Prime Minister's National Day Rally Speech

INTRODUCTION

In less than seven years we will enter the 21st Century. It will be a different world. Since the Berlin Wall came down in 1989, global competition has shifted from politics to economics.

The overall picture is one of enormous vitality within the Asia-Pacific region, coupled with economic problems in the West. These global changes will massively influence our future. We have to understand them even as we worry about COEs, health costs and other problems. Otherwise they will overwhelm us, and make our current domestic problems irrelevant.

RAPID DEVELOPMENT OF THE REGION

China

Asia is transforming itself into a developed continent like Europe. Within Asia, China is fast becoming an economic heavyweight. It is converting its giant command economy into a free-market economy, open to foreign investments and trade. This transformation is of historic proportions. It is not just the physical, economic metamorphosis which impresses but the mental and social revolution as well.

Mao's approach of equal rewards for different abilities and contribution went against human nature. For 40 years, the Chinese population ate from the iron rice bowl. Initiative was suppressed because there was no incentive and reward for it. Instead, there was the risk of punishment for failure. The current "opening to the outside world" is like opening the windows of a long closed-up room. There is a new wind and the Chinese are sweeping aside the iron rice bowl mindset.

I first visited China in 1971, during the Cultural Revolution. I was then working for Neptune Orient Lines. We were trying to charter our ships to China. It took several months to secure an appointment, and 3 to 4 days to travel to Beijing. First, we had to go to Hong Kong to apply for a visa at the China Travel Service. This meant at least two nights in Hong Kong while our passports were processed at Guangzhou. Then we took a slow train to Guangzhou, stayed overnight, before flying to Beijing, and only if the weather was good. If the weather either at Guangzhou or Beijing was bad, we would have to wait another day. Today, you can fly from Singapore to Beijing in 6 hours, regardless of the weather.

In the Seventies, hotel guests were fed but not served. Breakfast, lunch and dinner were at fixed hours. Breakfast from 7.00 am to 8.30 am, lunch from 11.30 am to 1.00 pm, and dinner from 6.00 pm to 7.30 pm. When we arrived early, we found the dining room shut. Once we arrived late, and found the doors even more tightly shut.

The Chinese are now as entrepreneurial and business-minded as any Singapore businessman. 10 years ago, they did not understand the concept of profit. It was a dirty word. Now, teaching the Chinese how to make money is like teaching ducks how to swim.

China's economy is huge, because of its vast population. At the market exchange rate, its GDP of US$440 billion is 13% of Japan's. But this understates its real purchasing power. Things cost on average 6.5 times less in China than in Japan. So if we compare the two economies in terms of purchasing power parity, China's GDP is really 10% bigger than Japan's.

China's development is drawing in huge amounts of investments, some of which would otherwise go to other Asia Pacific countries. Last year, the volume of foreign investments in China was US$58 billion, almost double the total received by ASEAN (US$31 billion). Blue-chip Japanese companies like Honda, NEC and Shiseido, are investing in China. American firms like General Electric and IBM are planning to invest. Malaysians and Thais are also rushing in.

China will face many difficult problems in its development, such as the present overheating of the economy, the lack of a proper legal framework, the restructuring of unprofitable state-run enterprises, and the establishment of an efficient civil service. But I believe that

China will eventually overcome them. There will be ups and downs, but over the long term the growth trend will be upwards. Perhaps it cannot sustain 8% growth year after year, but it should be able to make 5% per year for three decades. That will shift the economic centre of gravity of the world from the West to the East. Overall, China's success will make it a strong economic competitor, but it will also be a very positive development both for the region and the world.

India

China is not the only populous country to have opened up. India began cautiously to deregulate its economy two years ago. Despite political difficulties, Prime Minister Rao and his Finance Minister, Manmohan Singh, are determined to open up India's heavily regulated economy, based on state-planning and self-sufficiency. The results so far are not as dramatic as China's, but still respectable. In 1992, India managed growth of 4.2%. Inflation dropped from 17% to 6%, and foreign exchange reserves grew to nearly US$7 billion.

What is promising is that even Indian businessmen who are used to a protected market realise that India must open up and welcome foreign investments in order to progress. Presently India does not attract much foreign investment. But the climate for investment has already changed. New projects used to take several years to get approved. Now, they take only a few months. As India continues to liberalise, the volume of investments will go up.

Back in 1977, India expelled Coca-Cola during a period of socialist self-reliance. Now Coca Cola is back in India. Moreover, Coca-Cola got permission from the Indian government to own 100% of its operation, which previous Indian governments would never have agreed to. It is one sign that India is re-entering the world economy.

Centres of prosperity are already appearing in India. Bangalore on the west coast is one example. It has developed a successful computer and software industry. It is India's Silicon Valley. EDB has been there. A Singapore consortium is considering investing in a software park there with a major Indian company.

The main obstacle to reform in India is the mind-set of the people. Finance Minister Manmohan Singh commented that Indians expect that:

> "Governments had some magic formula to remove poverty, that (they) were passive spectators.
>
> What we are doing is to emphasize that government has at best a catalytic role to play, that its role is not to meddle in trade and industry but in such activities as education and health care".

In other words, the people must create their own wealth; the government can only create the conditions for them. This is what we have always said in Singapore.

If the Indian Government can change the people's mind-set and get its bureaucracy to actively support market-reforms, India will take-off. I shall visit India later this year, and bring some businessmen along with me. I hope to spark off a mild "India fever".

Vietnam

Vietnam has 70 million people, twice as many as South Korea. It has abundant natural resources, and a hard-working and very cheap labour force. Its people are still very poor, its bureaucracy weak, and its infrastructure out-dated. This is to be expected after decades of war. But it is also promoting economic reform, "doi moi" as they call it. The Vietnamese are talented and very determined. They will progress quickly once America lifts its embargo on trade and investments with Vietnam.

Already American businessmen are visiting Hanoi in increasing numbers. IBM has opened a representative office. US firms like Boeing, Bank of America, General Electric and Chrysler, have lobbied the Clinton Administration to remove the embargo. They worry about losing out to their competitors from Japan, Britain, Germany, France and Australia.

The US has already dropped its opposition to international bank loans to Vietnam. I expect President Clinton to let the embargo lapse when it expires in November this year. Once this happens, American corporations will rush into Vietnam for a piece of the action.

We are well-placed to do more business with Vietnam. We are already Vietnam's biggest trading partner. Our businessmen have invested more than S$380 million in Vietnam. The Vietnamese Prime Minister has invited me to visit. I will go early next year.

Indonesia

Indonesia has been liberalizing its economy, progressively but cautiously. The developments in the region are drawing a response from Indonesia. It has no choice but to compete for foreign investments.

Recently, the Indonesian State Minister of Investment said that Indonesia's foreign investment declined by 30% this year. He attributed it, among other things, to growing competition from Vietnam, India, Myanmar and Bangladesh, which are now more aggressive in attracting foreign investment. He said that Indonesia planned more economic deregulation, including simplification of investment procedures. Professor Ali Wardhana, Senior Economic Adviser to President Suharto, at a conference in Bali a few days ago, expressed the need for improved competitiveness to maintain its rate of development and attract foreign investment.

Indonesia has political stability, a sound economy and a headstart over China, India and Vietnam. If it opens up its economy further, it will sharpen its competitive edge against these countries. Singaporeans should look beyond Batam, Bintan and Karimun in the Growth Triangle, to other parts of Indonesia.

REGIONAL DEVELOPMENT AND ITS IMPACT ON SINGAPORE

There are immense opportunities and challenges for Singapore and Asia as Indonesia, China, Vietnam and India take off after Malaysia and Thailand. These four countries have a population of 2.3 billion, or 42% of the world's population. Barring unforeseen circumstances, they should grow steadily for the next 20 years. Asia will be completely transformed. There will be plenty of investment and trade opportunities. Singapore, right in the centre, can be the Switzerland of Asia in terms of living standards. But there are also challenges, because the stronger the economies of other Asian countries, the more competitive they will be. They will compete with us for investments, first in semi-skilled industries, and later in skilled and capital-intensive industries. They will also compete strongly with us for jobs in the world market. I will come back on this later.

DIFFICULTIES IN DEVELOPED WORLD

I must also caution that outside our region, the developed economies are facing serious difficulties. This will affect our economic growth. We are more heavily dependent on the developed countries than on our region. 43% of our domestic exports go to the US and the European Community, whereas 10% go to Japan and China. Last year, the West accounted for two-thirds of our foreign investments, with the US alone contributing 43%. The slow recovery of the developed countries from recession will eventually affect us, although this year we have been doing well despite their problems. The 24 OECD countries had 3 years of economic downturn and high unemployment. While a moderate recovery is projected for 1994, it is uncertain, especially for Europe.

Their biggest problem is chronic, stubborn high unemployment. Millions are out of jobs. In Europe, half of the unemployed have been out of a job for more than a year. The problem is so serious that the G-7 Summit in Tokyo decided to convene a Jobs Summit to deal with it. Creating jobs is now the Number One task of the industrialised countries.

