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Address by Dr. Goh Keng Swee, Minister of Defence, to the Symposium on "Singapore in the International Economy" at the University of Singapore, on 19.3.72 at 9.30 a.m.

Since this symposium is being held in the University of Singapore, it seems the right thing to do is to begin with a plea for academic freedom. However, I am making this plea not on behalf of the University but on behalf of myself. The views I am expressing here are my own personal views and not necessarily those of the PAP Government. I have not consulted my colleagues or cleared the text with them, as I should, if I were to speak as their representative.

The reason is that the Minister who can speak with authority on economic problems of Singapore is my colleague, the Finance Minister. He has close and direct feel of the pulse of the economy by the nature of his work and his responsibilities. He has access to current information, statistical data and specialised studies and reports which are not available to me. Accordingly, he is in a better position to make a practical judgment on economic affairs.

I am therefore speaking as an ordinary citizen in the exercise of academic freedom. This means that not only do my views lack official sanction, but my colleagues, and indeed anybody else, are free to disagree. When a person exercises his right of academic freedom, there is also the right of critics to tell him that he is talking nonsense, a point which, I fear, academics do not always appreciate.

To minimise the risk of a shattering rebuttal with consequent bruising of one's ego, I propose to avoid discussing current problems and, instead, take a look into the distant future. This is a safer and more prudent course of action as one can always fall back on the defence "My guess is as good as yours." I would like to look at the shape of our economy as it could be towards the end of this decade.

First, let me draw attention to some aspects of our economic growth which have not been generally grasped. Table I gives our Gross Domestic Product at current prices for 1959-71. Few people, for instance, realise that by 1977, our per capita Gross Domestic Product would have reached the 1970 level of the United Kingdom if present rates are sustained. The calculations are as follows. In 1970, the per capita GDP of Singapore at factor cost was $2,736. The figure for the U.K. is $5,683. If we allow for a population increase of 2% to 3% a year, our per capita GDP will increase at about 12% a year at rates of growth of 14 - 15% a year. At this rate, 12% growth, our per capita GDP will be $5,399 in 1976 and $6,047 in 1977.

These are projections at current prices. If we allow for inflation, not a major problem in Singapore and not likely to be one in future if the present policies continue, we should reach present British levels in real terms in 1978 or 1979. Not long after the turn of the decade, we would have overtaken the British in per capita Gross Domestic Product, if both economies grow at current rates.

May I interpose two cautionary points. First, please note that I use the aggregate GDP and not GNP, for reasons which will become clear later. Second, I am not saying that all this will actually happen. A lot can take place in 10 years which would falsify linear projections of current trends which is what this exercise is about. But even if the assumptions on which the projections were made were realised in the years ahead, there is likely to be a levelling off of growth rates in later years for reasons I will discuss later.

Despite their limitations, these projections are useful. They give us an idea of the magnitudes involved. They also give us some idea of the time scale. If, as the figures show, we could be reaching present British per capita GDP by 1977, a fast economic growth that brings about this situation will certainly have social, economic and political consequences which would be not only massive and far reaching but also rapid, more rapid than what most people are inclined to think. We would do well to investigate in advance what these consequences are likely to be.

The second aspect of our economic growth that needs to be highlighted is its motive power. Basically, the push comes from foreign trade. Economists will remember that many of the leading theorists discounted the policy of export-oriented economic growth as a realistic policy for under-developed countries. The constraints on these, such as deteriorating terms of trade for primary products, non-tariff restrictions on exports of labour intensive products such as textiles and other obstacles seem to bar this approach to affluence. However, in the 1960s. the economies which performed spectacularly adopted just this approach. The countries were Hong Kong, Taiwan and South Korea. Singapore now joins this select band.

There have been no studies, to my knowledge, of the relative dependence of these countries on foreign investment as an instrument of economic growth. My own subjective impression is that this dependence is strongest in Singapore and that the participation of national entrepreneurs in promoting industrial development is smaller here than in the other countries. Certainly the inducements offered to foreign investment are stronger and more varied in Singapore.

Both Hong Kong and Taiwan were able to mount an early and substantial industrialisation effort on the basis of refugee entrepreneurship from China.

Not only is Singapore more dependent on foreign entrepreneurs than Hong Kong, Taiwan and South Korea, but her position is probably unique in that she is now dependent on a continuing supply of foreign workers to sustain growth. It is true Hong Kong once had a large population influx from China, but the annual influx is probably now a small figure. Last year, we had to import more than 40,000 workers from Malaysia. This year, the figure is likely to be around 60,000. And we shall continue to need them if we continue to grow fast.

This, then, is the setting against which we have to consider our long term problem of income distribution. The high dependence on external markets and foreign entrepreneurship in the form of multi-national corporations implies that our fortunes are sensitive to world trading conditions. Should something go badly wrong with world trade, the rapid growth we have been enjoying in recent years can come to a grinding stop. However, these are not matters within our control and therefore we need not worry unduly about it, except to prepare contingency plans. I shall assume that major catastrophies, such as that of the Great Depression of the thirties, will not take place during this decade.

There is one more matter which we have to dispose of before we can get down to our problems. And this involves a fundamental matter of policy. The question we must answer sooner or later is this: "When do we stop growing?" Or to be more precise, at what point do we stop importing foreign workers and cease to encourage foreign entrepreneurs and capital to come into Singapore? Because of our limited land area, industrial expansion together with the population expansion that goes with it will produce over-crowding to increasingly uncomfortable limits. Dr. Albert Winsemius, who has studied this subject at some length, suggested that the limit be set when the number of workers in the manufacturing industries reaches 500,000. It is as good a first approximation as any other.

