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SPEECH BY SENIOR MINISTER AT THE BUSINESS

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An External Economy for Singapore

In the last 4-5 years, Korean, Taiwanese and Hong Kong entrepreneurs have moved abroad in a big way mainly because of pressure from their own high labour costs and the attraction of new high growth markets abroad. They have invested in Thailand, Malaysia, Indonesia, Vietnam and more massively in China. In 10-20 years these investments will give their GNP a tremendous boost. Unless we do the same, Singapore will not have this external boost.

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2 All successful mature economies have this external dimension which broadens their domestic operations and helps to upgrade their economies. The British, French, Dutch, Belgian had their empires. The Germans tried to expand their empire before World War I and the Japanese tried likewise until World War II. After World War II, the Americans dismantled their own empire in the

Philippines, and pressed the Europeans to decolonise. Instead, American multinationals went abroad, first to Europe, helping it to rebuild, then to Asia and Latin America. The Germans and the Japanese have also invested abroad. The French and the British are also doing so, going beyond their former links with their old colonial territories. The Swiss, without an empire, have always invested abroad.

3 Singapore's first going regional and later global is best done by private entrepreneurs. Unfortunately, the way Singapore has developed did not produce numerous entrepreneurs like in Hong Kong and Taiwan. We used the multinationals to build up our own economy. We went up rapidly from low technology into middle technology. Our exports were able to leap frog the region and get into the markets of the advanced countries. This overcame our overdependence on the Indonesian and Malaysian economies. We must always attract the multinationals into Singapore, encouraging them to upgrade to high tech and R&D. They give our economy the extra dimension, the ability to reach out beyond the region to the developed world.

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4 There are several reasons why we have not been successful abroad. But the basic reason is lack of entrepreneurs.

Problem: Shortage of Singapore entrepreneurs

5 If Singapore had Hong Kong's entrepreneurial spirit, I would not be grappling with this matter. In Hong Kong their businessmen seek out these opportunities for themselves. Hong Kong had and has different social circumstances that make every family feel it is on its own and this has driven them towards money making and risk taking. They are keen to venture out and risk their lives to make a fortune.

6 Every Hong Konger believes that he can become a millionaire. There is that spirit of adventure, that willingness to take risks, to lose everything and to try again, that makes them so different and so successful. On the other hand, Singaporeans prefer secure careers and are homebound. They are not willing to give up the security of Singapore for more gain abroad when they think the risks are too high or when it entails much discomfort.

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7 Mr Cheng Wai Keung of Wing Tai has given me anecdotal evidence of this. He came to Singapore from Hong Kong in 1974. He is now a Singapore citizen who gives me his viewpoint as a Singaporean with an earlier Hong Kong background. Wing Tai has been manufacturing garments in Singapore from 1964. Mr Cheng told me of his Hong Kong foremen brought over from Hong

Kong by Wing Tai in 1963 for the garment factory, all of whom have left him to start their own garment businesses in Singapore and Malaysia. The Singaporeans he employed have risen in his company. One Singaporean senior manager now looks after 3-4 factories. He preferred to stay put and not venture on his own business. His Hong Kong workers willingly went abroad for more pay. He could not get Singapore workers to go even to Hong Kong or Malaysia for much higher pay. They preferred to stay in Singapore for less pay. Something is missing, either a sense of adventure and/or a compelling need to make more money.

8 He also said:

(1) " In all Hong Kong business, there is no feasibility studies". Grab deal first and then worry about the implementation.

(2) Hong Kongers like to be their own bosses. He suspects that this is one reason why Hong Kong is not popular with MNCs as Hong Kong managers will eventually leave their companies to set up their own business.

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(3) Hong Kongers are business-minded even if it means leaving the family to earn money: examples of Hong Kong managers working in Southern China for higher income.

(4) Many Singapore entrepreneurs are poly graduates and Nantah graduates, few NUS graduates i.e. most are pushed by adverse circumstances.

(5) He pointed out that many of the local companies were established by engineers and technicians made unemployed by the closure of Rollei, forced by circumstances.