In the US, there is economic growth and new jobs are being created, but still the unemployment does not come down. The Americans called this phenomenon "jobless growth". The reason is structural: many jobs have gone to developing countries where costs are cheaper. Other jobs are lost through automation. Technology has created new jobs, but those who are unemployed do not know how to do them. The developed countries also suffer from labour and wage rigidities, the result of entrenched over-generous social programmes which not only cushion the workers from the misery of unemployment, but also insulate them from the harsh realities of a changed world.

Albert Winsemius wrote a recent letter to Senior Minister Lee Kuan Yew, on the parlous state of the Dutch welfare system. Dr Winsemius was Singapore's economic advisor in the sixties and seventies. In his letter, he wrote:

> "Especially in the social field consecutive governments have lived beyond their means. The result is that out of an economically active population of around 6.5 million:
>
> - 300,000 are sick under the sickness insurance (the rest of the Netherlands is quite healthy, according to any statistic; as soon as they are under the insurance, they become deadly sick).
> - 900,000 are disabled, and not fit for work (this figure has been pushed up enormously through a cooperation between employees and unions; in case of inevitable dismissals they have been cooperating in pushing the workers into disability which pays more than unemployment insurance);
> - 200,000 potential active workers are under psychotherapeutic treatment;
> - 600,000 are unemployed;
> - 300,000 are supported by the government because their income is considered to be insufficient."
>
> "All told, about one third of the economically active population is some way or other supported (legally) by government. Taking into account the number of government employees, 60% of the economically active population depends some way or other on government salaries or benefits. Only about 40% is working in the competitive market economy."

Britain has a similar problem. In 1979, 600,000 workers claimed disability benefits. In 1993, 1.5 million are doing so. It also has unemployment benefits which run indefinitely. Last month, the Chancellor of the Exchequer said: "Labour markets are the crux of Europe's woes — over-rigid, over-regulated, and over-priced".

This welfare mind-set in the West is difficult, perhaps impossible, to change. It is too entrenched. In a recent poll in France, 82% approved of unemployment handouts even for people not looking for a job or making an effort to acquire a new skill. The former French Prime Minister, Michel Rocard, put it succinctly:

> "French society is now organised around a refusal to reform".

This is troublesome. It means that Europe will not restructure its economy in response to Asia's competitiveness, and will become more protectionistic. Political leaders see Asia as a threat to European jobs. Politicians clamour for "managed trade" with Asia. They argue that developing countries are competing unfairly with the developed world because of their minimal social programmes and lower environmental standards. The sentiments are especially strong in France. They are not surprising considering the continuing economic problems of the West. But they are a bad sign for us. The West will be less willing to keep their markets open to free trade. They will also have less resources to invest in Asia.

PRESS ON WITH SPROUTING A SECOND WING

Luckily for us, Asia is growing rapidly. We can ride on the growth of our neighbours and develop our second wing quickly. We have good relations both with our neighbours and with the developed economies. If we are alert to opportunities and make ourselves useful to other countries, we can grow with them.

We should exploit our advantages. We understand the languages of both the West and East — English, Mandarin, Malay, Tamil and several dialects. We are equally at home with both western and eastern cultures, customs and business practices.

But most important of all, Singapore has the reputation of being reliable and effective. This is a valuable attribute which we must preserve at all costs. Never allow the abundant opportunities in the region to blind us into taking short-cuts and betray people's trust. Never take advantage of others who are learning from us. As the Shandong Governor put it when we discussed competition for investments between the provinces:

> "There are many clever people in China. Some are clever in a small way (xiao chong ming). Others are clever in a big way (da chong ming)".

He meant that in doing business, one should think of long-term relationships and not short-term gains. Let us be "da chong ming". Then we can ride the economic wave of Asia successfully and become a developed economy by the Year 2000.

PERCEPTIONS OF SINGAPORE'S CHINA POLICY AND NEED TO MAINTAIN SINGAPORE IDENTITY

There is now a China fever in Singapore. But as I have urged several times before, going regional does not mean going only to China. We must also spread our wings elsewhere, to Indonesia, India, Vietnam and other countries in the region. Our increasing ties with China must not be misunderstood, whether by our neighbours or by non-Chinese Singaporeans, as Singapore becoming more Chinese.

Singapore and China are two different countries with different commitments. We are on good terms, but we are two distinct countries. Our links with China are business links, based on mutual interest. They cannot be kinship ties, based on ethnic sentiments. We do business with China to promote Singapore's interests, which of course includes helping China's free market reforms. But we do not expect China to compromise its national interests to benefit us, and the same goes for Singapore.

Singapore is a multi-cultural, multi-religious society. We are developing a common Singaporean national identity to unite the different races and religions, and to give all communities the space to live the way they wish to and the chance to play equal roles in Singapore. We must never change this fundamental policy. We should by all means make use of our knowledge of the Chinese language to do business in China. But we should never make Indian or Malay Singaporeans feel side-lined or pushed aside in Singapore society.

We must retain our unique, distinct Singaporean identity as we go regional. English will remain the major language of administration and communication. It is the common language for us. But all ethnic groups will keep their mother tongues and cultures. Our policy of bilingualism, encouraging each community to preserve its own language and culture, and emphasising shared national values, has been the right formula for building our multi-racial, multi-lingual and multi-religious society. So long as we keep this formula, Singaporeans will remain distinct from the countries where our ancestors came from, whether it be China, India, Indonesia or Malaysia.

MAJOR CHALLENGES

The next few years look bright because the vigour in the region more than offsets the gloom in the west. But we face major challenges.

Stronger Competition for Jobs and Investments

If the region does well, we will face increased competition for investments and jobs. The more competitive our neighbours are, the harder we must work to attract the same investments as before.

Over a year ago, EDB tried to attract an American MNC producing computer memory disk to invest here. We lost the project to Penang. Had we not lost, the company might have invested some US$80 million over five years. In a way, this loss was good for us, because it warned us of the tougher competition ahead.

Let me give another example. MNCs have International Procurement Operations (IPOs) to buy electronic parts and components from countries in this region. Last year, IPOs in Singapore spent $3.1 billion, down by 5% from 1991. On the other hand, the amount IPOs bought from Malaysia, Thailand, Indonesia and the Philippines increased by 48% from 1991, and exceeded $1 billion for the first time.

It is a constant struggle to stay fit, strong and alive. Economic competition is a harsh fact of life. It is like sumo wrestlers jousting for top place. You throw one sumo wrestler out of the ring, there is another sumo wrestler waiting to get in. The only way to avoid both competition and defeat is to retire from wrestling, and give up the prizes of victory. I don't think Singaporeans want to do that.

Relocation of Companies and Transformation of the Singapore Economy

The second challenge: modern technology, telecommunications and transportation mean that companies can now locate and relocate at will to where production costs are cheapest. This trend means that some jobs will be lost in Singapore. We must find ways to retrain and re-employ those who are affected.

Look at Hong Kong. Many Hong Kong companies have already moved their factories to China. Thousands of blue-collar jobs disappeared. Now, they are even relocating some of their white collar and clerical work outside Hong Kong to save on rental and high wages. Hong Kong and Shanghai Bank is doing it. Cathay Pacific Airways plans to set up a data processing centre in Guangzhou. It is also relocating its main computer centre to Australia by 1996. Why Australia? According to CPA, the cost of land in the outer suburbs of Sydney is around one per cent of the cost of land in Hong Kong.

I understand that DBS Bank has moved its computer operations to Tampines to avoid expensive office space in Shenton Way. There is no reason why this cannot be shifted to another country with computer capabilities, if costs become too high in Singapore. All that is required is an efficient telephone network.

Many Singapore factories have in fact relocated part of their operations to Batam and Johor. More are planning to do so. The NTUC is rightly concerned over this trend. Lim Boon Heng told me that the Metal Industries Workers Union was particularly worried. The Union gave me examples of seven companies which have shifted part of their operations as the result of the Growth Triangle.

Six were MNCs, and one, a local company.

The workers whose jobs disappeared were deployed to other jobs. Companies provided on-the-job training. Nevertheless morale dropped. The older workers, in particular, found it difficult to acquire new skills. Some had to work under workers who in the past were junior to them. Others found that their skills were too specific and could not secure alternative employment at the old salary. Even some workers who were not directly affected began to worry about losing their jobs as a result of relocation.

But we cannot prevent these companies from relocating. Without the Growth Triangle, it would be worse because these companies would have gone further away to China, or to other parts of Malaysia and Indonesia where wages and other production costs are lower.

