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PARLIAMENTARY DEBATES

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Monday, 6th March, 2006

The House met at 12.00 noon

PRESENT:

Mr SPEAKER (Mr Abdullah Tarmugi (East Coast)).

Mr Ahmad Khalis Bin Abdul Ghani (Hong Kah).

Dr Ahmad Mohd Magad (Pasir Ris-Punggol).

Mr Ang Mong Seng (Hong Kah).

Dr Balaji Sadasivan (Ang Mo Kio), Senior Minister of State, Ministry of Information, Communications and the Arts and Ministry of Health.

Mr Cedric Foo Chee Keng (West Coast).

Mr Alexander Chan Meng Wah (Nominated Member).

Assoc. Prof. Ong Soh Khim (Nominated Member).

Mr Othman Haron Eusofe (Marine Parade).

Mdm Cynthia Phua (Aljunied).

Prof. Ivan Png Paak Liang (Nominated Member).

Mr R Ravindran (Marine Parade).

Mr S Iswaran (West Coast), Deputy Speaker.

Mr Seng Han Thong (Ang Mo Kio).

Mr Sin Boon Ann (Tampines).

Dr Tan Boon Wan (Ang Mo Kio).

Dr Tan Cheng Bock (Ayer Rajah).

Mr Tan Soo Khoon (East Coast).

Dr Tan Sze Wee (Nominated Member).

Mr Teo Chee Hean (Pasir Ris-Punggol), Minister for Defence.

Dr Teo Ho Pin (Holland-Bukit Panjang).

Mr Teo Yock Ngee (Nominated Member).

Mr Tharman Shanmugaratnam (Jurong), Minister for Education.

Dr Tony Tan Keng Yam (Sembawang).

Dr Vivian Balakrishnan (Holland-Bukit Panjang), Minister for Community Development, Youth and Sports and Second Minister for Trade and Industry.

Dr Wang Kai Yuen (Bukit Timah).

Mr Wee Siew Kim (Ang Mo Kio).

Mr Wong Kan Seng (Bishan-Toa Payoh), Deputy Prime Minister, Minister for Home Affairs and Leader of the House.

going for as long as possible. But this is an effort that requires more than Government action. We will also need the cooperation of the private and people sectors. Businesses in the food industry must have their continuity plans in place. AVA will regularly review the situation with industry, including exploring with importers the feasibility of stepping up inventories of frozen food. Members of the public also have a vital part to play. Households must adjust their food preferences and buying patterns and this will give AVA and the industry the time needed to bring in imports from alternative sources.

Sir, let me reiterate that AVA will spare no efforts to safeguard Singapore against bird flu. It has put in the necessary resources and will continue to be vigilant.

Building Maintenance

Prof. Ivan Png Paak Liang (Nominated Member): Sir, I will address two questions. First, building maintenance. We must all be quite familiar with the Golden Mile Complex, that landmark along Beach Road. But, Sir, view it from the other side and you see what I call a "vertical slum". It is a terrible eyesore and a national disgrace. The appearance of Golden Mile Complex appals me whenever I drive along Nicoll Highway. It must create a terrible impression on foreign visitors arriving from the airport. How can we be a world-class city in a garden? The Golden Mile Complex is just the most extreme of how a strata-title property can deteriorate. It illustrates what economists call a "negative externality". Each individual owner acts selfishly, adding extensions, zinc sheets, patched floors, glass, all without any regard for other owners and without any regard for the national welfare. The result is market failure. Unless we take resolute measures, other strata buildings will go that way. I ask the Minister to quickly act to arrest the deterioration of such property.

Two, Marina Bay, my second point. The Hon. Minister has set out a visionary plan for the development of the Marina Bay. I applaud the Ministry for that. But I want to echo hon. Member Geh Min, that we can do more to support leisure and even tourists' use of Marina Bay. Specifically, the Marina Bay would be a superb location for a maritime

museum. I mean not only to showcase our heritage but also a functional museum, that is, we should have operational Chinese junks, Arab dhows, sailing crafts from India, Indonesia and the Philippines. Let our kids play, enjoy and learn and let tourists come in. I am glad to see the Minister for Trade and Industry is here. There is an economic angle here. This would be a superb complement to all the other attractions that we have around the Marina Bay - a functional maritime museum. Not one of those full of dead things, but one which is alive, with real people, real boat building. We can bring in the craftsmen from the region. Let us help to sustain some of these skills and let our children, tourists and businesses understand where we came from and where we will be going.

The Parliamentary Secretary to the Minister for National Development (Dr Mohamad Maliki Bin Osman): Mr Chairman, Sir, I thank Prof. Png for raising two issues, although the second one is not directly related to building maintenance as stipulated in the Order Paper Supplement.

Let me just address the first part first. Prof. Png raised the issue of building maintenance, specifically in reference to the Golden Mile Complex. Generally, let me just say that the Building Maintenance and Strata Management Act (BMSMA) provides for effective maintenance and management of strata development. It empowers the management corporations (MCs) and subsidiary proprietors (SPs) to make decisions concerning their own estates. This places greater responsibility on the owners to take pride in their own estates as well as their own buildings.

One of the responsibilities of MCs and SPs, under the BMSMA, is that the MC is charged with the responsibility to ensure that common property is well maintained, clean and tidy. MCs can also introduce by-laws to regulate works to be done by SPs on private units that could affect the facade of the building. If the common property of a development falls into serious neglect, then the Commissioner of Buildings (COB) has the authority to issue a notice to require the MC to take action to spruce up the property. Enforcement action could be taken if the MC does not comply.

Let me touch on the Golden Mile Complex. I think Members who drive along Nicoll Highway would be able to appreciate the point raised by Prof. Png, that Golden Mile Complex is an eyesore. It is true that external walls of the Golden Mile Complex were not adequately maintained. However, in February 2005, last year, the Commissioner of Buildings (COB) has issued an advisory letter requiring the MC of Golden Mile Complex to paint up and spruce up the building facade and to encourage the SPs to do likewise for their private balconies. The MC has been cooperative in addressing the situation. Works are currently in progress and I hope that when the works are completed, the complex will be more pleasing to the eyes. As I understand it, it is due for completion by the end of this month.

With regard to Prof. Png's second question on Marina Bay, I think those are very good suggestions. When we look at the development of Marina Bay and the whole concept of a Garden in a City, all suggestions are welcomed. As we are still in the planning process, whatever suggestions that come along, the ultimate goal is to make sure that Singapore achieves the objective of a Garden in a City, that the projects and programmes do attract tourists and more people to come to Singapore and enjoy the so-called concept of Garden in the City.

Mr Mah Bow Tan: I take it that that was Prof. Ivan Png's clarification on my speech earlier and so maybe I should respond. I will add on to what my Parliamentary Secretary has said.

First of all, we have to remember that Marina Bay is actually a reservoir. So when you talk about boat-building, maritime museum and so on, we have to bear in mind that as a reservoir, access to the open sea would be restricted. Although there will be provisions made with a boat-lift to allow small yachts to come in, the big boats will have difficulty traversing from Marina Bay into the open sea. That is the first point that needs to be considered.

The second point is that when you talk about boat-building, etc, again coming back to

the point that Marina Bay is a reservoir, the impact on the quality of the water will have to be considered. In fact, if the Member will recall, there actually were boat-building activities in the Kallang area. In the Tanjong Rhu area there were boat-yards and shipyards all along that area before URA changed it into a residential area. So I think the idea of having boat-building in the Marina Bay area is probably something that is no longer relevant. But, having said that, as my Parliamentary Secretary said earlier, all sorts of suggestions have come in, including I must say the idea of a maritime museum and, obviously, the commercial as well as the technical feasibilities will have to be undertaken.

Mr Chairman: Prof. Png, clarification only. No speeches.

Prof. Ivan Png Paak Liang: Yes, clarification. Sir, I pointed out that one of the problems with Golden Mile Complex is not just a matter of painting. Will the Parliamentary Secretary please acknowledge that it is also a matter of all those unsightly extensions, glass, wood and so on?

Responding to the Hon. Minister, I was not thinking of commercial boat-building, but just demonstrative boat-building. All those boats are non-engine boats. They are all sail boats and so there is very little pollution.

Dr Mohamad Maliki Bin Osman: Sir, the issue of Golden Mile Complex is, as Prof. Png mentioned, an extreme example. It is an issue of a building that was built in the 70s and, at that time, the conditions were slightly different. The history of Golden Mile Complex is one. We have confirmed with URA that, at that time, planning approval was not required for enclosing of balconies because the balconies were included as part of the GSA at that time. Because of that, the BCA allows these structures to be regularised now under the Building Control Act as long as they do not impact on the structural safety of the building. The MC had actually approved such enclosures and facilitated their regularisation. It is within those constraints that right now what the Commissioner of Buildings has done is to try to make the best of what we have at this point in time. And sprucing up is really indeed one of the things that we could do. Hopefully, with sprucing up, with better facade, things would be better. It may not be the ideal that we want with regard to what we can see from Nicoll Highway, but certainly it is better than what it is

today. Why do we not wait till they complete their work, take a look at it and see how else we can further enhance the view from Nicoll Highway as we drive up there?