9 The first question is how to encourage and increase entrepreneurs. I fear entrepreneurs are both born and made by circumstances. We can and must change our circumstances to help encourage more Singaporeans to emerge as entrepreneurs. The second question is how to encourage our managers, engineers, supervisors and skilled workers to work in less comfortable places abroad to back these entrepreneurs. The solutions to these two questions will be solved only over time, as those who stay at home see those who have gone abroad become successful and also become richer. The Government can help solve the problems of the primary education of children who accompany their parents abroad by setting up more Singapore schools in major cities as in Hong Kong, or sending second language teachers when the numbers are smaller. For

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secondary school students we are building hostels for boarding in Singapore. The Government will also help wives who accompany their husbands abroad to resume their careers when they return.

10 Korea's industrialisation was based mainly on entrepreneurs in the big chaebols. Taiwan's was based on small and medium size companies. Hong Kong's were mainly small companies. They started out with low technology, textiles, toys, components for watches and cameras, simple electronics. But they did all stages of the operations, from sourcing to production, to packaging, to marketing. Many were owners of their own branded products.

11 Singapore did it through the MNCs, with higher technology and higher standards of management. The entrepreneurial engine was the MNCs. Singapore provided the men who became managers and technicians and workers. Thus we have much fewer entrepreneurs. But we now have very competent top managers who can back our entrepreneurs.

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12 In the next stage of economic expansion, Taiwan and Hong Kong entrepreneurs have invested abroad in Thailand, Malaysia, Indonesia and China. We lack the entrepreneurs. Even for Batam, EDB brought in as many MNCs as Singaporeans. Somehow, we must establish a better entrepreneurial culture so

that in time we will throw up enough entrepreneurs to join the present few we have who can take Singapore Inc. abroad. Otherwise, our GNP, as distinct from our GDP, will not grow like that of Korea, Taiwan and Hong Kong. Their overseas investments will add 20-30% to their GNP. Ours will not.

13 I believe one way forward is for Singaporeans to team up with entrepreneurs from Hong Kong, Taiwan, Thailand, Malaysia and Indonesia, and whoever else can make deals in the region. Many of them are proven deal makers. They are adept and experienced at easing the way with officials of foreign governments for their business. Our statutory boards and GLCs can join them to provide the expertise and share in the equity risks.

14 We should twine our officers in statutory boards and our GLC executives, with our own or foreign entrepreneurs, to invest in their countries or jointly with them to invest in some third country like China and Vietnam. We cannot predict which of our younger managers, engineers and professionals will have the entrepreneurial flair. It has to be by trial and error, tossing them into the deep end of the pool. People formerly in the public sector like Sim Kee Boon in Keppel or Ang Kong Hua in Natsteel who can strike these partnerships can induct these men into ventures abroad.

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13 We must try out our bright young people, who are energetic and have the initiative, imagination and drive to represent us in these overseas ventures. Then in 10-20 years we will have a group of entrepreneurs, not as enterprising as the Li Ka Shings but first rate manager-entrepreneurs.

16 Whatever our present limitations, we must break out of our present mould. We will venture abroad with 30-40 eager-beaver types each year to work with experienced entrepreneurs, backed by our GLCs and statutory boards. They will learn the tricks of the trade. In 10-20 years, we may have 100-200 successful manager-entrepreneurs.

What vehicle should push investments into the region?

17 An important decision is whether we should have an organisation, like EDB or TDB or a new body to spearhead this regionalisation. Should we let them operate separately and by their results know which organisation is better suited for the job? Or should a new organisation be built out of EDB and TDB?

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18 No government agency has any experience in this because it is the exact opposite of our industrialisation strategy. We brought in well-known MNCs and provided them with political stability, good administration, sound infrastructure

and a productive workforce. We took few entrepreneurial risks and those few were in Singapore. Now we are proposing to go abroad to invest. This means the risks of losing our capital in countries which do not have the conditions which we have created in Singapore for the MNCs. No government agency has the experience or expertise to evaluate such risks. Indeed any organisation we set up can help to evaluate the risk, but must leave the risk-taking to be done by our entrepreneurs who have much more experience of judging the viability of an investment.