I am very encouraged that the Metal Industries Workers Union understands the problem and is responding in the right way. It does not have the rigid mind-set of European unions. Its Executive Secretary, Mr Ong Chin Ang, wrote a note to Lim Boon Heng. He is a young man, aged 39. He graduated from Nanyang University in 1978 and has since worked for NTUC as an Industrial Relations Officer. He wrote:

> "So far, the potential magnitude of relocation has escaped the attention of many of us. Those thrown out of work are likely to find abundant job opportunities awaiting them because of our labour market condition."
>
> "Our workers do not see the urgency for higher skill training as unemployment rate remains low in the country. To ensure that our workers remain relevant, the only key is skill upgrading. ... With the increasing trend of relocation ... jobs that remain are those that require a higher calibre of people.
>
> We must therefore build a workforce that is skilful, willing to learn and ready to adapt to new changes. Investors are here to get the

highest returns, our people must therefore provide the best value for money to the investors."

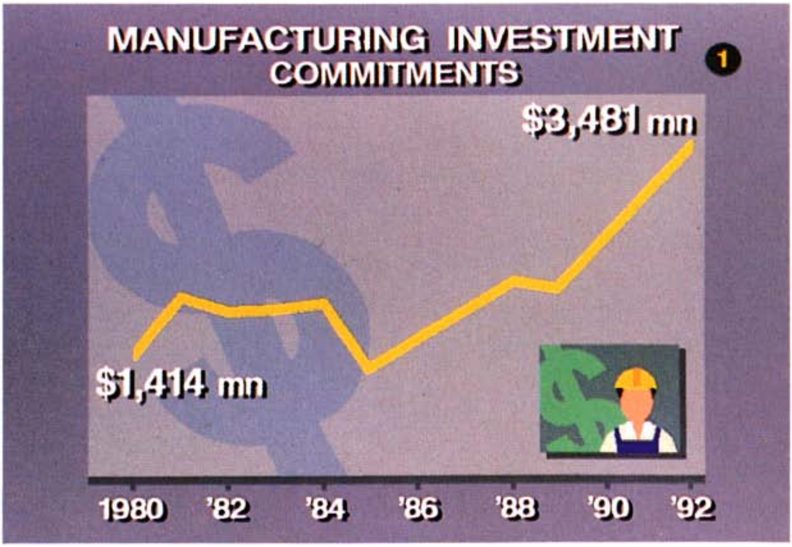
Mr Ong shows insight. Relocation of industries is a hard fact of life. Unpleasant but still a fact. I can understand the thinking of older workers, especially those in their mid-40s and early 50s. Why must they push themselves so hard? After all, CPF can be withdrawn in another 10 years or less. Why spend the off-hours going back to school? What promotion can I get at this age? Better do a second job instead.

It is hard to think of re-training, I know. At 52 years old, I am spending more than 8 hours a week learning Mandarin and Malay. But I must, if I am to do my job properly. And I know of many secretaries in their forties who have to learn how to operate computers. They must or they will be out of a job. I hope those of you who are as old as me will think of upgrading your skills. Otherwise when your company wants you to do something more advanced and you cannot, you will suffer retrenchment.

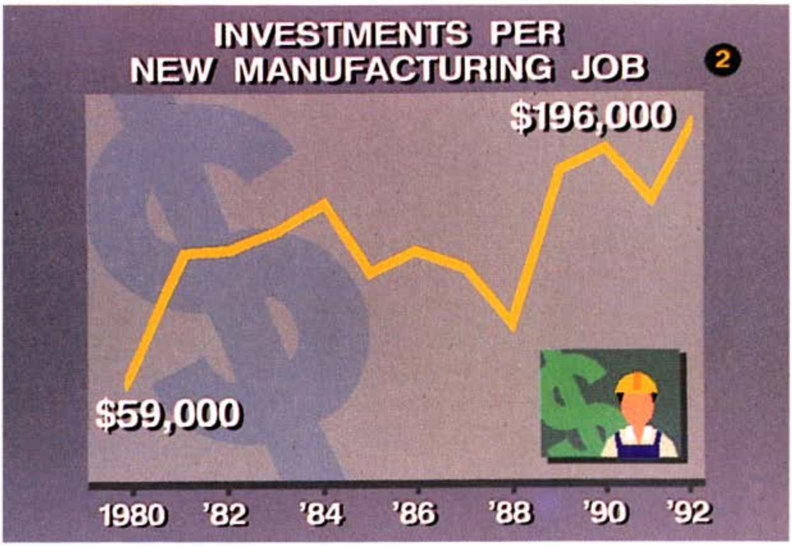
There were two news stories over the National Day period which made me happy. Straits Times reported the story of Ker Siong Pang, a machinist who earns $1,200 a month. At 41 years old, he attended night classes twice a week at ITE in tool-room machining. SBC reported the on-the-job training programme at Toppan Printing where two men in their 40s enrolled in the company's on-the-job training programme. After-hours training was difficult for the men because of family commitments and embarrassment about being in a classroom after such a long time. The training centres at NPB, NTUC and ITE can work out flexible programmes but, in the end, it is the worker himself that must be willing to go for retraining. Don't be caught like many workers in the West who have not been retrained and whose jobs have gone forever.

Ong Chin Ang is right to warn of size of relocation problem. EDB's investment figures confirm the trend towards more capital intensive, technical jobs. Our investment commitments have increased.

But it now takes more investments to create one job.

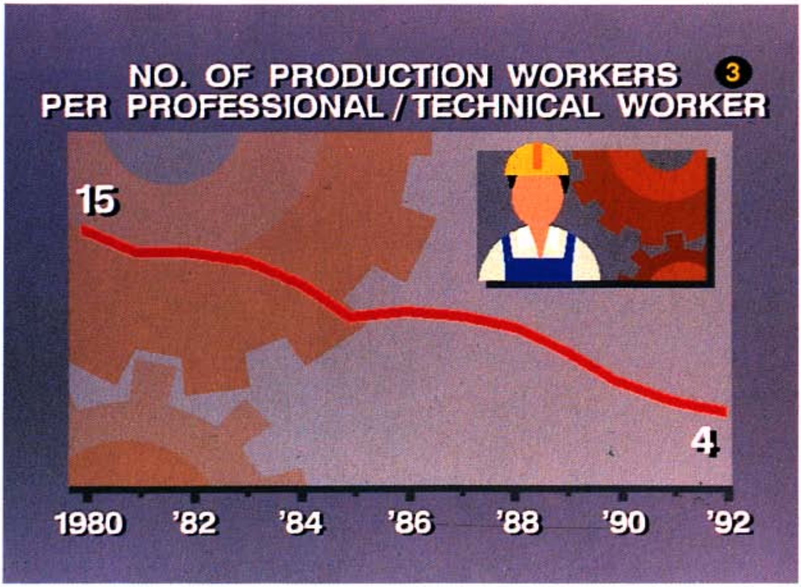


- Went up 2½ times from $1.4 billion in 1980 to $3.5 billion in 1992.



- 1980 — $59,000 to create a new job in manufacturing. 1992 — nearly 4 times as much.

And more professional and technical jobs are being created than production line jobs.



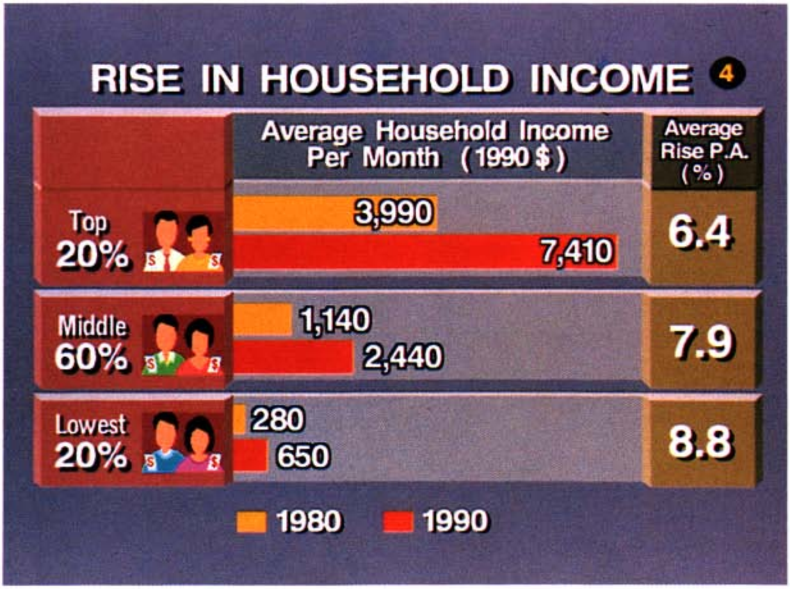
- Ratio has fallen sharply from 15 to 4.

The manufacturing sector currently employs just over 400,000 workers, or 26% of total workforce. The changing pattern of employment in the manufacturing sector will have social and political repercussions. We must help displaced workers from the manufacturing sector find suitable alternative employment. We must also be aware that the income gap between skilled and unskilled workers, and between the top 20% and the bottom 20% income groups will widen.