The Chairman: Any more clarifications? If none, Dr Amy Khor, would you like to withdraw your amendment?

Dr Amy Khor Lean Suan: Sir, I want to thank the Minister for his detailed and considered response to our queries and concerns and for the amendments that have been made to some of our suggestions. I hope that he will consider further the concerns and suggestions that we have also made where no amendments have been made to it.

With this, I would like to withdraw the amendment.

Amendment, by leave, withdrawn.

The sum of \$672,459,270 for Head T ordered to stand part of the Main Estimates.

The sum of \$3,115,198,400 for Head T ordered to stand part of the Development Estimates.

Head V - Ministry of Trade and Industry

Mr Inderjit Singh: Sir, I support the issues brought up by Mr Chew Heng Ching on the effectiveness of SBF. And I have a suggestion on how we can make SBF look like a value-added organisation and not compete with the various Chambers, and that is related to my question on the FTAs. I mentioned that companies have yet to see the benefits of FTAs. I think the organisation that could play a significant role is SBF. Just as in ACE through the internationalisation of Action Crucible, through very tedious mentoring approach, our members have been able to help Singapore companies internationalise. It is an accounts management approach done by volunteers. If SBF could take the responsibility to be the organisation that understands and helps to operationalise these FTAs, I am sure many companies will then want to go to SBF and will not question the value-added that SBF has. We will then also see the added benefit of our companies benefiting from the many FTAs that have already been signed and the many more that are coming on board very soon.

Dr John Chen Seow Phun (Hong Kah): Sir, Singapore has signed FTAs with a number of countries, including the developed nations, such as the US and Japan. These FTAs give us better access to these developed markets compared to other countries for goods that need the rules of origin. Therefore, there are products that other countries could make or value add in Singapore to gain access to these developed markets. Their coming to Singapore will provide jobs to Singaporeans and contribute to our GDP. My question for the Minister is whether MTI has considered what products we can attract companies from these other countries, such as China, to manufacture here and whether MTI has an action plan to attract such investments to Singapore. If yes, what are the types of investments and from what countries? Has MTI attracted any in the last few years?

The Chairman: Prof. Ivan Png, you have two cuts, take them together. Total of 7 minutes.

Economic Incentive Schemes

Prof. Ivan Png Paak Liang: Sir, the Government offers a range of incentives to businesses, including tax incentives, loans, grants and co-investments. MTI's Economic Development Assistance Scheme is budgeted for \$2.125 billion in Phase IV. In years 2004 and 2005, the EDB provided for grants of \$106 million and \$82 million

respectively. In the same two years, EDB had loans outstanding of \$523 and \$107 million respectively.

Sir, I ask if the Ministry could please share with the House three points: (1) What performance measure does it use to evaluate the results of these grants and loans?

(2) What have been the results in Phases III and IV of the Economic Development Assistance Scheme? Sir, I have referred to the EDB's Annual Report. It does publish data on such things as fixed asset investment, total value added, total business spending. However, the problem is that it does not say how much of these are due to EDB grants, loans, etc, and how much would have come to Singapore anyway. To evaluate the policy, we really need to know the incremental value-add of the policies. How much extra as an investment, how much extra value added, how much extra business spending resulted from EDB grants and incentives?

(3) As discussed during the Budget debate, we should be concerned about the economic impact, both in economic performance and revenue loss of tax incentives. May I suggest to MTI that it agrees with the Ministry of Finance a tax revenue budget for economic incentives. This tax revenue budget would measure the value of tax incentives given out, specifically the amount of revenue loss resulting from these tax incentives. In this way, we could put tax incentives on a similar footing as grants and loans that we budget for tax, budget for grants and loans, and we could more accurately measure and compare the cost vis-a-vis benefits of these various schemes.

Research and Development (R&D)

Sir, just last month, Minister Lim Hng Kiang announced the Science and Technology

Plan 2010. Allow me to applaud Minister Lim for publishing the plan and also the review of the previous plan. This is a big step towards greater transparency and good governance.

Sir, the plan has three targets at the national level by the year 2010. (1) Increase national R&D spending to 3% of GDP; (2) Increase the private sector share of R&D to two-thirds; (3) Increase research manpower to catch up with Sweden and Japan.

As a researcher, I applaud investments in R&D. However, as an economist, I worry about two aspects of the R&D plan. First, the key targets are inputs. I and, I think, most economists and other policy makers would rather aim at output targets. Let me propose the following alternative, increase our growth rate of multi-factor productivity to the top quartile in the OECD. Sir, please refer to the chart which is being distributed by Parliament staff. You will see Singapore's multi-factor productivity growth right at the end on the right hand side. It leaves much to be improved. Over the period, 1990 to 2002, we were placed just above the OECD median, at about slightly under 1%. Sir, we are much more flexible and dynamic than many of these OECD countries. Yet, our productivity growth pales by comparison. So instead of aiming at national R&D spending be 3% of GDP, let us aim that our growth rate of multi-factor productivity be in the top quartile of the OECD.

Sir, my second worry. The Science and Technology Plan 2010 increases A*STAR's budget by over 20% from \$4 billion to \$5.15 billion. It creates a National Research Foundation on a budget of \$5 billion. I worry about the ability of our research organisation to make good use of a sharp increase in funds. Let me give an analogy. Suppose that we are running at 7 km an hour, and we want to accelerate to 10 km an hour. Yes, if we want to run faster, we must eat more. But the additional food must be calibrated according to how fast we are running, not just stuffing in food and hoping we can run faster. Indeed, I have heard talk of a "feeding frenzy" as foreign researchers swarm to Singapore for the rich research funding.

Sir, A*STAR's performance indicators include the number of patent applications and industry funding. Again, the number of patents has the flavour of an output target. It is just a matter of how much money you put into filing applications. Let me propose an alternative indicator which, I think, would be more reflective - the royalty income from patents and commercialisation. After all, we are not interested in collecting pieces of paper but rather their economic impact. So let us measure the royalty income. I do applaud A*STAR's focus on industry funding as a performance measure. That is great! But let me suggest another one. Besides industry funding, let us also measure A*STAR by the amount of co-funding of A*STAR's research by foreign national agencies and international agencies, for instance, the US National Science Foundation, the US Defence Advance Research Projects Agency, the European Union and the various UN organisations.

Assoc. Prof. Ong Soh Khim (Nominated Member): Sir, I declare that I am an academic at NUS.

\$13.55 billion will be pumped into R&D over the next five years, of which more than half will go to MTI and its research agency and research institutes. This is certainly good news, but I perceive that overseas researchers and institutes could be more excited than Singaporeans over this news! It is necessary to look into how these research resources will be used to transform Singapore into an R&D driven economy with the outputs that we wish to achieve.

First, in attracting and recruiting world-renowned scientists to Singapore, it has been reported recently in the local media that what attracted these scientists were Singapore's offer of "direct funding, less restrictive rules for research and the freedom to commercialise their science". A web-based magazine, however, reported that Singapore offers "unrestricted research, top-notch equipment and limitless funds" to these scientists, as long as they agree to relocate to Singapore. How contrasting this is! It has also been

Dr Wang Kai Yuen: Sir, there is no doubt that Singapore needs to create its own intellectual property rights in the fields of science and technology where it has the competitive advantages. The Singapore Government has earmarked some \$12 billion to finance public sector R&D activities for the five-year period starting from 2006 to 2010. This is more than double the amount of the previous five-year period. Of this amount, \$5 billion has been allocated to the National Research Foundation. This seems like a lot of money. After all, the Progress Package that we just announced for every Singaporean only amounted to \$2.6 billion. Yet, compared to what other nations spend on R&D, it is still small change.

Therefore, in my view, Sir, picking up the winners in the early phase of the game becomes very important. Yet, doing so is extremely difficult, especially when civil servants picked to do the job need to ensure that public money is properly accounted for. Thus, in the past, we tended to allocate funds to the public sector R&D institutes affiliated to the various universities. So, perhaps our culture and mindset need to be changed.

I have just noted that Dr John Chen spoke with the aid of a computer. Sir, I am not sure whether that is in line with the Standing Orders. If it is not in line with the Standing Orders, perhaps we should also take the opportunity to change the Standing Orders so that we can move with the technology.

My question to the Minister is what measures we are going to adopt to measure the success of the R&D programmes. I also agree with Prof. Ivan Png that perhaps an output-based performance measure is better than an input-based one.

The Minister for Trade and Industry (Mr Lim Hng Kiang): Mr Chairman, first, let me thank Members for their very many insightful comments and suggestions. Many Members have spoken about how we can help our local enterprises, as well as the importance of research and development (R&D). These are indeed two areas that will strengthen our competitiveness in the coming years, and where we will be giving more emphasis over the next five years. I would also like to divide the issues raised into two

levels.