19 One proposal is to create a new agency which will work like a merchant bank. They will be deal makers who scout out for deals and package them, negotiate terms, arrange for project financing and so on.

20 Another proposal is to form a regional business council, comprising of CEOs of GLCs, statutory boards, EDB, TDB, the private sector businesses already with regional enterprises and SMA. The Government can finance and staff the secretariat with officers from statutory boards and ministries.

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Overseas Development Funds (including Venture Capital fund)

21 Several entrepreneurs brought up the problem of raising capital for investments abroad. Our banks are hesitant. Few entrepreneurs have proven

track records of operating in foreign countries. The Stock Exchange of Singapore (SES) has stringent conditions before equity or other forms of capital can be raised to invest abroad. Some have suggested that the conditions be less severe. SES will have to decide this. Meantime one solution is to have overseas development funds, including venture capital fund.

22 Keppel's Vietnam Fund is an example. In venture capital funds, we have Transpac run by Natsteel and DBS Bank. Established in 1990, it manages over $330m of venture capital and has invested over $230m in 65 Asian and 45 US companies in a range of manufacturing and service activities. The greater part of Transpac's funds is invested in profitable, high growth companies seeking expansion capital. A smaller part is in a large number of young innovative companies introducing new technologies or marketing new concepts into the region. Recently, similar venture capital funds have been set up by OCBC and Wearne Brothers as well as by UOB.

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23 Overseas development funds are an important segment of our capital market which we must develop. We must make risk capital more readily available to entrepreneurs at the time when they have not succeeded enough to tap capital through the banks or the stock market. GIC (Government Investment Corporation) has participated in venture capital funds in the United States for

about 10 years. Several GIC officers have acquired experience in this field. I have asked them to consider managing a venture capital fund. The funds can be raised in the market, with the government Temasek Holdings contributing to it.

What can Statutory Boards, GLCs do for the private sector and vice versa?

24 The question I have asked several of our successful private entrepreneurs is: Suppose the government puts at your disposal all the resources it has, connections at ministerial and official level, banking and financial support, the services and expertise and good standing of the GLCs or the statutory boards, or as they called it the stamp of quality, what can you do which you cannot do now? How can use these assets to your advantage?

25 The following points are from their responses:

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(1) Executives from GLCs and statutory boards are not psychologically geared for this foray into the regional markets. They are uncomfortable at the prospect of working in a disorderly, sticky and unpredictable environment. They are not confident that they can do a good job under conditions where the rules are unclear and bendable. The statutory boards' executives prefer simply to provide

services for a fee. They do not have the touch for making friends in foreign lands where the customs, practices, and social styles are different. GLCs and statutory boards require partners who know who, how, and what to do in order to succeed in different countries.

(2) Our statutory boards are unhappy at the prospects of partnering Singapore contractors and partners abroad who have questionable reputations. They must overcome this. Both sides, public sector officers and private sector executives, have to change attitudes and perceptions of each other. Both sides need to recognise and accept that they are complementary parts of Singapore and both have to perform for Singapore Inc to succeed.

(3) After the initial years, once things have got going, the private sector should be encouraged and allowed to take the lead. Our statutory boards should only support our Singapore companies in overseas projects. As the governments of several regional countries have taken Singapore as their model, the participation of GLCs and statutory boards can give our private sector:

(a) entry into otherwise difficult to enter markets;

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(b) that good housekeeping seal of quality, and

(c) assurance that the basic undertakings will not be arbitrarily changed.

(4) One proposal is for a consortium of 2, 3 or 4 companies like Japanese keiretsu, to tackle major projects : a bank, a manufacturer, a trader, and a contractor, in one consortium. Can they become chaebols? Can we identify our private sector players who have the capacity to lead a consortium? Should they concentrate in different parts of the region, or compete freely in all countries?

(5) A variation of the keiretsu proposal is to form a consortium for each project, each with the participation of a major private sector player and a statutory board or a GLC. Such ad-hoc consortia can focus on a core business overseas, e.g. in city planning and property development (including housing), or power generation, telecommunications, seaport development and services, airport development and services, traffic control and land transport,

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environmental protection or leisure industry and tourism, etc. Many regional countries want to tap Singapore's experience in these areas.

