (ASEAN) FOR THE SMALL AND
MEDIUM-SIZED ENTERPRISES (SMES) AND HOW
SINGAPORE HAS HELPED SMES TO TAP OPPORTUNITIES IN ASEAN

Introduction

It gives me great pleasure to share with you, within the context of ASEAN, Singapore's experience in the promotion of Small and Medium-sized Enterprises (SMEs). SMEs are an important but sometimes under-rated engine of economic growth. Therefore, at a time of rapid revolution in the global economic scenario, this Asia-Pacific Economic Cooperation (APEC) Ministerial Meeting is a positive and significant step towards SME development in the region.

APEC's progress towards its goals of trade and investment facilitation and liberalisation will generate tremendous opportunities for businesses in the region. However, these opportunities would be of little significance to SMEs unless they have the resources and ability to take advantage of them. Therefore, how APEC member economies assist SMEs to tap these opportunities is as important as the very creation of the opportunities themselves.

Let me elaborate on the ASEAN experience - how the rapid trade and economic development in the region has created opportunities for SMEs, and how Singapore, in particular, has

sought to help our SMEs to take advantage of them. I believe that the ASEAN experience can also be extrapolated to have a bearing on the broader APEC scale.

Opportunities in ASEAN

ASEAN is one of the most dynamic growth regions in the world. The ASEAN economies have generally performed well in the 1990s, with the Gross Domestic Product (GDP) growth averaging 7.8 per cent in 1994. The forecast for continued growth is also promising. ASEAN's international trade has been on the rise, with total exports from ASEAN increasing by about 20 per cent in 1993 to S\$247 billion in 1994¹. This increase has made ASEAN one of the larger trade groupings in the world.

In parallel, intra-ASEAN trade has been expanding even faster. Intra-ASEAN trade increased by 34 per cent from about US\$44 billion in 1993 to US\$59 billion in 1994, and accounted for about 20 per cent of ASEAN's total trade with the world². Key factors behind this increase were the rapid economic growth in the region and the implementation of the ASEAN Free Trade Area (AFTA).

This means that SMEs in ASEAN will have tremendous scope to undertake business ventures in the region. SMEs will witness an increase in commercial opportunities in areas such as infrastructure development, manufacturing, and tourism. However, these opportunities will remain unrealised if SMEs continue to operate within traditional boundaries and markets instead of looking outwards into the region.

How to help SMEs?

The critical question then is: How best can we help SMEs to secure a foothold in the regional and, ultimately, the global market?

¹ Source: Report of the Regional Business Forum, July 1995 (MII)

² Source: Direction of Trade Statistics Quarterly, March 1995

One approach that some economies subscribed to in the past was to protect the domestic market. Governments attempted to shield these 'infant' local industries in the hope that they would eventually grow into large and efficient companies, capable of withstanding international competition. However, the experience of many countries has pointed to the disappointing results of such measures. Moreover, protectionist policy has become increasingly untenable with the current move towards global trade liberalisation.

Singapore had to choose a different path for pragmatic reasons. We simply could not afford to adopt the protectionist approach as our small domestic market would not offer a big enough playing field for the infants even if they were shielded from competition. Rather, it was more likely to result in overgrown babies clamouring for ever increasing protection. External demand was and still is Singapore's main fuel for growth. We had to be sensitive to the needs of external markets as they opened up so as to remain economically relevant to the region's growth. Insulation from external competition would breed insular companies oblivious to developments in other markets.

Singapore's Approach to helping SMEs

SMEs are an important pillar of Singapore's economy. They comprise 90 per cent of all enterprises, employ about 40 per cent of the workforce, and contribute around 30 per cent to the total value-add in the economy³. Many of these SMEs have the potential to become regional or world-class players. To help them realize that potential, the government has put numerous assistance schemes in place.

Singapore's basic philosophy is to help SMEs through policies that support, and work within, the framework of the market mechanism. This translates into assistance schemes that

³ Economic Development Board

are targeted at improving SMEs' fundamentals in order to enhance their competitiveness both domestically and internationally. Without strong fundamentals, no amount of assistance will propel an SME into the world league.

Four principles underlie the Singapore Government's schemes to help SMEs improve their fundamentals: (1) help SMEs to help themselves; (2) extend assistance, not protection for SMEs; (3) integrate SMEs in overall economic development; and (4) maintain a pro-business environment.

I will now outline some schemes that Singapore has put in place to help SMEs strengthen their fundamentals and therefore assist them in their efforts to regionalise, especially into the ASEAN region. I will also highlight a few schemes that directly help SMEs to tap opportunities in the ASEAN region.