At the macro level, Members have suggested ways to improve our competitiveness and adjustments to our economic policies. I think all of us agree that the Singapore economy has recovered and the prospects are positive. We are ranked very high in terms of competitiveness, effective tax rates, ease in doing business, quality of infrastructure, and our connectivity. We also have a strong pipeline of investments, our trade growth is robust and our tourism receipts are growing. Furthermore, with our focus on R&D and investment in our talent, I am confident that our competitiveness would be reinforced.

But, at the second level, I sense that Members would like to see how our economic policies and programmes can be effectively implemented to help our companies grow and create jobs. I agree completely with Members. We must ensure that our strong GDP is translated into growth opportunities for our companies, that more FTAs mean more export opportunities, and that higher R&D spending results in technology upgrading in our companies. Let me elaborate as I respond to the comments raised by Members.

First of all, Dr Ahmad Magad has suggested a platform for the MNCs and SMEs to regularly meet and interact. I agree with him that we should strengthen the economic linkages between the MNCs and the SMEs. One such platform is the EDB's Local Industry Upgrading Programme (LIUP), where MNCs form strategic partnerships with their SME suppliers and other companies. It is a win-win partnership. MNCs can build up a strong supplier base supporting their requirements, while the SMEs can avail themselves of the MNCs' technical and managerial expertise to upgrade and be more competitive.

Over the last five years, the LIUP has assisted some 670 local companies. One good example is Baxter Healthcare SA and its group of local suppliers. Baxter manufactures medical products, such as intravenous sets and renal pumps. Under the LIUP programme,

Baxter has worked to develop the suppliers' capabilities through knowledge transfers and promotion of quality standards. Last year, for example, it conducted two training sessions for 24 of its local suppliers to equip them with the ability to supply quality predictive tools to streamline their manufacturing processes.

As Members will remember, this is how we built up the electronics industry over 30 years. The MNCs provided the base that led to the development of the local precision engineering industry, which comprises many SMEs serving the tooling and component needs of the MNCs. Some of our SMEs later grew and internationalised, such as Unisteel and Seksun. Others became contract manufacturers, such as MMI. The vibrant local precision engineering industry in turn attracted more electronics MNCs, and further strengthened our electronics cluster. The supply chain management for electronic products gave the logistics sector a boost, with several SMEs growing to become sizeable regional logistics players, such as Accord Express Holdings. Not only that, it has also given rise to a huge electronics international wholesaling and trading cluster in Singapore, creating more business opportunities for additional local companies.

This same story is repeated in our chemicals, transport engineering and biomedical sciences (BMS) clusters. Increasingly, we are seeing the spill-over of such linkages across clusters. For instance, the local precision engineering industry, which started off supporting the electronics industry, is now also serving new growth areas like the medical technology, aerospace and automotive industries.

The second suggestion put up by several Members, such as Dr Tan Boon Wan, Mr Inderjit Singh and Mr Lawrence Leow, is how to help our companies go overseas. They have suggested two approaches: (i) by banding together, such as through consortiums; and (ii) Mr Lawrence Leow suggested going together, also as a cluster, in the same location.

This is something that IE Singapore fully supports. By banding together, our companies increase their chances of success. Through the iPartners programme, IE encourages the formation of strategic alliances among our local companies, both the large and the small enterprises. Last year, for example, IE supported 12 new alliances, comprising 60 companies, which are expected to generate over S\$415 million in overseas sales.

One such alliance is the Singapore Building and Infrastructure Consortium (SBIC). Led by SembCorp Engineers and Constructors Pte Ltd and DP Architects Pte Ltd, the consortium is targeting the Middle East market. Collectively, the 14 consortium members represent the complete value chain for the building and construction sector, from master-planning, engineering, consultancy, construction to procurement. This enables the SBIC to present an integrated team capable of delivering complete solutions, thereby boosting their chances of success, especially in securing larger contracts.

The LIUP programme and the iPartners programme illustrate that our approach to developing our SMEs is a painstaking one, involving sector by sector, consortium by consortium. We cannot just wave a magic wand and every SME will be helped.

Mr Inderjit Singh proposed establishing a Local EDB, while Dr Wang Kai Yuen suggested also centralising help to the SMEs. I remember reading in the newspapers that Dr Ong Chit Chung, during the Budget debate, had said that SMEs were like Cinderellas and called on the Government to send in a Prince Charming to transform Cinderella into a princess. But we have 120,000 SME Cinderellas in all shapes and sizes, and they all wear different sizes of glass slippers. They range from our neighbourhood stores, to bigger names like Osim, Inter-Roller and HTL. It is hard to imagine that a single agency can be a Prince Charming, with the full breadth and depth of sectoral knowledge and domain expertise to fully cater to all our SMEs' needs. For example, we need BCA's involvement to help our SMEs in the construction and renovation sector; IDA's help for IT and media development; and WDA's help for workforce upgrading and retraining. Hence, the more sensible approach of developing our SMEs is to adopt a "whole-of-government" approach

rather than a single agency.

What we have done is to appoint Spring as the overall champion for SMEs. Spring will leverage on the strengths and expertise of the other agencies to provide holistic and integrated services to our SMEs, in line with the vision of “Many Agencies, One Government”.

A concrete result of this integrated, multi-agency approach is the recent launch of EnterpriseOne, which stands for “One Network for Enterprises”. The portal at www.business.gov.sg is a Government-wide initiative managed by Spring in partnership with business chambers and industry associations. It enhances the SMEs' access to business information, Government e-services from more than 30 agencies, and advisory and consultative services. I urge Members to give it a try and I welcome your feedback on the effectiveness and usefulness of this portal.

The second pillar of the EnterpriseOne initiative is the network of Enterprise Development Centres (EDCs) that are being set up. These EDCs are run by the various business chambers and associations, and they offer business advisory and consultancy services. Today, SMEs can visit any one of the three EDCs at the Association of Small and Medium Enterprises, the Singapore Manufacturers' Federation and the Singapore Chinese Chamber of Commerce and Industry.

Mr Lawrence Leow has asked about the Government's long-term plans for these EDCs. The idea of EDCs was actually prompted by industry's calls for a consultancy or advisory panel which SMEs can turn to for business advice, be it to upgrade, expand or venture overseas. Recognising that most SMEs will not be able to afford

the services of the likes of McKinsey, the Government sought the cooperation of the major business chambers and industry associations to provide guidance and advice to our

enterprises and our would-be entrepreneurs.

2.00 pm

As each chamber and association has a specific business focus, the EDC so formed will similarly have its own focus and area of specialisation. For example, the EDC at the Singapore Manufacturers' Federation focuses on mainly manufacturing-related diagnostic and consultancy services, while the one at the Singapore Chinese Chamber provides comprehensive advice on doing business in China.

So far, as Mr Lawrence Leow has pointed out, the Government has provided co-funding support to defray the set-up costs for the EDCs. In the longer-term, we hope that the EDCs will evolve into thriving centres for business information and knowledge exchange, sufficiently valued by the SMEs that they become an integral part of the chambers and the industry associations. The Government will thus work closely with the EDCs to help them succeed and be commercially viable and sustainable over time.

Mr Chairman, the next level of our support is working with the industry associations to develop vibrant industry clusters. The industry associations know the business environment, the challenges and issues faced by the SME members much better than the Government does. Thus, by working with them and through them, we can better reach out and target our assistance to our SMEs.

It was with this in mind that the Government launched the \$50 million Local Enterprise and Association Development (LEAD) programme to support able and willing industry associations in spearheading industry development efforts. The LEAD programme has had very good success to date. So far, the Government has approved

grants of more than \$20 million to six associations in industries such as the restaurant industry, the food manufacturing industry, furniture, textile and garment, process industry and the precision engineering sector. These projects are expected to add more than S\$800 million to the economy and create more than 4,000 new jobs.

I have given examples of these previously in the House of the work done by the food manufacturers and the textile and garment and furniture industry associations. I think Members would also have read newspaper reports, the most recent one by the Furniture Association of their plans to develop Sungei Kadut to improve design and to increase their export opportunities.

Let me today give you another example, the Print and Media Association of Singapore. Some may perceive printing as a sunset industry in Singapore because of our high labour costs. But our printing companies have been very resilient, surviving downturns and strong competition by finding niches for themselves and moving towards high value print jobs. For example CS Graphics prints fine quality art books for key clients such as the Metropolitan Museum of Arts. Another group of local printing companies has come together, such as Fabulous Printers, COS Printers and Markono Print Media, in order to support Blackwell Publishing, one of the world's leading scientific, technical and medical journal publishers. Blackwell is drawn to our local printers because of their quality and their competitive prices, as well as Singapore's strong supply chain capabilities, which enable them to quickly distribute their journals worldwide. Some of our printers not only do the printing, but also maintain a website and fulfil the orders for Blackwell.

Mr Chairman, let me now turn to specific areas where SMEs need help. The first area is financing. We have been systematically improving the financing infrastructure for enterprises by plugging the funding gaps through a mixture of loans and equity schemes. For this, I would like to thank Mr Inderjit Singh and the Financing Crucible of the Action Community for Entrepreneurship (ACE) for their contributions and effort.