Income Distribution in Singapore

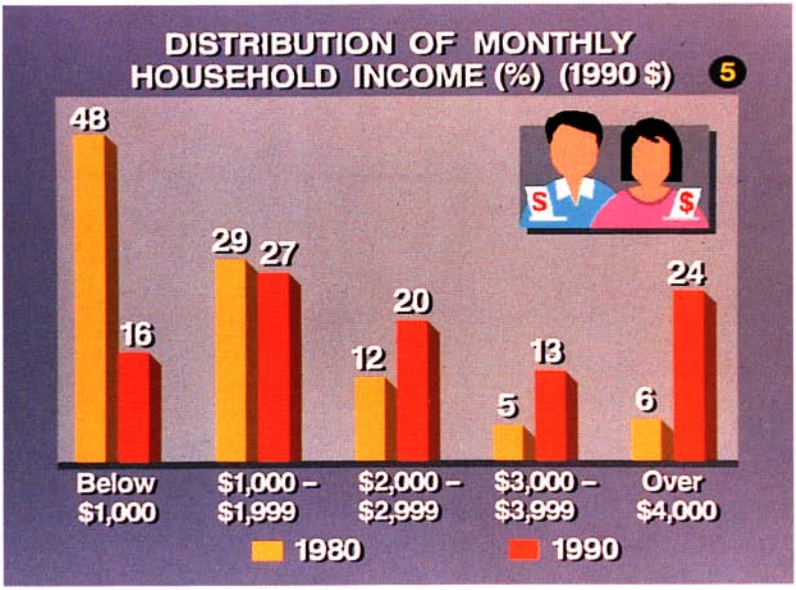
There has been recent concern over the widening income gap and the political and social problems this will bring. What is the true picture? Has the gap been widening? What does the future hold?

Up to now, income distribution in Singapore has been stable. The gap between rich and poor has not widened, in fact it has narrowed.



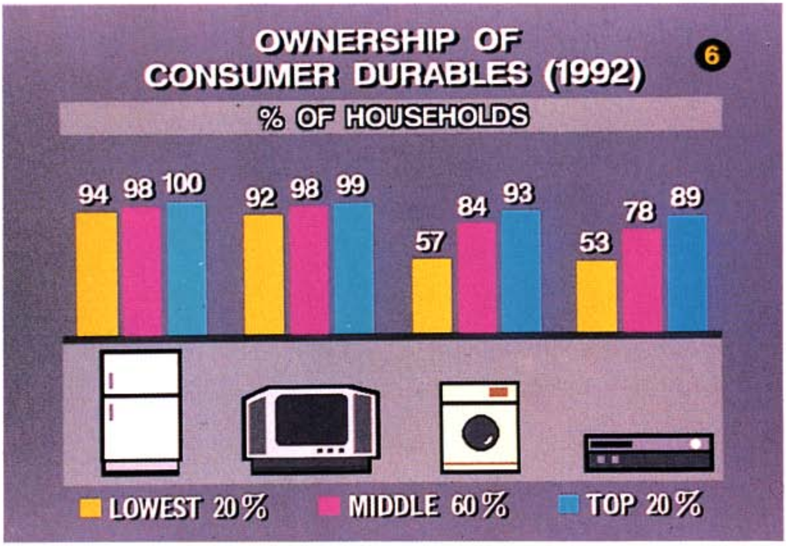
- Incomes of lower and middle-income households have risen faster than those in the top 20%.
- Average income of the top 20% was 14 times that of the lowest 20% in 1980. For 1990, it was 11 times.

In absolute dollars, after correcting for inflation, incomes have gone up enormously for all groups.

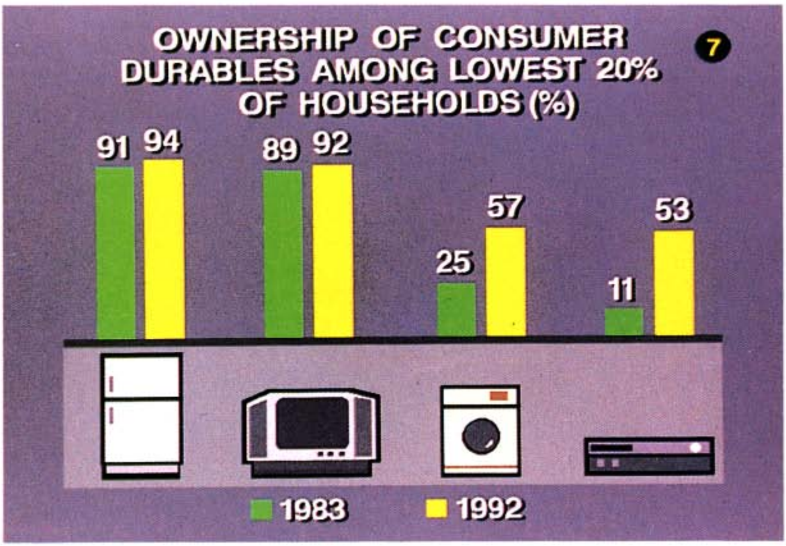


- Comparison is in 1990 dollars.
- The proportion of households earning less than $1000 has fallen from 48% in 1980 to 16% in 1990.
- The proportion of households earning more than $4000 per month has risen from 6% in 1980 to 24% in 1990.

Higher absolute incomes have been translated into higher standards of living. Ownership of all kinds of consumer durables has gone up, even for the lowest 20% of the population.



- Refrigerators and televisions have become essential items.
- Washing machines and VCRs will soon be regarded as essential items.



- Numbers have gone up, especially for washing machines and VCRs.

The data on income distribution show that we have narrowed the income gap. But this is up to now. For the future, if present trend towards more globalisation continues, the gap between the earnings of the top 20% and the bottom 20% will widen. The earnings of the top 20% will go up faster than the wages of the bottom 20%. The causes are global and outside our control.

The world is no longer divided into two ideological camps — communist and non-communist. Former communist countries and their allies are now switching their economic system to the free-market system. Non-communist countries which hid behind high tariff walls are also opening up their economies. These countries which were outside the mainstream of the international trading system are now integrating their economies with the global system. They have no choice. For the first time since 1914, practically every country is a player in a single global market.

This has massive implications. Billions of people are now competing for jobs worldwide. Most of them are unskilled. It is as though we have lifted our control on foreign workers in Singapore and abolished the Foreign Worker Levy. Imagine millions of unskilled workers looking for jobs in Singapore. Wages of unskilled Singaporeans must go down.

In the new world economy, almost everything is transferable — capital, factories, technology, natural resources. Only two resources are not transferable — infrastructure and people. But even though we can keep low cost workers out of Singapore, we cannot prevent them from competing against us elsewhere. Factories and investments will move to countries with abundant labour and cheaper costs of production. Wages of workers will become equalized at the international wage level for unskilled workers. If a country pays higher wages because of minimum wage legislation or disability benefits, that country will lose jobs to other countries where wages are lower.

Singapore has been lucky because we have been able to develop on the backs of multinational companies before China, India, Pakistan, Vietnam and the CIS joined the international economy. But we are now in a similar situation as the developed countries. The wages of our workers are higher than those of our neighbours.

There are now more than 2 billion workers in China, India, Indonesia and Vietnam competing directly with our workers. Not to mention Pakistan and Bangladesh. There is an abundant supply of cheap, unskilled and semi-skilled labour for production-line operations.

But there is a world-wide shortage of entrepreneurs, managers, engineers, architects, computer personnel, bankers and other professionals. This shortage is likely to remain for 30 to 40 years, until China and the other countries are able to produce them in big numbers. Hence, for the next 30 or 40 years, the earnings of these people, those in the top 20% income group, will continue to grow.

Income gaps between the higher educated and lower educated have already widened in the developed countries. US college graduates earned, on average, 44% more than high school graduates in 1979, but 82% more by 1987. In the US and UK, the gap between the earnings of the top and bottom 10% of full-time workers widened by more than 20% from 1979 to 1989. These trends foreshadow a similar trend for Singapore.

I have spent some time on income inequality because the perception that income distribution is unfair can be very divisive. In every election, opposition politicians have distorted this issue and worked up emotions. They played the politics of envy to get votes. Our social cohesion is a key strength of our society. It gives us the competitive edge over developed and developing countries in attracting investments. If opposition politicians play on this issue and succeed in arousing resentment, our social cohesion will be torn apart. Class resentments will make each group less co-operative with other groups, and the result will be lower growth and a poorer life for all.

How can we reduce this gap between rich and poor, and make incomes more equal? Not in a free market economy; not by passing legislation to cap wages at the top, or to guarantee minimum wages to lower income groups. Those whose skills, knowledge and managerial ability are in demand will earn more than those without these abilities. Hawkers who sell the best "bak-kut-teh" or "you-tiao" will earn more than other hawkers. They will charge more for their "bak-kut-teh" or "you-tiao", and customers will still queue up to buy. Some hawkers live in HDB rental flats. Others drive Mercedez Benz cars and wear gold Rolex watches.

For 40 years, China tried to pay everyone more or less the same wages, following the Communist slogan "from each according to ability, to each according to need". They failed miserably. Now their slogan is "To get rich is glorious". Income gaps in China have widened.