Technology sharing and Human Resource Development - LIUP

The Local Industry Upgrading Programme (or LIUP, for short) addresses the twin aims of transferring technology and human resource expertise to SMEs. LIUP is a tripartite partnership between multi-national corporations (MNCs), local SMEs and the government. Under this scheme, the MNCs provide focused assistance to their suppliers to improve their quality and operational efficiency.

Local companies are upgraded via the hands-on support of a LIUP manager seconded from the MNC partner. In the process, the SMEs benefit from transfer of technical and managerial expertise. The MNCs also gain as their suppliers improve their product quality and reliability. The programme has a wide coverage in the electronics, marine, healthcare and petrochemicals sectors, and presently involves 35 MNC partners and more than 200 local enterprises.

Access to Financing - LEFS

Singapore has also addressed the issue of access to financing, which is a major problem for SMEs. Without a proven track record or substantial collateral, they are unable to obtain bank loans at the favourable rates offered to larger companies. The government has thus co-operated with commercial banks to jointly lend money to SMEs with promising upgrading projects, through the Local Enterprise Finance Scheme (LEFS).

This risk-sharing scheme opens up a source of lower-cost loans for the purchase of factories and equipment. The commercial bank is responsible for assessing the projects' viability and has to put up a portion of the loan to the SME, with the government lending the rest. I wish to stress that this is a loan scheme for commercially viable projects and not a grant or subsidy scheme.

The LEFS scheme also caters for SMEs with an interest in venturing into the region. To date, 48 applications for overseas projects worth about S\$60 million have been approved. Of these, 33 applications were for projects in ASEAN countries, with a total value of about S\$43 million.

Access to Information and Markets - Business Missions/Councils

Besides technology-sharing, human resource development and access to financing, SMEs also need help with access to markets and information. Very often SMEs do not have contacts overseas, unlike MNCs with global operations. SMEs therefore face the additional impediments of lack of information and business contacts in their drive to regionalise.

Recognising this, the Singapore Government facilitates business links by organising trade and investment missions or by helping to establish business councils comprising local enterprises in Singapore and their counterparts in the relevant economies.

Growth Triangles

Sub-regional groupings are another mechanism through which the government has helped SMEs gain market access into the region. The setting up of "growth triangles" in the region is a key initiative taken by various ASEAN economies to overcome barriers to the flow of economic activity across borders.

For example, the Indonesia-Malaysia-Singapore Growth Triangle (IMS-GT) was set up to promote mutually beneficial co-operation projects that tap the strengths of its three component regions: the Riau Islands of Indonesia, Johor of Malaysia and Singapore. Within the growth triangle, Singapore companies have set up industrial estates on the Riau Islands. Singapore SMEs also have a strong presence in Johor. This helps Singaporean SMEs overcome their reservations about expanding their production bases overseas by offering them a familiar operating environment in a foreign market.

Regionalisation Training Scheme

To further assist SMEs and other Singapore companies in their overseas expansion, the government also facilitates the training of workers from foreign countries. This scheme facilitates the regionalisation of Singapore companies by supporting them with the requisite skills training of their foreign employees in the parent companies. As importantly, it also contributes directly to the human resource development of other countries in the region. To date, 109 applications for the training of workers from ASEAN countries have been supported.

Multi-Agency Approach

Singapore has also adopted a multi-agency approach in order to harness the specialised expertise of the relevant government agencies for our SME assistance schemes.

In 1987, a SME Committee was established to formulate a master plan for SME development. The Committee brought together

various government agencies as well as relevant private sector organisations such as the chambers of commerce and industry, trade and industry associations, banks and financial institutions, MNCs, consultants and tertiary institutions. New programmes have since been introduced to meet the changing circumstances. A multi-agency approach with good networking and policy co-ordination has helped to address the various needs of the SMEs.

Conclusion

That, in conclusion, is an outline of Singapore's approaches and schemes to help SMEs venture into the ASEAN region. The region's robust growth has yielded significant business opportunities for our small and medium sized enterprises. Similarly, it is our hope and expectation that the liberalisation of the APEC region will offer even greater scope for promising SMEs to expand their activities.

SMEs have the potential to grow, particularly in a booming economy. They are held back only by the disadvantages of scale. Governments assistance schemes should help them to overcome the disadvantages and constraints of being small rather than seek to protect them from competition. Only then can our SMEs thrive and evolve into strong regional players in the Asia-Pacific region and, ultimately, become international companies capable of holding their own against world class competition.

Robust, Professional and Internationally Competitive -
Let that be our vision for APEC SMEs.

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