Last year alone saw the launch of several new financing schemes. Among them is the SME ACCESS Loan to help SMEs, especially under-served enterprises without collateral or with a limited track record. To date, over S\$100 million in loans have been extended to more than 400 SMEs. To spur greater angel investments, EDB has also recently launched the \$30 million Business Angel Scheme. This was launched in September last year. In October last year, IE Singapore started the Trade Credit Insurance Programme, which offers premium trade credit insurance rates through the pooling of demand. The scheme has already benefited more than 270 companies with a total volume of sales insured amounting to over \$45 million in just three months. We will continue to work on improving the access of our enterprises to financing. I think in PM's response in the Budget debate, he gave Members a printout of several sheets of all the schemes and we welcome feedback from Members on how to improve these financing schemes.

Dr Wang Kai Yuen suggested that the Government could consider a single Government-funded institution to provide financing to the SMEs. Currently, there are already many private sector financial institutions which are providing loans to SMEs. In fact, more banks are recognising the potential of the SME market and have set up specialised teams to focus on SME customers. For the Government to set up its own SME banking or financial institution to compete against the private sector will be against the "Yellow Pages Rule". The Government has instead partnered some 16 financial institutions to administer the loans to our SMEs, so that we can leverage on their market expertise as well as to foster the start of hopefully a lasting banking relationship between the SMEs and the financial institutions. This win-win arrangement has worked well so far. Over the past five years, Spring and IE Singapore have worked with financial institutions to facilitate more than \$3.1 billion worth of loans to more than 12,500 companies.

What the Government in fact can do is to designate more financial resources to help our local enterprises grow. This is indeed what we are prepared to do. I am happy to announce that the Government will set aside \$3.9 billion over the next five years (FY2006-2010) for this purpose. Grants will take up \$900 million, an increase of

35% over the previous five years. The remaining \$3 billion will be in loans, and through partnerships with our various financial institutions, this is expected to catalyse more than \$6 billion worth of loan financing, almost 60% more than the previous five years. So we are prepared to put more resources to support our local companies.

The second area in helping our companies is to encourage them and facilitate them to expand overseas. I mentioned just now about the consortiums. Let me also briefly outline what IE Singapore is doing to help our companies go overseas.

IE does so through a 3C framework - Competency, Capital and Connections. For example, last year, IE Singapore helped some 32,000 companies through its services and its activities. Let me highlight some of the key initiatives under each of these 3Cs.

Competency involves helping our companies to build up capabilities so that they can compete more effectively in overseas markets. Last year, some 1,900 companies leveraged on IE's capability-building programmes, particularly in branding, design and international manpower development.

It is important that companies formulate a viable market strategy before entering any new market. The Internationalisation Roadmapping Programme was launched early this year to help companies develop long-term business planning strategies as part of their internationalisation plans.

The second "C" is Capital. Coupled with other inroads that we have made on supporting financing, we have also promoted the Regionalisation Finance Scheme, which is a fixed interest loan scheme. Since 2001, it has committed over \$54 million in loans, benefiting some 43 companies as at end 2005.

The third "C" is Connections. SMEs, in particular, need help to enter into overseas markets. To build connections, SMEs can participate in outgoing missions and fairs organised by IE Singapore as well as IE Singapore's networking platforms, namely, Network China, Network Indonesia and Network India. Companies can also tap on the International Marketing Activities Programme which supports the activities organised by trade associations and chambers, or the Pathfinder Scheme for Distribution, which helps exporters by matching them with overseas intermediaries who have extensive local business networks.

Mr Lawrence Leow suggested that our SMEs can go together and find suitable locations when they go overseas. I think this is indeed what many have done, not directly through the Government but indirectly. As you know, Singapore companies have helped built industrial estates in Batam, Bintan, Vietnam, China and India. Many of our SMEs find comfort in operating in many of these industrial estates developed by our local companies. Going forward, there are other plans to develop SEZs, both in Indonesia, in India and further afield also in Russia. If companies find that this is sensible strategy to locate in business districts and industrial estates developed by Singapore companies, then this is one strategy they can pursue. But I would be loath to concentrate all our resources just in one or two industrial estates and encourage or direct all our companies to go there. We should allow our companies to diversify and go to different industrial estates and different countries to pursue their opportunities.

Let me now turn to another area which is the FTAs. So far, we have signed 11 FTAs. Mr Inderjit Singh asked exactly how our companies have benefited from the FTAs. I would say in several ways. First, the FTAs gave our companies a competitive advantage through the elimination or reduction of the tariff as well as non-tariff barriers. Second, the FTAs can help our companies gain access to emerging markets such as India and the Middle East. Finally, our FTAs contain safeguards to provide our companies with better protection when they venture overseas. This protection can include guarantees on repatriation of capital and profits, as well as investor-state dispute settlement mechanisms. But I believe we can do more.

In order to help our companies take advantage of all these benefits, MTI and its partner agencies have been reaching out to the business community through various activities and programmes, eg, seminars, workshops and guide books. A dedicated FTA website has also been set up. This year, IE Singapore has established a special unit to help companies leverage on FTAs. This special unit will not only organise seminars and provide general information, but also provide the individual company with consultations, to show them exactly how they can make full use of the FTAs for the products that they are producing and exporting. I therefore encourage our businessmen to take advantage of these resources and make full use of these FTAs.

Dr John Chen has also asked whether the FTAs have been successful or helpful for us in bringing investments into Singapore and he mentioned particularly the case of China. I would say that Singapore's extensive FTA networks have added to our overall value proposition in attracting investments to Singapore.

In fact, when EDB officers approach the various clients, they actively market our strong network of FTAs when highlighting our strengths to potential investors. When they make client calls on the companies they will, in fact, work out what the FTAs can offer these companies and talk directly with the company executives on how if they invest in Singapore they can take advantage of these FTAs.

2.15 pm

We also work with companies to identify the areas where our FTAs are able to offer a preferential edge over other competing investment locations, be they in terms of tariff savings or investment protection. And we have had some successes. Let me give you an illustration. A leading US manufacturer of oilfield drilling equipment doubled its manufacturing plant capacity in Singapore. It did so because the tariff savings from the US-Singapore FTA, combined with Singapore's logistics infrastructure and our

competitive costs, made it more economical for it to manufacture here and export to the US. So, even though the tariff saving is only a few percentage points, this has increased its margin and swayed the decision for it to expand in Singapore rather than in the US.

So, overall, I would say the FTAs have added value to Singapore's attractiveness as an investment location.

Let me now turn to some of the other issues raised by Members. Mr Chew Heng Ching has asked for an update of the SBF.

Members will remember that the SBF was set up in 2002 to create an apex organisation to represent Singapore's business interests more effectively, locally and abroad. SBF membership was made mandatory as the earlier practice of voluntary membership by business chambers and associations had not been effective. Compulsory membership will ensure that SBF has a strong membership base, and has the mandate of the entire business community. Compulsory membership of business chambers or business associations at the apex level is not uncommon. France, Germany and Brazil also have this practice.

However, only local companies with paid-up capital and foreign companies with authorised capital of \$0.5 million and above are required to be members of the SBF. Small companies, partnerships, sole proprietors and companies without any employees are exempted. As a result, SBF has exempted some 142,000 companies and another 140,000 partnerships and sole proprietors. In fact, SBF has only a membership of 15,046 which constitutes just 9.6% of all companies in Singapore. So, even though we make it compulsory, through this exemption process, the membership profile of SBS only constitutes 10% of all companies.

Furthermore, if you look at these 15,000 companies, about 11,500 of them have paid up/authorised share capital of less than \$5 million. And, therefore, their annual fees range from \$300 to \$400 per year, or about \$1 a day. So I do not think this is a very heavy financial burden. As you know, the SBF has had only four years of operation. It is young by any standard of a business association. So I urge Members and other businesses to give SBF a chance to develop. In due course, we will do a stock-take and encourage the SBF to find ways where it can provide value to its members.

Let me now turn to the question raised by Prof. Ivan Pang about the performance measures that we use to evaluate the Economic Development Assistance Scheme (EDAS) and also Mr Inderjit Singh's comment about the value of the FDIs that we have attracted to Singapore.

As you know, attracting FDIs is a very important component of our investment and development strategies. Even though Singapore is a capital-surplus country we believe that the foreign direct investment into Singapore is very important because it not only brings in capital but, more importantly, it brings in technology and gives us access to export markets. The Prime Minister also explained during the Budget response that we are in a very different environment nowadays. We are competing for foreign direct investments not just with the other emerging economies but also with the developed countries as well. So the Economic Development Assistance Scheme (EDAS) is a very important tool by which the EDB uses to bring in foreign investments to Singapore. And EDB goes about it in evaluating whether the EDAS is to be used through four key indicators. EDB will look at, for manufacturing, the Fixed Asset Investments that the foreign investor is bringing in and, for services, the Total Business Spending arising from investor's commitments in Singapore. In the evaluation, EDB will also estimate the value-added and also the number of new jobs generated as a result of these investments. As the Prime Minister indicated, as long as all these items are in the positive, generate jobs, create value-add, then we are prepared to provide EDAS and other incentives to bring in the investments.