India tried to narrow the income gap by fixing a salary ceiling for executives. Until recently, no executive was allowed to earn more than S$1,300 a month. This included perks such as bonuses, commissions and housing allowances. The result, many able Indians migrated. Last month, India raised the ceiling on earnings more than 3 times to about S$4,400 a month, but I wonder how effective this will be. If we try this in Singapore, three things will happen very quickly — corruption, migration and thumb-twiddling.

Can we pay the unskilled worker more than what his contribution is worth? If we set a high minimum wage for unskilled workers so as to narrow the income gap, why should investors come to Singapore? They will simply go elsewhere to where labour is abundant and cheap.

STRATEGIES FOR SUCCESS

But we can do our best to keep incomes of all groups rising in step. While we cannot bring this about by law, we can help to spread wealth more widely among the population by:

(1) Investing in education;

(2) Immigration of talent;

(3) Giving Singaporeans a direct stake in the country, through:

- Ownership of Singapore Telecom shares, and
- Sale of HDB shophouses and hawker stalls;

(4) Constructive programmes to help the poorest Singaporeans raise their standard of living and upgrade themselves, e.g. the Small Families Improvement Scheme;

Investing in Education

The economy of the 21st Century will be based on knowledge, technology and skills rather than brawn and sweat.

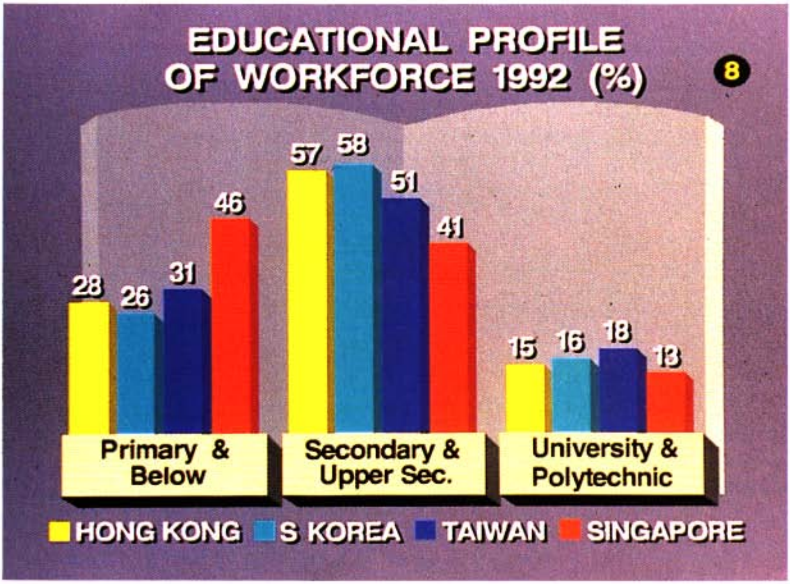
Professor Lester Thurow wrote this in his book — "Head to Head" (pg 51). Professor Thurow is a professor of economics in MIT.

> " ... In the century ahead natural resources, capital and new product technologies are going to rapidly move around the world. People will move — but more slowly than anything else. Skilled people become the only sustainable competitive advantage.
>
> If the route to success is inventing new products, the education of the smartest 25% of the labour force is critical. Someone in that top group will invent the new products of tomorrow. If the route to success is being the cheapest and best producer of products, new or old, the education for the bottom 50% of the population must staff those new processes. If the bottom 50% cannot learn what must be learned, new high-tech processes cannot be employed ... "

In short, to become a developed country, we need both highly educated people at the top, as well as many well-educated at all levels, able to operate sophisticated industries.

By investing extensively in education of the young and the training of workers, we help them to become more productive and so to earn more for themselves. Widespread high quality education is the only viable way to make income distribution more equal. It will reduce the number of households earning less than $1,000 a month and increase the numbers earning more than $1,000. In Singapore, incomes have become less unequal, not because professionals and skilled workers at the top of the scale are earning less, but because there are now more of such professionals and skilled workers enjoying top scale earnings. Even if we cannot increase the wages of unskilled workers faster than the wages of skilled workers, we can improve matters by reducing the number of unskilled workers. We have done this over the last decades and must continue to do so.

Our educational profile is behind the other NIEs.

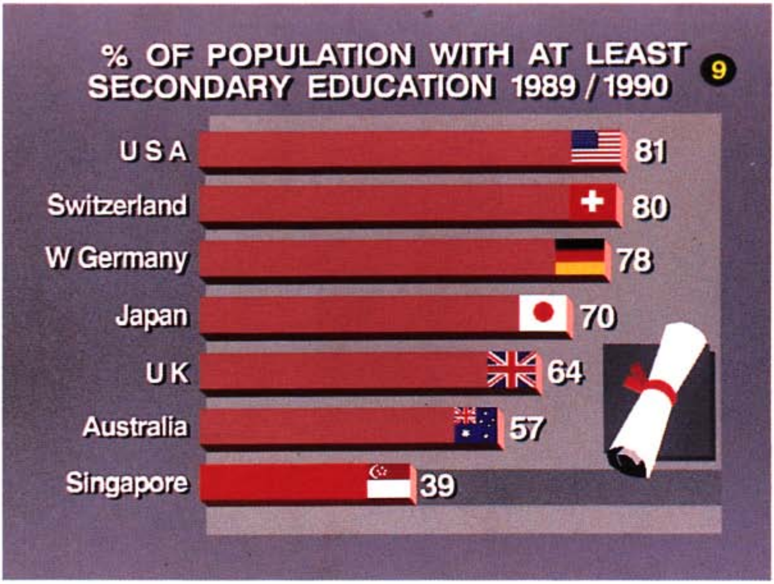


- Note the proportion of people with less than primary school education.

  One in two workers in Singapore does not have secondary school education, compared with less than one in three in Korea, Taiwan and Hong Kong.

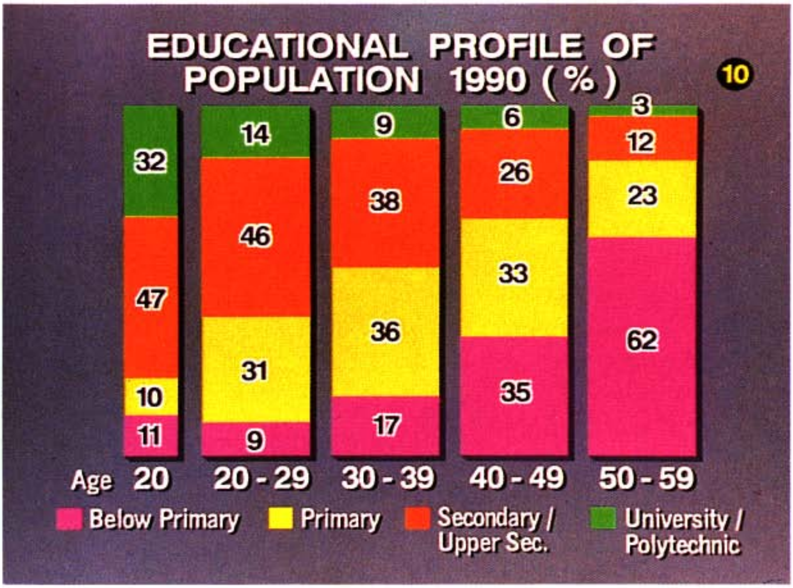
- Workers with tertiary education constitute only 13% of the Singapore workforce, less than the other NIEs.

Compared to the developed countries, we have even further to go. The proportion of the adult population with at least a secondary education is not even two thirds that of the industrial countries.



- Singapore's less than half that of USA and Switzerland.

However, we have been investing heavily in education in the past decade. Streaming and the recent changes to give every child at least 10 years of education means that the cohorts now entering the workforce are well educated. The education profile of our workforce will improve steadily in the coming decades.



- Each younger cohort is better educated.

  85% of 50-59 year olds — no secondary education.

- Among the recent school leavers, only 20% do not have a secondary education. This number will decline further.

- The number going to universities and polytechnics has gone up tremendously.
  20-29 group: 14%; 50-59 group: 3%

- For the 20 year olds:

  32% with tertiary education is probably an underestimate, because some go to university or polytechnic after working for a few years;

  Those with less than primary school education form 11%, slightly higher than the 20-29 age group (9%), but that is because many of the 20-29s completed primary education as adults, through BEST classes.

Independent schools and autonomous schools are part of this effort to raise the quality of education, and thus improve social mobility and income distribution. These schools were not built to cater for the well-off. The well-off do not need them. They can engage private tutors to teach their children one on one, or send their children to top schools abroad. But talented Singaporeans from poorer homes cannot afford to employ private tutors or go abroad. They will not maximize their potential so easily. With Edusave and Edusave scholarships and school financial assistance, even the poorest families can afford to send their talented children to independent schools.

Immigration of Talent

We must continue to attract talent into Singapore, to top up our natural increase and maintain the dynamism of our society. The contributions of the immigrants will benefit all Singaporeans. One good entrepreneur from Hong Kong or India who relocates here can create hundreds of well-paying jobs for Singaporeans.

