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**KEYNOTE ADDRESS BY MR LIM HNG KIANG,
MINISTER FOR TRADE AND INDUSTRY,
AT THE SINCPEC CONFERENCE ON
“GROWING APEC ECONOMIES: NEW CHALLENGES AND APPROACHES”,
HELD ON 29 JUNE 2011 (WEDNESDAY) AT 9.30AM AT ORCHARD HOTEL**

Dr Charles Morrison
Chair, USAPC and Co-Chair, PECC

Ladies and gentlemen

1. Let me first thank Dr Morrison for the kind introduction. I am delighted to be here this morning to be part of this discussion on “Growing APEC Economies: New challenges and approaches”. In recent years, the global economy has become increasingly integrated. In this environment, we can no longer carry on in a “business-as-usual” manner. The way companies conduct their businesses must change. In this vein, the way governments formulate economic policies also need to be reviewed.
2. As markets become more interconnected and interdependent, companies will be impacted in two broad ways. Firstly, they will need to know how to harness the skills and resources of different markets in order to compete efficiently. Secondly, the traditional approach to risk management by diversifying across markets will no longer work as developments in one market will quickly affect another.
3. Many were affected by the global economic impact of Japan’s triple-crisis caused by the earthquake, tsunami and the resulting nuclear tragedy. More than three months on, the global supply chain is still affected by the aftershocks of the

crisis. Today, such shocks have become increasingly global, challenging regional and national stability at a greater frequency. In this regard, the need for robust and sound economic strategies is more pressing than ever before.

4. This increased interconnectedness however, also brings with it economic benefits. We have already seen many new opportunities brought about by the increased ability to move goods across borders. Less has been said about trade in services.

Tapping on growth in services

5. The services sector has been an important source of growth, especially in the APEC region. Indeed, in recent years, we have seen tremendous growth in services trade. As a share of APEC's GDP, the services sector accounted for 68 per cent of GDP in 2007¹, an increase from 65 per cent in 1995. The services sector also accounted for 61 per cent of total employment in APEC economies in 2007², demonstrating the importance of the sector as a source of jobs. More importantly, services exports are also growing at a faster pace, compared to merchandise exports. With globalization, rapid advances in information and telecommunications technologies are constantly expanding the boundaries of tradability of services. This means that the potential of the services as a source of growth is constantly growing.

6. In order to tap on such growth, it is important for economies to liberalise their trade in services. Services trade liberalisation will lead to an increase in the ability of companies to transfer expertise across borders, generate new knowledge, and develop new types of service offerings. At the company level, this translates into greater efficiency and effectiveness in the provision of services; at the economy level this means that greater productivity gains can be achieved. In fact, while the services sector has often been thought of as the "graveyard for productivity"³, research has demonstrated a link between services trade liberalisation and dynamic

¹ Source: StatsAPEC. 2007 is the latest available data year for *Services Value-added as a share of GDP*.

² Source: StatsAPEC

³ Source: "The Service elevator", *The Economist*, 19 May 2011

productivity gains arising from increased competition and transfer of technology and know-how.⁴ While it is difficult to isolate and quantify the exact impact of services trade liberalisation to GDP growth, the positive correlation between the two is irrefutable. Research has shown that the global liberalisation of services trade is projected to bring about up to 2.3 per cent of real GDP gains by 2025⁵.

7. Nonetheless, services trade liberalisation alone will not drive economic growth and development. To achieve robust growth and increased employment within an economy, it is essential to build a balanced and diversified economic structure. It is therefore crucial for economies to continue growing key economic sectors, such as the manufacturing sector, even as they ride on the burgeoning growth in the services sector. Synergies and linkages between key sectors like manufacturing and services will allow them to reinforce each other's growth over the longer term. Spillover effects from manufacturing activities also serve to generate business, value-added and jobs for the services sector.

8. Conversely, growth in the services sector can bring about positive synergies in the form of stronger manufacturing growth⁶. Economies traditionally focused on trade in services are now also seeking to raise the contribution of their manufacturing sector in recognition of the importance of a balanced economic structure. In the case of Singapore, our efforts to grow our manufacturing sector has had the added benefit of making the Republic a more attractive location for companies to locate their corporate headquarters, and to conduct design and Research & Development functions here. This in turn is supporting the growth of a range of services sector, including financial, legal and other professional services.

9. An integrated and balanced growth strategy between key sectors like

⁴ In a study ("Productivity Effects of Services Trade Liberalisation: Evidence from Chinese Firm-level Data, 2010) conducted by the University of International Business & Economics, and University of Adelaide, service liberalization and service outsourcing is seen to cause a significant increase in total factor productivity of firms in China.

⁵ Source: "Quantifying the benefits of services trade liberalization", by Australia's Centre for International Economics, June 2010

⁶ Source: "Malaysia Productivity and Investment Climate Assessment Update", Study by World Bank, 2009

manufacturing and services is important. The key is in identifying the ideal mix of economic activities that would generate the most amount of growth in any particular economy.

Relevance of APEC in addressing new challenges

10. The emergence of a global community has intensified the "butterfly effect". Through recent events, we are seeing how decisions and actions of one economy can, and will potentially influence the decisions and actions of another. It is now more important than ever to stand together and develop coordinated approaches in addressing issues of such a global scale and impact. The challenges we face today are increasingly complex and international and hence call for even greater regional cooperation.

11. APEC is an excellent platform to conduct such efforts for regional cooperation. This is a fora that has been widely known to be the forerunner in tackling new and emerging trade and investment issues, beyond those addressed in WTO and conventional FTAs. APEC's non-binding nature has enabled it to become an effective platform to discuss many of the current issues the global community faces today.

12. For example, the ongoing work to address Next Generation Trade and Investment issues demonstrates APEC's ability in bringing economies together for frank and open discussions on some of the newer global economic issues. Also, APEC members recognise that Small and Medium-sized Enterprises (SMEs) need to internationalise to stay relevant in the global economy. As such, APEC economies have committed to examine ways to increase the participation of SMEs in the global production and value chain.

13. APEC has also demonstrated itself to be responsive and adaptable to the changing needs of businesses. The APEC Supply Chain Connectivity Initiative is such an example. With supply chains evolving and their interconnectedness growing,

APEC has expanded its focus to address behind-the-border issues, in addition to looking at at-the-border issues, such as Customs procedures).

Conclusion

14. Increased interconnectedness and integration of the global economy offer boundless potential for growth in trade and investment, as long as we ensure that our markets are open and able to trade freely. Global challenges call for global solutions, and underscore the need for regional cooperation. APEC's diverse membership positions the grouping well to explore new ideas that encompass and address concerns from both developed and developing economies. We should continue to leverage APEC to socialise, incubate, and develop new ideas and solutions, to face the complex challenges we have today. In turn, such cooperation and collaboration will contribute to liberalising trade, towards greater economic growth for all.