So over the last five years, EDB attracted \$42.5 billion in manufacturing Fixed Asset Investments and \$10.6 billion in services Total Business Spending. These investment commitments will create a total value add of \$50.4 billion per year and 110,000 new jobs when fully realised. Of the 110,000 jobs created, 71% will be skilled and professional. So it is very important for us that this pipeline of investments continues to give strength to our economy, add to the value-add and help generate jobs.

Prof. Ivan Png has suggested that we consider a tax revenue budget to manage revenue loss through tax incentives. As I have explained earlier, we are in a very competitive environment. We have to compete with both the developed countries, as well as with the emerging countries for such investments. Our tax incentives are also granted by tying the companies to new investments. If we had not provided these incentives, the companies could have taken their investment to competing locations. We would, therefore, not have collected the taxes to begin with. But, nevertheless, we will look at his idea of a tax revenue budget to see whether it can be used to complement our methods of evaluating the investment proposals that we want to attract to Singapore.

The final question I would like to address is research and development. As the Prime Minister highlighted in his Budget debate round-up speech, R&D is a major effort and we are undertaking to transform our economy by building a strong foundation for our sustainable growth and competitiveness. Going forward, in a global knowledge-based economy, competition will not be simply about lowering costs but, increasingly, it is about talent and creating value. So, I think all Members are agreed that building up our R&D capability is, therefore, a crucial piece of securing our economic future. There will be risks, but it is something we have to do. I think what Members are more concerned about is how do we go about investing our R&D funds in a way that will deliver the output that we desire. If you look at R&D, and this is a very complicated subject, based on the interventions by Members, you can see that there is great difficulty in measuring the output of R&D because this is a very long term process. But we have to be bold and we have to take this step to invest heavily in our R&D effort.

Basically, if you look at comparisons among various countries, it is always easier to compare the inputs, the percentage of GDP devoted to R&D or the amount of funds or resources, both the public and private sectors, put into R&D. When you start looking at output, I think the indicators are more difficult to arrive at. The easy output indicators will be, for example, the number of research scientists and engineers that are active in the country. I think, on this measure, Singapore has done well through our successive Science and Technology Plan (S&T). The number of research scientists and engineers in Singapore has progressively been increased. I think that puts us in a very strong position, going forward, because R&D is all about talent and we need to build up our local talent to undertake R&D.

Prof. Ivan Png also suggested other measures. Let me just go through some of them. He suggested using the Multi-Factor Productivity as an indicator. **Prof. Ivan Png** is an economist, I am not, but my little knowledge of MFP indicates that it is not really a measure of productivity alone. So the table he showed is not a measure of the low productivity of Singapore economy. If you look at the productivity parameter, in fact, Singapore has done fairly well. But when you look at Multi-Factor Productivity, this factor is really any GDP growth that cannot be attributed to changes in labour or capital inputs and so it is a very illusive concept and an illusive parameter to measure. Perhaps what we need is a research grant to see how MFP can be used as a way of measuring the competitiveness or the productivity of the economy. But I know that MFP does not specifically measure R&D output. That much I know. But how we can use MFP to measure the effectiveness of R&D, that is something that we have to study further.

Prof. Ivan Png also suggested that we look at the grants that we are able to secure from overseas R&D agencies as one way of measuring performance. I think this is a valid point and, in fact, A*STAR agencies and research institutes have been fairly successful in securing fundings from other national and international agencies, such as the US National Institute of Health, the US Defence Advance Research Project Agency (DARPA), and also from the European Commission. I think this reflects well on us on several counts. One, it shows that our standards of research are high. Two, it shows that some of the areas that we are collaborating in are also in areas which these agencies are interested in. But I will be concerned if we use this as a primary factor of the effectiveness of research

because if we send the wrong signals to our research agencies, if they pursue this factor, then I think what they will be doing is that they will be aligning our research objectives in line with all these agencies in order to get their funding. And I am not sure this is entirely the right thing for us to do because, as a small country with competencies in different areas, we do want our research directed at different sectors. So, this ability to secure fundings from international and other national agencies is a useful way to collaborate, that we are reaching certain standards and that we are doing things right, but I would not want to make this the primary output factor.

I think the main issue that we need to address, going forward, in R&D is, one, we must put in more resources, if we want to be in the game. We have to take the risk. If we are very cautious, we run the risk of losing out. Two, we want to make sure these resources are invested in the right areas and this requires both a bottom-up as well as a top-down process. The bottom-up process involves us tapping a big panel of research experts to draw upon the expertise and to understand which are the areas that we should invest in. The top-down input involves the Prime Minister chairing the Research Council so that he has an overview and that he is assured that the resources are directed at the right areas and that it is not just money chasing after a few big names or encouraging a feed frenzy.

Next, the other key principle is that we want to encourage the leverage of the industries and that is the reason why we target

to achieve two-thirds of the research to be done by the companies, because the companies will know where the commercial potential is, and I think it is one way we can be assured that the research money will be appropriately spent, if we have the partnership with the private companies.

2.30 pm

The fourth principle is that I do not think we can be very far wrong if we invest in talent. So a large part of the S&T plan is to build up our local talent, encourage our students to do PhDs and take up research as a career.

Sir, with all these measures in place, I think we are well poised to go into this programme. The Government has decided to put in resources into this programme and it is our responsibility to make sure that these resources are properly spent, and that we get the best benefit out of these resources.

Prof. Ivan Png Paak Liang: Sir, a clarifying question to the Hon. Minister. He has presented us with magnificent numbers for the fixed assets and total business spending attracted by EDB. Could I ask the Hon. Minister what is the incremental quantity? Some of these investments would have come even if we had not given grants and tax incentives. We really need to understand what is the incremental quantity. Because we have a good Government, we have good infrastructures, and some of these investments would have come any way. What is the incremental amount that came because of the incentives? That is what we need to know.

Secondly, the Hon. Minister has agreed that there is no good measure of R&D. I agree. The best possible one - as far as I know, and OECD uses this - is the growth of multi-factor productivity. The fact that it is hard to measure does not mean that we should duck and not measure at all. If it is hard to measure, we should try to get the best possible measure. We should not just run away from it.

Mr Lim Hng Kiang: Sir, our approach to attracting investments, as I have mentioned

just now, is to evaluate each investment proposal very carefully. And if we can get by without giving the potential investor the incentives, the Member can be assured that EDB and JTC would not do so. So, if we look at our track record, MTI and EDB would generally ask for a significantly large EDAS budget, because we need a fairly significant war chest to be able to go out and promote Singapore and to attract investments. But if we look at the actual expenditure, in terms of equity, grants and loans, we will find that, in fact, it is a very small percentage of the budget that is granted to MTI and EDB. I think this should reassure Members that we adopt a very disciplined and focused approach in our attempts to bring in investments.

We try not to give specific numbers because, as I said, we are in a very competitive environment. Other investment promotion agencies also look at what we are giving and try to top it. As the Prime Minister mentioned, investors sometimes come with a list of proposals on what they are getting from other countries and ask us to better the offer. We are very wary of such tactics and we do not want to fall prey to such tactics.

Mr Inderjit Singh: Sir, on the issue of value add, one thing that has always been on my mind is whether we have ever recovered all the investments that we brought in Jurong Island. Have we been effective in generating value add for the country?

Mr Lim Hng Kiang: On the issue of Jurong Island, I can say unequivocally that it has been a good investment and it has been very good for Singapore.

Entrepreneurship

Dr Ahmad Mohd Magad: Sir, I would like to thank Minister Lim particularly for his extensive elaboration of the many improvements to several existing schemes meant to assist our SMEs. I am sure the SME committee will be pleased with the new announcements.

electricity from retailers in the market. Sir, but this is limited to the larger utility accounts, ie, accounts with consumption of more than 10,000 kilowatt-hour per month. However, savings achieved to date by Town Councils are minimal as most of the utility accounts under the Town Councils do not exceed 10,000 kilowatt-hour per month consumption.

Sir, with oil prices on the up trend and increases in electricity tariff, Town Councils have been facing increasing electricity cost in the upkeep of their estates. It will certainly help Town Councils cope with the increase in utility costs if the Government would expedite the liberalisation of the electricity market to include accounts with consumption below 10,000 kilowatt-hour per month. I, therefore, wish to ask the Minister if he would expedite the liberalisation of electricity market to include the smaller accounts and, hence, allow Town Councils to enjoy lower rates of electricity consumption through economies of scale.

Consumer Protection

Mr Yeo Guat Kwang (Aljunied): Sir, the Consumer Protection (Fair Trading) Act (CPFTA) came into effect on 1st March 2004. Under the Act, financial services are expressly excluded. I hope MTI could amend the Act to include financial services this time.

Sir, there is also a need to look at the setting up of a framework on proper disclosure of information relating to the sale of time-share club and resort membership. In this regard, there is no need for a private Member's Bill to push for new legislation if we could just extend CPFTA to include regulatory framework to enhance transparency in this area.