But we have to be selective in accepting immigrants. Larger countries like the US, Canada and Australia can afford to be less stringent. But for us every place taken up by an unskilled immigrant means one place less for the skilled and talented. Hence, we do not allow the immigration of unskilled people. That is why we enforce strict restrictions on Work Permit holders marrying Singaporeans. Every immigrant must add value to our society, and not lower the national performance.

Immigration is an important source of population growth. Over the last 5 years, we took in an average of 7,000 new citizens each year, or nearly 15% of the number of babies born. In turn, based on Good Conduct Certificates issued, we lost an average of 2,800 citizens each year. The net gain is only 4,200.

We must attract talented people to work and live here, regardless of race. While Hong Kong is a well-publicised source of immigration, we do not confine ourselves to Hong Kong or to ethnic Chinese. For example, a growing number of Indians are obtaining Permanent Residence here — in 1992 alone, there were 1,905. We seek talent throughout the region, from South Asia, and from the diaspora of Asians living in the West. The key question is not their race, but whether they can be integrated into Singapore society. If they can, we will offer them Singapore citizenship.

Immigration has made a critical difference to Singapore. This place has thrived because it is special, different from other countries in the region. Over the decades, from colonial times, an exceptional concentration of talent from India, Ceylon (now Sri Lanka), the Federation of Malaya, and China before the Communist revolution, gathered in Singapore.

Look at the judges in the Supreme Court. Of 19 judges and judicial commissioners, only 4 were born in Singapore. The other 15 were born outside Singapore: 11 in Malaysia, 2 in India, and 1 each in UK and China.

Integrating new immigrants into society is never easy. Both the immigrant and the society has to make adjustments. Expectations have to be reconciled with reality, prejudices have to be overcome, old ties broken and new roots grown. But we must make the effort to make the immigrants feel welcome, draw them in, and help them to establish themselves here. In time they or their children will become 100% Singaporeans, just like earlier generations of immigrants.

Asset Ownership — Singapore Telecom

The next strategy for success is to increase the assets of Singaporeans, and give them direct stakes in Singapore's prosperity and success. The more assets each one of us has, the more we will work to enhance their value. The major assets of most Singaporeans are their homes and CPF accounts. Last year, I spoke of our goal to make Singapore a share-owning society.

In March this year, we introduced the CPF Top-up Scheme as a way to reward Singaporeans for their efforts and hard work to achieve economic growth. Under this scheme, every Singaporean aged 21 and above on 31 August 1993 will be eligible for a $200 Government cash grant by contributing at least $500 to his CPF account between 1 March and 31 August. We said that they could use the money to buy Singapore Telecom (ST) shares when the company was listed later this year, although they did not have to do so.

The Government believes that ST shares make a good long-term investment for Singaporeans. ST will grow as the Singapore economy grows. As long as the country is prospering, and the company is well managed, the value of its shares will appreciate over the long run. We cannot guarantee that the shares will be at a particular price the day after trading begins, or exactly one year later. But over the long term, they must be worth more.

We have now worked out a scheme to sell ST shares at a discount to Singaporeans. It will help to widen share ownership significantly among Singaporeans. Presently about 250,000 Singaporeans own shares. We hope with this scheme at least to double this number.

The listing of ST will proceed in October. We will reserve part of the shares to be sold at a special price to CPF members who are citizens. These shares will be known as Special Discounted Shares (SD Shares). Each member can buy up to about $1,000 worth of SD Shares, using his CPF money. The actual amount may be slightly more or less than $1,000, depending on the exact price of the ST shares, which will be decided later. The only condition is that the member must leave enough in his CPF account to pay for any housing loan instalment. CPF members can of course apply for more ST shares than this. There will be normal fixed price shares reserved for Singaporeans, as well as shares offered for tender. But these other shares will not be eligible for the special discount from the Government.

It is up to each CPF member to decide whether he wants to buy SD Shares. If he does, he will have to apply for the shares. In other words, it will be an opt-in, not an opt-out scheme. CPF members who qualify will receive in full all the SD Shares they apply for.

SD Shares will be sold at a generous discount — 45%. However, we will not give all of the 45% discount up-front, as a discount on the purchase price. Otherwise some Singaporeans will be tempted to stag, ie. sell the shares as soon as trading begins to make a quick profit. Our purpose is to encourage long-term share ownership, not to promote stagging. Therefore we will pay out the discount over a number of years, to encourage Singaporeans to hold on to these shares as long-term investments. The discount will be structured as follows:

- A 5% up-front discount on the purchase price of the shares;

- Loyalty bonus shares for those who hold on to their shares. At the end of the 1st, 2nd, 4th and 6th years, CPF members who have kept their shares will receive from the Government 10 bonus shares for every 100 shares they originally bought.

There will be no restrictions on resale of SD Shares. CPF members may sell their SD Shares at any time even before the 6 years is up, but neither they nor the new buyers will receive loyalty bonuses after selling the shares. This scheme will give Singaporeans maximum incentive to hold on to the shares, while leaving them the flexibility to sell them whenever they want to. It will help Singaporeans to learn, in the most direct way, that each of us is a part owner of Singapore, and that when Singapore prospers, so will all of us.

Sale of HDB Shophouses and Hawker Stalls

HDB started to sell its shophouses to tenants last year. The programme has been very popular. Out of 1,437 shops offered for sale, 1,403 or 98% were taken up. This shows that HDB prices are fair and reasonable, the shopkeepers are confident of the future of their business, and the economy is buoyant.

I have heard stories of shopkeepers re-selling their shops at a profit of several hundred thousand dollars. But many more have upgraded their shops to stay in business. This will raise the standard of HDB shopping centres and make them more competitive with department stores in the CBD.

At the Marine Parade by-election, I asked the residents to show their support for the sale of the HDB shops programme, among other things. They voted overwhelmingly for it. There are now many happy shopowners in Marine Parade GRC. I believe that shopkeepers in other constituencies are also equally enthusiastic about the programme. I have directed HDB to sell its shops in other constituencies as quickly as possible.

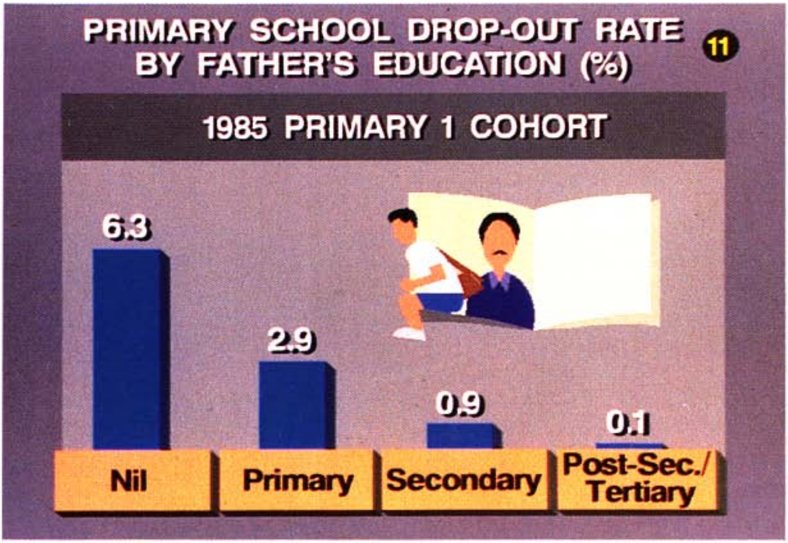
There is another group of retailers whom we would like to help to own their own business premises — stallholders in hawker centres and wet markets. I have asked Ministry of the Environment to work out a scheme to sell these hawker and market stalls to incumbent stallholders. Once they own their stalls, we can free-up the rules and regulations and allow them to sub-let, transfer or sell their stalls. The hawkers can then operate more efficiently and provide better service to customers.

The sale of stalls will be spread out over a number of years to assess the reaction and the impact on consumer prices. Thereafter, we can speed up the programme provided stallholders support the scheme.

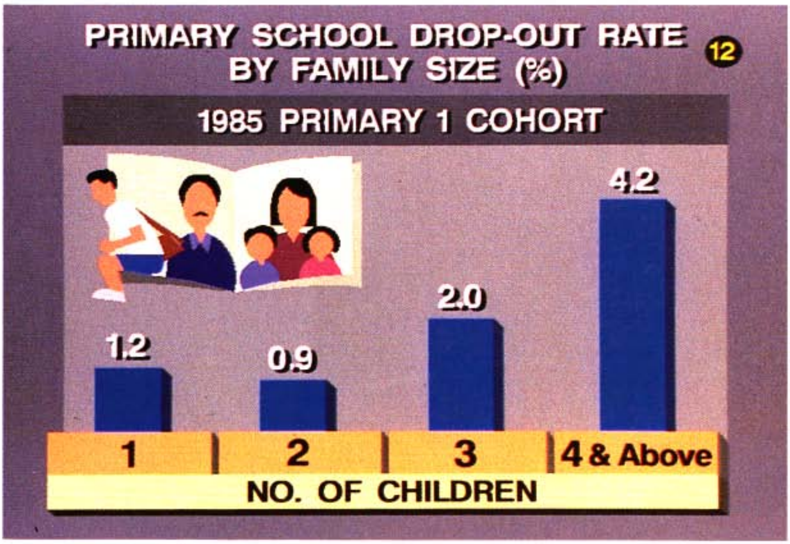
Like HDB shops, the stalls will be sold at a discount to help the incumbent stallholders. The stallholders can then decide whether they want to upgrade the centres, on a cost-sharing basis with the Government. The scheme will enable the hawkers to own business assets. Then they will take more interest in the attractiveness of their centres and the well-being of their customers, because the more customers patronise their centres, the more valuable their stalls will be. Now, I want to deal with a constructive programme to help the poorer Singaporeans raise their standard of living and upgrade themselves.