26 One entrepreneur proposed the Government sets up a committee headed by a minister of state to recommend measures to assist companies to invest overseas. I have discussed this with the Prime Minister who has decided to form a Committee headed by Mr Teo Chee Hean, Minister of State for Finance. The Committee will include representatives from MTI, MOF, EDB, TDB and the private sector. The Committee will hear groups or individuals, Singaporeans or non-Singaporeans, who can help solve these problems, economic and personal or family problems.

27 Another entrepreneur said that I should re-emphasise what I said recently, that our entrepreneurs should be given the freedom of action to try and do the unusual and that Singapore should relax its rules, provided it is not taken as a licence to start a scam. Where entrepreneurs feel that we are over-regulated and we can afford more flexibility, let them put it to this committee. I must warn that it takes a little time to change the basic attitudes of government regulations, but change we must, change to the climate so that entrepreneurs will be encouraged, not impeded.

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28 We need to pool our resources to succeed abroad. Our statutory boards, GLCs, Singapore companies have to trust each other, share information on the region in confidence. We must set up a clearing house so that information shared is not stale. How do we achieve this when GLCs and statutory boards hold our private sector companies at arm's length? I am told over and over again that our businessmen fear that government agencies will invariably favour GLCs and so they prefer no intervention by any government agency. I understand their apprehensions. If they prefer no government intervention, so be it. But if they need help, we will provide it.

29 The statutory boards will be ready to provide their expertise. They are valuable to the private sector.

30 Several of our entrepreneurs made this their most important point. For more people to become entrepreneurs, we have to change out attitudes towards those who fail. Singaporeans seldom try because they fear failing. One said: "No risk, no failure." is the Singapore kiasu motto. Instead Singapore's motto should be "Who Dares, Wins", that of the British SAS. One former senior MNC executive pointed out that many MNCs look out for "failed" entrepreneurs to recruit because they have learnt lessons from their honest failures to make them good business managers. Americans have the highest number that fold up each

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year, and it is no stigma to have tried and failed. Indeed that is how Silicon Valley became a magnet for companies in the computer business.

31 The man said that there must be willingness to share the effort and the rewards of starting up a new venture. A successful entrepreneur must have the ability to recognise an opportunity and put in the hard work to turn that opportunity into a reality. Starting a new enterprise requires a team willing to work 16 hours a day. A one-man operation is seldom a successful enterprise. The entrepreneur needs to bring together a good team. But good people will only put in all they have got if the leader is willing to share equity with them, or at least share profits. Then they will make the sacrifices to get a new venture going. The American company Microsoft and even Singapore's Creative, got off to a good start by sharing equity with their top managers. Most of the original team became millionaires when the companies went public.

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32 He added that many Singapore MNC managers have used their children's education as an excuse when they do not want to go abroad. When they did want to go, they had little trouble getting their children to keep up their bilingual skills through private tutors or teaching their children on their own, in addition to intensive remedial efforts on their return to Singapore 2-3 months of each year.

Conclusion

33 I have been exchanging ideas with a number of our successful entrepreneurs who have ventured abroad. I have learnt much from them. Indeed many of the points in my speech have come from them or [have] been stimulated by them. Some suggested various forms of tax incentives to encourage Singaporeans to do business abroad. In an Annex*, I have set out what they have suggested, and the position of Inland Revenue.

34 I have asked more questions than I know the answers to. It is impossible to say what the successful formulae will be. It was impossible to have predicted that we would not industrialise like Hong Kong. So also, it is not possible to know what kind of investment into which regional countries will be successful. Our track record makes me confident that we have the men and the resources to meet this challenge. We can change our orientation. We can alter our social climate to become more encouraging and supportive of enterprise and innovation. We can enthuse a younger generation with the thrill and the rewards of building an external dimension to Singapore. We can and we will spread our wings into the region and then to the wider world.

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* Annex not available