On enforcement and effectiveness of CPFTA, Sir, CASE would like to highlight that businesses are now taking things lightly as they know that it is expensive for a specific body, like CASE or STB, to take up legal actions against them. Many ignore our invitation for them to sign the Voluntary Compliance Agreement (VCA). As the Act is silent on such delay, errant businesses are taking advantage of such a loophole. We should review the Act.

Sir, the Act should also be amended to protect specific bodies, like CASE and STB, from legal action when they publicise such unfair acts in the media.

Another CASE proposal is to include the introduction of the opt-in practice under CPFTA. I hope MTI could respond positively to all the proposed amendments to strengthen our CPFTA to better protect consumers' interest overall.

Last but not least, CASE would like to urge MTI to consider looking into the possibility of introducing what is commonly called the "Lemon Law". We propose that the "Lemon Law" applies to all consumer goods. Such a law would give the right to consumers to require the business to replace goods that are defective and are beyond repair. We could incorporate the "Lemon Law" into the Sale of Goods Act.

The Minister of State for Trade and Industry (Mr Chan Soo Sen): Mr Chairman, Sir, Mr Lawrence Leow asked the Government to ensure that when we divest companies, we do not create dominant market players that would undermine competition in the marketplace. As a general rule, the Government would observe the yellow pages rule and divest out of business where there is active private sector participation and there is no strategic value to the Government owning such businesses. The state of competition in the industry post-divestment would be a key consideration in any decision to divest

Government holdings, so we proceed with a lot of caution.

In the case of JTC, we have announced on 21st November 2005 that JTC would divest its ready-built industry facilities in certain market segments, including 71 high-rise factory blocks, three business park buildings, one warehouse and 800 units of workshops. Since then, JTC has appointed a financial consultant to formulate a divestment plan, which includes exploring the possible modes of divestment and the implementation timeline. The plan will factor in the need for competitive market forces to work well post-divestment. We expect the divestment plan to be finalised by the middle of this year.

The divestment of these JTC properties will enhance market competition in the provision of industrial space over the long term. Companies will have more choices in the supply of industrial space to meet their various needs, especially in the high-rise factory segment where JTC would divest its 25% market share. Private sector industrial developers will be able to operate flexibly to accommodate industry needs and to provide good customer service. We will monitor the supply of industrial space and provide for an orderly release of industrial land sites through the Government Land Sales programme. This will help ensure that prices do not escalate unduly due to tightness of supply. In other words, we understand all your concerns. We will proceed carefully so that there will not be undue increase in business costs.

Mr Chew Heng Ching asked for a speedier liberalisation of the electricity market so that Town Councils can benefit from choosing their retailers. I believe this call would have resonance in many other sectors too. Since the electricity retail market started progressive liberalisation in year 2001, about 10,000 electricity consumers have become contestable. This includes about 172 electricity accounts that belong to the Town Councils. Town Councils may approach EMA on how to apply for contestability as there are criteria that they have to meet, such as a consumption of at least 10,000 kilowatt-hour per month and other technical requirements. Town Councils with contestable accounts have generally been satisfied with the utility savings achieved. EMA is currently exploring how to leverage on new technology to achieve cost savings in retailing

electricity to smaller consumers so that they can also benefit from contestability. EMA will announce the details once they are ready. Hopefully, it will not take too long.

Mr Yeo Guat Kwang spoke on the Consumer Protection (Fair Trading) Act (CPFTA). I would like to assure Mr Yeo that anything to do with protecting consumer's interest will be positively taken into consideration by my Ministry. In fact, following Mr Yeo's suggestion in the Committee of Supply last year to review CPFTA, MTI has set up a taskforce to do so. The taskforce is co-chaired by MTI and CASE and it includes representatives from consumer and business bodies as well as public agencies. The taskforce has made several useful recommendations, one of which is to extend the scope of CPFTA to cover financial services. So MTI supports this recommendation and is currently working with MAS on the implementation details.

Mr Yeo also highlighted the difficulties faced by specific bodies, such as CASE, in dealing with errant retailers. The CPFTA has clearly laid out the circumstances under which specific bodies can file an injunction order. If an errant retailer refuses to cooperate or sign a Voluntary Compliance Agreement (VCA), I would encourage the specified body to follow through with the enforcement procedures and obtain an injunction order against the retailer. I think this may be a little bit troublesome, but it will send a clear and strong signal that the specified body will not hesitate to act against such retailers. So he may look for a good case on which to implement this procedure.

Mr Yeo also raised a matter on the so-called "Lemon Law". This was something that the taskforce had also considered. But, given the extensive effect of this law and the recent developments in other countries, the taskforce has recommended that further studies be done. MTI will take into account the taskforce's various recommendations and conduct public consultation for the proposed changes to CPFTA regulations.

As far as the regulations on time-share are concerned, complaints against time-share

companies have remained high, with 158 complaints lodged with CASE last year. MTI agrees with Prof. Ivan Png's workgroup that there should be proper disclosure of material information by time-share companies so that consumers can make informed choices. But MTI does not believe that the solution lies in incorporating a code of governance for time-share companies within CPFTA. Such a code is better set by the industry or a consumer body like CASE. The CPFTA is also not designed to have an on-going monitoring mechanism to ensure that the time-share company will continue to abide by a code of governance after a sale. This is better undertaken through an industry, or consumer-led scheme like CaseTrust, where there is an accreditation system to ensure continued compliance.

So, in short, I want to assure Mr Yeo again that, through the mechanism of consultation with CASE, we will continue to improve on measures to protect the interests of our consumers.

The Chairman: We still have some time left before the guillotine. Yes, Mr Lawrence Leow.

Mr Lawrence Leow Chin Hin: Sir, many of the SMEs are concerned that the industrial rental may end up like REITs' play in the retail malls where rentals only go up. So, would the Government consider getting feedback from the users of industrial space, and not rely solely on the consultant's recommendation alone?

Mr Chan Soo Sen: Sir, I would be very happy to do so if Mr Lawrence Leow's Association wants to organise one. I have already told him, during the ASME installation ceremony about a month ago, that I am always ready to go and listen, bringing along the officials who are responsible for the areas that he is interested in.

Dr Loo Choon Yong: Would the Minister of State be able to enlighten the House the mechanisms that he has put in place after the divestment of JTC to the private sector to prevent the industrial property price from going up so high according to market forces when there is a shortage, so much so that SMEs and other manufacturers would find it prohibitive to manufacture in Singapore and, thereby, eroding our competitiveness again?

Mr Chan Soo Sen: We do not believe this will happen. As I have explained just now,

Sir, in many instances, our defence forces have also played other important roles by providing local assistance, doing local projects and even working with local people to ensure that the good image of the SAF and Singapore is projected. I would like to take this opportunity to ask the Minister to provide an update on the SAF's defence diplomacy and perhaps to share with us some of the fruits of such diplomacy.

The Chairman: Dr Tan Cheng Bock is not here. Mr Steve Chia.

Defence Budget

Mr Steve Chia Kiah Hong (Non-Constituency Member): Sir, I understand and recognise the importance of national defence and our armed forces' role in providing peace in Singapore. But I cannot help feeling that we are over spending a bit too much on our defence budget allocation. Considering the total estimate of \$10.05 billion is due for defence alone, that is a whopping 32.8% of our total budget allocation of \$28.6 billion, and 4.86% of projected GDP for FY2006. Compared to other developed countries like the US (3.6%), Britain (2.59%), Japan (1%) and France (1.98%), I think we are spending a tad too high on defence.

Sir, I think the Government should cut it down to below 30% of our budget allocation, and free up more money for the other social sectors, like education. I would also like to hear from the Minister whether we are seeing any increased security and sovereign threat towards Singapore and in Asia, except for Taiwan.

Prof. Ivan Png Paak Liang: Sir, the International Institute for Strategic Studies publishes *Military Balance*. This publication reports military expenditure of 19 countries in East Asia and Australasia. In 2004, we spent 4.7% of GDP on defence. Parliament staff are now distributing a chart which I have extracted from *Military Balance*. Members will see that our military expenditure at 4.7% of GDP places us fifth out of 19 countries in the region. Who were ahead of us? North Korea, Myanmar, Vietnam and Brunei.

Sir, let me give another perspective by comparing us with other developed countries in stable regions. These are all similarly sized. Finland spends 1.3% of GDP on defence; Sweden spends 1.5%; and Switzerland spends 1.0%. Note that these are not NATO countries.

It is easy to spend a lot on defence. Few will challenge defence expenditure, as it sounds like compromising national security. In the current Budget, defence expenditure will increase by 8.5% relative to 2005, and consume one-third of the entire budget.

Sir, Prime Minister Lee has likened our defence expenditure to an insurance policy - the more we are worth, the more we should spend. Let me offer a different analogy - a bank. If a bank holds twice as much money, it does not double the number of security guards. The reason is economies of scale. As the economy grows larger, surely, we can reap economies of scale from defence like every other Government function.