Small Families Improvement Scheme

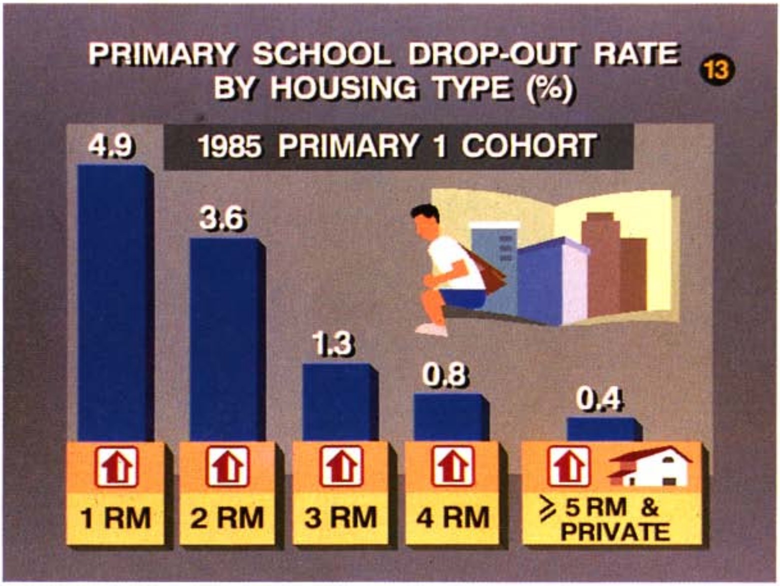
Many families remain poor because their children fail to do well in school. We have studied the family background of school drop-outs. Most come from large families, with parents who did not make it to secondary schools. They tend to live in HDB 1- or 2-room flats. I will show you a few charts on those pupils who entered Primary 1 in 1985 and have dropped out of school before sitting for their PSLE.



- The lower the education level of the fathers, the higher the school drop-out rate.

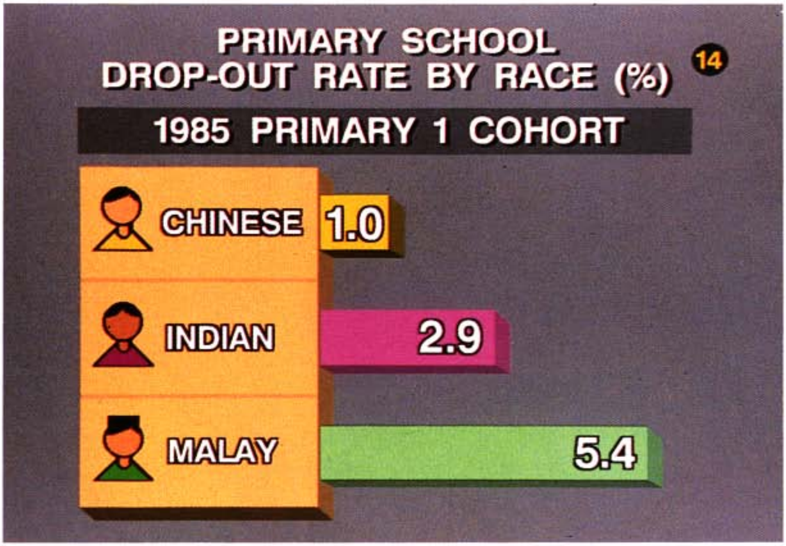


- Students from families with 4 or more chidren are 4 times as likely to drop out of primary schools as students from 1- and 2-child families.

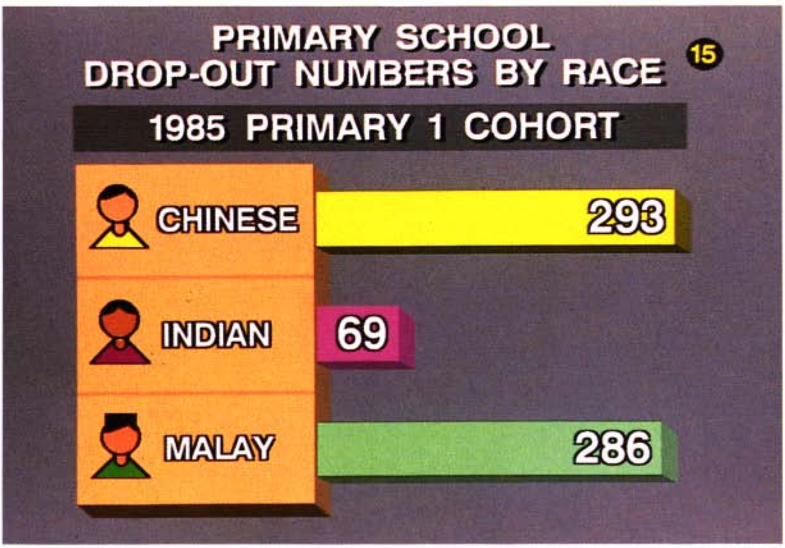


- The drop-out problem is most acute among HDB 1- and 2-room flat dwellers.

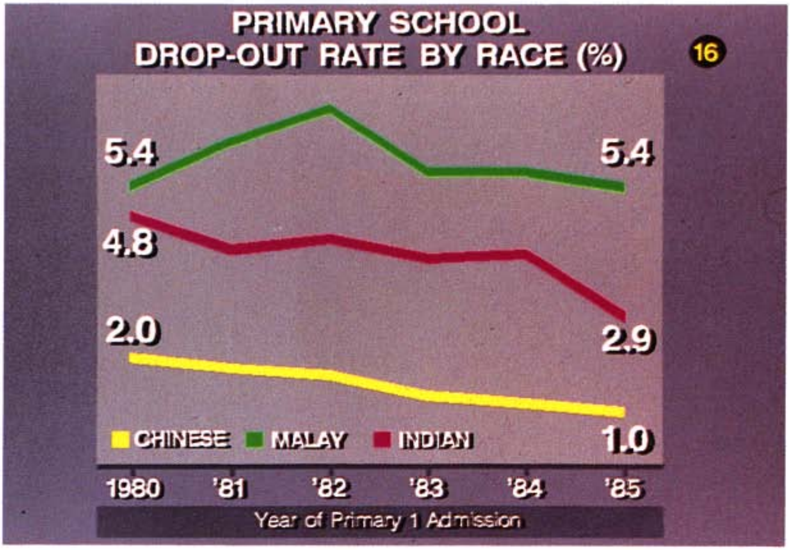
These charts did not give a breakdown by race. The drop-out rates are not the same for the three communities. We must appreciate the size of the problem for each community.



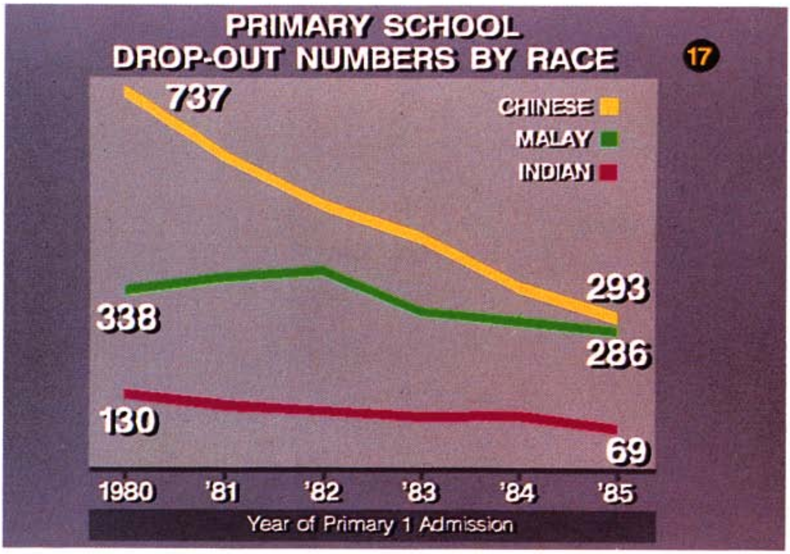
- Malay children are 5 times as likely, and Indian children 3 times as likely, to drop out of school as Chinese children.



- In absolute numbers, more Chinese children drop out than Malay or Indian children.



- Chinese and Indian drop-out rates have declined, but the Malay rate has not.



- Number of Chinese has dropped sharply; for Malays only marginally.

This is a sensitive issue because it concerns culture, customs and the self-esteem of the communities. When I discovered that the Malays have a more acute problem — their drop-out rate is more than 5%, far exceeding that of the Chinese and Indians — I decided that the community, especially its leaders, must know the seriousness of this problem. The Malays have higher divorce rates and bigger families. This aggravates the problem. I am glad that MUIS, MENDAKI, and the mosques are attending to this problem.

I worry for the future of the children whose parents are unable to look after them well, often because of divorces. When I look into the future, and the hundreds of millions of unskilled workers in the region competing for jobs, I ask myself, what kind of future will the school drop-outs have?

We must tackle the problem of school drop-outs openly but sensitively with the help of all the organisations including MENDAKI and AMP, SINDA and CDAC. We must find ways to reduce the numbers of students dropping out from school.

Some may think that 650 children dropping out of a cohort is no big deal; it is only 1.7% of the cohort. But for me that is 650 too many. Furthermore, for every child who actually drops out, many more fare poorly in school. And the pattern for this group is the same: many belong to low income, large families, living in HDB rental flats. While the minorities are over-represented, the Chinese form the largest group.

If these parents could somehow improve the home environment of their children, they would give their children a valuable headstart in life: to do well in schools, to make it to secondary schools and beyond, to secure good jobs and climb out of the poverty trap.

The Government cannot change the education level of the parents, although job training and retraining will help. But we can help their children do better in school, so that later they can earn a good living for themselves, and help look after their parents. However, the parents must also contribute. They can do so by keeping their families small, and giving their children the best chance of doing well in school. They may then at least complete their 'N' levels, and acquire useful skills at the ITE.

The Government will set up a Small Families Improvement Scheme, to encourage poor families to help themselves by having no more than two children, so that they give the children the best chance of a good education and assure themselves of a brighter future.

The scheme is aimed at families where both parents have no 'N' level passes, earn less than $750 each and the mother is 35 years or younger. The family must be intact, consisting of husband, wife, and either one or two children of the wife. Either the husband or the wife must be a citizen, and the other must be a citizen or a Permanent Resident.

If such a family participates in a regular family planning programme and undertakes to have no more than two children, then the Government will give the children education bursaries from Primary One to pre-University or polytechnic. In addition, the mother will receive an annual Housing Grant of $800 into her CPF account, for 20 years or until she reaches 45, whichever is sooner. She can use this money to buy an HDB flat. Over 20 years, this will amount to $16,000. Together with the education bursaries, each eligible family will receive up to $26,400.

This scheme is meant to help the families to upgrade themselves. It must not degenerate into a scheme to support the wife and children in place of the husband, who has abandoned the family or divorced the wife. Therefore families which later break up because the couple separates or divorces will no longer qualify for the scheme. Also if the mother later changes her mind and has a third child, the family naturally cannot continue on the scheme.

We must have this condition to prevent a proliferation of single-mother families. New Zealand has a scheme to help single mothers. It started with 4,000 single mothers in 1973. Now, there are more than 100,000 single mothers on the welfare scheme. Our Small Families Improvement Scheme must not end up as a single-mothers welfare scheme.

When families leave the scheme, the bursaries for the children will stop, but the amounts already paid need not be returned. However, the mother will have to return all the money paid so far into her CPF account, including interest. If she has already spent the money on an HDB flat, she need not sell the flat immediately to return the money. Instead the State will retain an interest worth that amount in the flat, so that when the family sells the flat later the money will come back to the State.

Some years ago we tried a Cash Grant scheme for women who consented to undergo ligation, but this proved unpopular. Women considered ligation too drastic a requirement for a cash grant. I hope the Small Families Improvement Scheme will be more popular. Many women in these income groups are already stopping at two, and practising family planning on their own. They can participate in the new scheme immediately, without any additional inconvenience. For those who had not been practising family planning, the regular clinic visits and counselling should help them to plan their families.

Nevertheless in a matter as sensitive as family size, the Government has to proceed cautiously and learn from experience. We will review how the Small Families Improvement Scheme works in practice, and modify it in the light of experience.

ELECTED PRESIDENT

Before I conclude, let me say a few words on the coming election for Singapore's 5th President.

This is the first time Singaporeans are voting to elect their President. It is a historic occasion. Our Constitution has evolved in a gradual, undramatic but functional way to fit our changing circumstances. Singapore has been built up by men of exceptional ability and integrity. They have accumulated reserves which function not only as a contingency fund but also as capital for the future. They have set impeccable standards of behaviour for national leaders and public officers.

But those are achievements of exceptional people. Our reserves and the integrity of the public service can quickly disappear with weak or crooked men in charge. This is why we changed the Presidency into an institution to provide checks on the government in key areas.

I estimate that only about 400 Singaporeans are eligible to stand for election as President. In the public sector, counting Ministers, Permanent Secretaries, Judges and other qualifying appointments, there are about 60 posts. In the private sector, 158 companies have a paid-up capital of over $100 million. Their Chairmen and CEOs will qualify, which makes another 316 appointments. Allowing for those who have retired and some overlapping of names, we get a pool of about 400 eligible candidates.

This small number of eligible people is as it should be. The Head of State must be eminently qualified. He must have proven competence, sound judgment, personal integrity and moral courage. It will be an advantage if he is also politically sensitive to judge what is crucial to the long term integrity of the system, even though he cannot belong to any political party.

It is not easy to persuade eligible people to stand for election as President. Most prefer to lead quiet, private lives. They are reluctant to change lifestyles and become public personalities late in their lives. Second, even if they are personally agreeable, their spouses may not be. As First Lady, the President's wife has public duties to perform. Not all wives can adapt comfortably to this public role, or want to. So we are really talking of two people, not just one, when we look for suitable Presidential candidates.

I am glad that for the first election, there will be a contest. Ong Teng Cheong is an excellent candidate for the Presidency. He has the experience, temperament and personality for the job. But he has been with the PAP and the Government for over 20 years. We know that some Singaporeans prefer a President who was never a PAP member so that he can deal with the Government without emotional ties. So my colleagues went out of their way to look for a suitable, non-politically affiliated candidate. Dr Goh Keng Swee suggested Mr Chua Kim Yeow, former Accountant-General. Dr Hu supported the proposal. Chua Kim Yeow is a credible, apolitical alternative to Ong Teng Cheong.

This way, people have a choice of qualified candidates. It is better than having no contest. Whoever wins will have the electoral mandate and moral authority to perform his constitutional role as the custodian of our assets and protector of the integrity of our key institutions. The Government will accept whoever the public supports, although I hope Ong Teng Cheong will win that support.

CONCLUSION

We can look forward to the 21st century with confidence. As we go regional, our second wing should give us a strong lift. We can achieve our vision of a developed country, so long as we maintain our competitive spirit and our competitiveness.

Nations can lose their competitiveness and hence their prosperity, just as companies can lose their competitiveness and their profits.

- New Zealand is an example of a country that had lost its competitiveness. It made dramatic changes and cut down welfare. Only now, after a decade of painful reform, is New Zealand gradually recovering competitiveness.
- IBM is an example of a company that did not recognize the market preference for work stations and personal computers and is paying the price for it. It has just reported a massive loss of US$8 billion for the second quarter, one of the largest in US corporate history.

The Swiss-based World Economic Forum has rated Singapore as the most competitive of the NIEs and developing nations. To stay on top, we must always offer something special to investors and our people. That something special is social cohesion. It will give us that extra edge over competitors.

With each year of nation building, we approach closer to the ideal of one people, one nation, one Singapore. We have no strikes, no political upheavals, no communal discord. We can reach national consensus and act quickly, even in areas which require some restraint on personal freedom, like road traffic management and no smoking in enclosed public areas. Maintaining social cohesion has been our key competitive edge over both developed and developing countries.

But do not assume that social cohesion will continue by itself unless we work to strengthen it. So far this has been relatively easy because we have enjoyed fast, continuous growth. Everybody has been better off and busily upgrading himself — in education, homes and cars. The spirit of the founder generation is still strong. So are our communitarian values.

We need to strengthen this cohesion even when the economy slows down, when upgrading is not as fast as before. We must keep society open to talent and minimise social differences, even as it becomes more mature and differentiated, ie. more differences in income and life-styles between more groups. Even poorer Singaporeans must feel that their lives are improving. There must be hope for all, and more opportunities for their children to do better so long as they study and work hard.

We must share the fruits of prosperity among as many Singaporeans as possible. Before we can enjoy the fruits, we must first plant the trees, then cultivate and nurture them to maturity. That requires people with green fingers. The population must throw up talent, skills and ability year after year, to produce bumper harvests. It is not easy, but it can be done.

We have done it for one generation. Let us stay united and cohesive and do it again. We must maintain Singapore's success beyond the founding generation, and do even better than the founders did. Then 21st century Singapore can be even better than 20th century Singapore. This is our biggest challenge today. I am sure that we will succeed. I can feel it in my bones.