Further, let me echo hon. Members, Dr Ong Chit Chung and Mr Hawazi. Have we drawn the implications of changes in the threats to Singapore? Today, our most dangerous, imminent threat is global terrorism. Yet, we are adding more heavy artillery - a new squadron of F15s. How do these help us to combat Al Qaeda and Jemaah Islamiyah? Indeed, Sir, have we reviewed our force structure accordingly? For instance, last year, the US Army was busy converting artillerymen into MPs - not Members of Parliaments, but military policemen.

Given our tax revenue and investment income, if we spend more on defence, we must be spending less on something else, for instance, R&D. The Government is aiming to emulate Finland and Sweden in R&D spending. Finland spends

3.5% of GDP on R&D, Sweden spends 4%. We spend just 2.25%, aiming to increase to 3%.

Sir, let us be judicious in defence spending. Let us be very sure that every additional dollar spent on defence provides us good value as every additional dollar in education, healthcare, housing and R&D.

3G SAF

Mr Ravindran: Sir, as we move towards the 3G SAF, I beg to differ with the comments of the Opposition Member, Mr Steve Chia. When somebody calls us "a small red dot" or "a little red dot" and somebody threatens to cut essential supplies to Singapore and one looks at the history of Kuwait, how it was overrun by a huge military in a short space of time, I think it bears lesson to us that we must always invest well and invest adequately so that when the time comes, we can all sleep in peace and rest assured that we have a strong defence force to protect us.

Sir, S3G is the way that our armed forces have gone along because that is where the warfare plans are all going. I am proud that we have adopted the right strategy to implement and operationalise the 3G concepts. As I visit our SAF component units, I can see the fruits of our investment. In fact, one clear dividend of the 3G SAF is the ability of our SAF to cut the NS tenure of our NSmen from 2 1/2 to two years.

Sir, with the bigger budget this year, I expect the SAF to accelerate the conversion of the SAF to 3G. Can the Minister please provide us with an update on the transformation of SAF into a 3G force?

Mr Leong Horn Kee (Bishan-Toa Payoh): Sir, under this cut, I wish to raise with the Minister for Defence the following queries: (1) to enquire with the Minister on the further

review under military law. May I ask MINDEF on the outcome of the review? More importantly, could such an incident be prevented and lives saved?

Sir, over all, MINDEF faces the dilemma of walking the tight rope, trying to balance the concern of safety and the operational requirement of training our National Servicemen for war. It is a tough act. I would like to ask MINDEF how does it overcome this dilemma. Are there better measures to enhance safety in training and to improve the culture of safety in our units? How does the SAF fare in terms of casualty in training when compared to other armed forces?

The Chairman: Mr Chiam See Tong is not here. Mr Teo.

[Mr Deputy Speaker (Mr S Iswaran) in the Chair]

4.35 pm

The Minister for Defence (Mr Teo Chee Hean): Mr Chairman, Sir, I would first like to thank the hon. Members for their comments and questions, and for their support and robust commitment to defence.

Mr Ravindran, Mr Hawazi Daipi and Mr Steve Chia have asked for an assessment of our regional security environment. Sir, the geopolitical landscape of the Asia-Pacific region is in a state of flux. The shifts which are now taking place will lead to significant changes in the geostrategic balance. The US remains pre-eminent, with its superior military power, economic strength and political influence. But alongside this is a new reality - China and India, the two Asian giants, are now on the rise. This is reshaping the strategic contours of our region. What is less clear is what shape our region - and indeed the world - will take in the future. The situation will be made more complex by the greater assertiveness of Japan, and perhaps also a resurgent Russia, in the coming years.

China and India have both abandoned autarky and are seeking economic linkages with the world. They are now both major trading and energy importing nations, and their search for foreign sources of raw materials and markets, as well as their dependence on them, can only grow. As a consequence, both China and India now have an interest in the security of sea routes, and of their energy sources.

Southeast Asia is situated at the confluence of major sea routes, and at the crossroads between India and China. The Straits of Malacca and Singapore are now vital lifelines for these two emerging powers, as they are for the US, Japan and the countries in our region. Our region is also a major source of oil and gas. So we can expect that the issues of maritime security and energy security will loom larger in our region and become more critical for the major powers. Singapore, therefore, must have the wherewithal - military and diplomatic - to play a role to contribute to regional security and stability, and also to protect our national interests and ensure our security as the geopolitical landscape evolves.

Singapore and the SAF have, therefore, been playing active roles in multilateral efforts to enhance maritime security. Over the past year, we contributed to developing a consensus among the three littoral states of the Straits of Malacca that while we, the littoral states, have the primary responsibility for the security of the Straits, major user states and other stakeholders have a role to play as well. Also, whatever measures are undertaken to enhance security must be in accordance with international law and respect the sovereignty of the littoral states. Dr Ong asked about the measures to safeguard the Malacca Straits. In the last two years, the littoral states have jointly launched air and sea patrols to demonstrate our commitment to safeguard this strategic waterway. We are also working with the international community through, for example, the IMO and member states, to focus on maritime security in straits, such as the Malacca Straits.

Another major threat to our security is - as Mr Hawazi has noted - that of trans-national terrorism. The list of countries hit by terrorist attacks continues to grow. The

danger is by no means over. In fact, with the terrorists exploiting modern technology to their advantage and organising themselves better to evade detection, the fight will be a long and arduous one. This is a fight that may take many generations, for it is an ideological war that they are waging. The fact that Azahari Husin was killed in Indonesia does not change that. The personalities might change, organisations might morph, but the ideology and objectives remain the same, and there are others, eg, bomb-makers like Nordin Top and their disciples, those who have learnt from them these dark arts, who are still at large. So we still have to remain on our guard.

Sir, Dr Ong Chit Chung has asked if new security threats have brought any changes to our defence policy, and Mr Ravindran asked about the state of our defence relations and defence diplomacy. The fundamentals of Singapore's defence policy are determined by our geography and environment. We are a small island with no strategic depth. We have no hinterland to absorb an attack, and there is no natural buffer between the external environment and our populated areas and economic infrastructure. We are also a maritime nation, critically dependent on the security of sea lines of communications and the freedom of navigation. Our geography - both in the contours and size of our island and in our location in a sometimes turbulent region - is immutable.

Given these realities and the uncertainties of the regional environment, we continue to pursue deterrence and diplomacy as the twin pillars of our defence policy. We have invested considerable resources into building up a defence force that can deter aggression. And, should deterrence fail, the Singapore Armed Forces must be able to defeat the aggressor swiftly and decisively.

At the same time, we have also been enhancing our security by pursuing active defence diplomacy. The objectives of our defence diplomacy are to develop positive and mutually beneficial relationships with friendly countries and armed forces, to contribute to a stable and cooperative regional environment and international order.

On the bilateral level, good defence relations also enable us to overcome our land and air space constraints. Today, the SAF trains in about a dozen countries around the world. We are very grateful to our friends for extending this assistance to us. These overseas training facilities, along with the exercises that the SAF conducts with foreign armed forces, bring significant benefits in terms of enhancing the SAF's operational and professional skills, improving inter-operability with friendly forces, and offering opportunities to benchmark ourselves. Our defence diplomacy also affords us valuable technology cooperation.

The Strategic Framework Agreement we signed with the United States last year provides the framework for Singapore and the US to expand the scope of defence cooperation and work together to enhance regional stability and peace.

We are also nurturing newer defence relationships. Having signed the Defence Cooperation Agreement with India in 2003, we have since been expanding interactions with the Indian Armed Forces. The regular naval exercises over the past decade have now been augmented by air and land exercises for the last two years. With China, my visit last November at the invitation of my Chinese counterpart provided a useful opportunity for developing a better understanding of each other's perspectives on security issues of mutual concern, and it was agreed that we would step up defence interactions.

Bilateral defence cooperation with our ASEAN partners, Thailand and Brunei, continues to be substantive and strong, and from which both sides benefit. We look forward to strengthening the mutually beneficial defence cooperation with Indonesia when the Defence Cooperation Agreement is concluded. This will stand as a strong symbol of cooperation between two close neighbours.

Singapore also continues to play an active role in regional groupings which enhance security, such as ASEAN, the Five Power Defence Arrangements, the ASEAN Regional

Forum and, more recently, the East Asia Summit. We support the creation of the Asean Security Community and will work together with our ASEAN neighbours to realise it.

As Asia opens up, multilateral engagements will become even more important for confidence-building and facilitating dialogue, not just among regional parties but also to engage countries beyond the region which have a stake in the stability and prosperity of Asia. Open platforms, such as the ASEAN Regional Forum, will become increasingly important, now that greater cooperation is required to deal with transnational security issues like terrorism, counter-proliferation and maritime security. The Shangri-la Dialogue, held annually in Singapore since 2002 and which will be held again in the middle of the year, brings together defence ministers and strategic thinkers from around the region and beyond to discuss security issues, to create greater understanding and, hopefully, better consensus as to what can be done.

Singapore has also been an active participant in such multilateral efforts as the Proliferation Security Initiative (PSI), and we work closely with other countries in the fight against terrorism. The SAF organised the first PSI exercise in Southeast Asia last August, which involved 13 participating countries, sending ships, planes and observers. The RSN organised the first sea exercise and other professional exchanges on maritime security issues involving 19 navies of the Western Pacific Naval Symposium. Last year also, the Army hosted a Special Forces conference involving 19 Asia-Pacific countries to enhance regional cooperation in counter-terrorism.

Sir, the SAF has also continued to participate in humanitarian relief and peace support operations. We have deployed KC-135 tankers, C-130 transport aircraft and LSTs to support the reconstruction of Iraq. Right now, one of our LSTs is in the Northern Arabian Gulf - she is on patrol - I just read her report

before coming here - protecting the largest Iraqi oil terminal. Closer to home, SAF monitors are working alongside their ASEAN and EU counterparts in support of the Aceh peace process.

4.45 pm

The SAF has also kept up a high operational tempo with various relief missions. After assisting in post-tsunami relief in Aceh and Phuket at the beginning of last year, the SAF deployed again for relief efforts in Nias in March, and when Hurricane Katrina struck New Orleans in August. Last October, an SAF medical team was sent to Bali after the terrorist attack, and two C-130s delivered aid to Pakistan after the earthquake.

In all these missions, the SAF demonstrated its operational readiness and professionalism. Their swift response and effectiveness in executing these missions were the result of years of steady investment in our people and equipment, and in building up a robust system capable of rapid and flexible responses.

Sir, peacekeeping and humanitarian assistance missions are roles the SAF undertakes to enhance Singapore's national interests and contribute our part as a responsible international citizen. But the SAF's core mission remains the defence of Singapore's sovereignty and territorial integrity, and our vital interests.

Both Prof. Ivan Png and Mr Steve Chia have pointed out that the defence budget takes up a significant proportion of national expenditure. That is so because the Government considers it vital that we have a defence capability which can effectively deter potential adversaries. The Government's strong commitment to ensuring Singapore's security, the calibre of our defence force, and the determination of Singaporeans to protect what is theirs, is the key to our security and survival as an independent country.

A strong defence allows us to pursue the best interests of our country and our people, and to chart our own course steadily and confidently. It is, unfortunately, the lot of small nations to come under external pressure - as we have from time to time. We would not want to have to succumb to such pressure. When there are loud voices raised against us, we must be able to take them in our stride and remain quietly confident. The SAF gives us the political space to chart our own destiny.

Prof. Png has asked why our percentage of GDP expenditure on defence is higher than most other countries in Asia. As I had pointed out last year in response to a similar question, numerical comparisons of defence expenditures are not particularly meaningful. For instance, to say that Vietnam spent almost 7% of GDP on defence while Japan allocated only 1% tells us very little, almost nothing, of the relative defence capabilities of these two countries. And, most importantly, no two countries have exactly the same strategic circumstances. There is geography and history to consider, the surrounding environment to look at. Finland, Sweden and Switzerland believe that they should reap the peace dividend after the collapse of the Soviet Union. The situation in Europe today is very different than it was in the 70s and 80s. At the end of the day, each country has to forge its own path, taking into account its security environment and the unique combination of resources and attributes that geography, demography and history have conferred on it.

I should also point out that military expenditures in Asia have been rising steadily. According to the US Congressional Research Service, Asia is now the largest arms market in the developing world. From 2001 to 2004, five of the top 10 buyers, according to the US Congressional Research Service, were from Asia, namely, China, India, South Korea, Malaysia and Pakistan. Since 2000, some countries have doubled their military spending to modernise their armed forces. Western European and Russian defence companies are finding that the Asia-Pacific is a significant market, not just in terms of quantity, purchasing power but also for increasingly sophisticated hardware.

Prof. Png has made the point that there is no need to spend more money simply

because the economy is growing. Indeed, MINDEF does not take a feast and famine approach. We do not suddenly ramp up spending just because we have a good year nor do we squeeze it down sharply when the economy turns downwards. Our policy has been to put in consistent investments, both in good times and lean years.

It would be too late to start buying weapons and to raise and train forces only when an obvious threat confronts us. Building an effective defence force takes many years and cannot be done in fits and starts. It takes more than a decade to bring a major new capability into service - from conception to bringing the system into operation with fully trained servicemen and supporting infrastructure. MINDEF draws up long-term multi-year plans so that the SAF is built up as a coherent and integrated force. There are checks and balances in the system to make sure that the money is well spent.

Sir, the development of our defence capabilities cannot be directed only at what appears to be the most imminent threat. We should not lose sight of the fundamentals of our geostrategic circumstances just because terrorism is the most obvious threat today. We must remember that our most critical need is still to have a defence force which can deter threats to our sovereignty, enable us to withstand external pressure, and prevail over the aggressor should there be a conflict.

I wish to assure Dr Ong, Mr Hawazi and Prof. Png that at the same time, the SAF has also been strengthening its capabilities for homeland security, and we will continue to do so, working closely with the Home Team to deal with terrorist threats. Among these capabilities, let me mention two. One is the Island Defence Headquarters and, the second, our Chemical, Biological, Radiological and Explosives (or CBRE) units. It is important to know that both these units are not new creations. We did not create them after September 11, 2001. Both have been in existence or development for some two decades. The possibility of low-intensity, unconventional attack was one which we never dismissed and, hence, we prepared for it. We made contingencies to deal with them. When the threat of catastrophic terrorism reared its ugly head in 2001, we were able to build on the existing Island Defence Headquarters, augment it with certain capabilities, and stand it up

quickly as a 24/7 headquarters. We had started building up our CBRE capability in the late 1980s - almost 20 years ago. This included seeking the expertise of some of Prof. Png's colleagues in NUS so that we painstakingly built up a complete capability with operational units suited to operate in our climatic conditions, backed up by laboratories and experts, and based on a solid scientific foundation. This goes to show how important it is to take a long-term view when it comes to developing our defence capabilities; we cannot afford to wait until a threat is upon us. If we had not built up the ID HQ and CBRE units over a long time span, when September 11, 2001 struck us, we would have been scrambling around trying to get things put into place. And I am not even sure that today, just four or five years later, whether we could say that we were satisfied with what we have when we have just spent three or four years doing it .

Sir, MINDEF is fully conscious of our responsibility to use the money allocated to defence prudently and stringently. MINDEF has rigorous checks in our budget process. Acquisition programmes are carefully scrutinised at various levels to determine need, evaluate options, and decide on the most cost-effective solutions.

The rigour and integrity of our system is widely acknowledged by defence analysts. Singapore has acquired a hard-earned reputation as a reference customer. This was why our decision on the RSAF's Fighter Programme was watched so closely around the world. Let me quote a recent observation in the 21st February 2006 issue of *Flight Daily News*, which says, "Singapore's evaluation was widely praised as being thorough, in-depth and comprehensive." In fact, a number of countries, who are considering fighter purchases, have come to our procurement agency to ask us about the processes by which we went through our evaluation. Another article, in the 23rd February issue of *Aviation Week*, noted that for the contenders in the current competition to supply the RSAF a trainer aircraft, "a win . . . will be valuable not only in financial terms. Singapore's preference may well go on to influence other prospective customers worldwide." We could not have gained such a reputation if MINDEF did not have the highest standards of prudence and stringency in our expenditure.

Sir, history has no lack of examples of nations which have fallen to aggressors because they were not prepared or not prepared to be prepared. We all know what happened to Kuwait in 1991. Singapore has no buffer. If deterrence should fail and the SAF is called into battle, it cannot afford to fail in its mission. We will not have a second chance. This is what we mean when we say that our defence spending is our insurance policy. We have to maintain a strong defence now so that we will not have to pay a much higher price in the future. At another level, as the Minister for Defence and, I am sure, this is true for all Singaporeans, we should make sure that if our soldiers, sailors and airmen ever have to go into battle, they have the best equipment and training that we can provide them.

Sir, Mr Ravindran, Mr Leong Horn Kee, Dr Teo Ho Pin and Mr Sin Boon Ann have asked about the progress of the SAF's transformation efforts. I would like to report that we are well on the way to developing the capabilities of the 3rd Generation SAF. The SAF has been experimenting with new operational concepts, capabilities, technologies and training methods.

As I pointed out last year, transformation is a journey and not a static goal. This ensures that the SAF is always ready to face new challenges and can fight and win the wars of tomorrow, not get stuck in the fighting concepts of past wars. As one set of capabilities is delivered, there will be a spiral development to deliver the next set of capabilities. These are the demands of the modern battlefield as armed forces leverage on technology to enhance their edge over potential adversaries. We are fortunate that MINDEF and the SAF have the science and engineering resources in our Defence organisations and industries; and that more than 80% of each cohort coming into National Service are tech-savvy soldiers with A-level, Polytechnic, or ITE qualifications. Our National Servicemen in our reserve forces are also very well qualified and have no difficulty converting to these new equipment and concepts.

Mr Leong Horn Kee asked about the impact of the reduction in full-time NS to two years, for those who previously had to serve 2 1/2 years. As Members are aware, the transformation of the SAF was the key driver that made this feasible. The two-year NS