Table II gives the number of workers engaged in manufacturing industry since 1960. The number increased from 33,799 in 1960 to 148,587 in 1971. The rate of growth from 1960 to 1966 was 9.5%; in the last four years, the increase averaged an annual rate of 21%. If this rate continues, we will have the half a million mark in the manufacturing industry in 1978. That year, 1978, will be a fateful year for Singaporeans if the course of history runs along the lines of our linear projections of current trends. By that year, our per capita GDP in real terms would have reached the current British level. In that year too, we would have half a million workers in the manufacturing industry. That would be about the time when we might want to stop growing, or at least stop growing at present rates.

Earlier, I expressed some reservations about our ability to sustain a 12 percent per capita growth of the GDP even if the rate of increase of investment in export-oriented manufacturing industries can be sustained. An examination of the increase in the work forde figure will tell us how unlikely it is that the projection would be realised. By 1978, the projection shows a figure of 566,900 workers in the manufacturing industry. If this represented an increase of 21% over 1977, this meant that about 120,000 workers would have have entered the manufacturing industry in 1978.

With increases of employment in the manufacturing sector, there will be increases in the rest of the economy. It is not easy to predict the increase in the working population in 1978. Between 1965 and 1970, the total working population - farmers, hawkers, capitalists, shopkeepers, industrial workers, everybody - increased from 557,000 to 693,000, an increase of 136,000. Workers in manufacturing establishments employing 10 persons or more increased by 74,400. If the same ratio holds in 1978, there could be an increase of 220,000 in the working population. Since Singapore can provide an additional 40,000 or so, we have to import 180,000 from abroad in one year alone. It is unlikely that we would have found a method of absorbing such a large influx.

It is therefore likely that some fall in growth rates will be unavoidable in the latter half of this decade. The fateful year will not be 1978 but possibly some year in the first half of the next decade.

By how much will we have to slow down our growth? I do not want to pursue this in detail for data available are too crude for dependable estimates. This may be a useful research subject in itself. All I want to say now is that the slowdown will be less than what the figures quoted suggest. The reason is that a good part of the 74,400 increase in the manufacturing sector were generated in labour-intensive industries such as electronics and textiles which we will not be encouraging. Accordingly the labour influx and growth of working population would be smaller than the figures I gave. But we also have to take into account that as standards of living go up, demand for "tertiary industry" - service, education, entertainment and recreation - goes up very rapidly.

Let us now consider the question of distribution of income against this backdrop. When people discuss distribution of income in Singapore, they automatically think of what increases in wages or salaries our workers should get which many well-meaning people think is long overdue.

Actually, there is a more fundamental matter to be dealt with. And that is the division of the Gross Domestic Product between Singaporeans and foreigners. At present, this is not an issue of much importance. So much so that it has attracted very little public interest. Further, up to now, Singapore enjoys a net surplus of factor income from abroad, so that our GNP exceeds our GDP. Currently, this is running at more than $100 million a year. But if the main thrust of economic expansion will be provided by multi-national companies basing their offshore operations in Singapore, the position could well change. In the second half of the decade, the GNP could well fall short of the GDP by a substantial amount, as profits of multi-national companies increase with their numbers. It is as well that we try to foresee how these national income components move in future years, what kind of problems they give rise to, and what we can do to influence trends.

What are the factors that influence the division of the GDP between ourselves and others? There are four main ones listed as follows, not necessarily in their order of importance:-

i) Tax incentives

ii) Equity participation by nationals

iii) Type of industry and its structure

iv) Level of wages.

We might add a fifth, the general level of profitability of offshore operations of multi-national companies. But this depends on a number of factors beyond our control, such as the world trade situation, trade policies in our export markets and competition from other offshore operations in developing countries. But I will discuss only the four factors over which we have some control.

When the decisions were made on tax incentives for export industry, now embodied in legislation, during my last term of office in the Finance Ministry, I did not expect, nor did anybody else, that they would have produced such immediate and substantial response. Our thinking then was that Singapore might not reach European per capita GDP until the 1990s. Hence the 20-year tax privilege for export profits at a concessionary 4%. Nor was there a policy to encourage a measure of national equity participation in these offshore operations of multi-national companies. We were then in what was generally believed to be a desperate position with the prospective loss of earnings from the British military.

If present conditions continue and the inflow of investment by multi-national companies proceed without abatement, it may be to our long-term interest to review this policy. Of course, those who have already received such incentives will continue to enjoy them in full measure. But future investment could, perhaps, be offered less generous terms, for instance 10 years' tax at 4% and thereafter increasing in, say, three or four years to the full 40%. A requirement of national equity participation could be insisted upon except where the project is very desirable on special grounds. But the question of national equity participation has always been a delicate one and needs to be handled with care.

As regards the type of industry and its structure, we have already moved away from encouraging labour intensive industries to be located here. This is merely one aspect of trying to close the gap between the GNP and the GDP. However, we should do more than just discourage industries whose continued existence depends on low wages.

We can have a clear insight into the problem if we look at it not from the viewpoint of 1972 but of, 1978 or whatever the fateful year would be. By that time, if all goes well, we will have a manufacturing industry employing some half a million workers. What kind of industries would afford the greatest benefit to the Republic? By the criteria we use, this means the highest proportion of local content in the manufacturing process, the greatest potential for wage increases, the greatest prospect for national entrepreneurs to move into allied industries. If we can so select our industries so as to maximise these elements, we would have reducedthe gap between the GNP and the GDP.

It is not easy to find answers to these questions. The reason is that there is no one discipline that trains a person to form a correct judgement on such matters. Technical people are certainly required. But the trouble with engineers and scientists is that they are easily dazzled by technology, rather like a child playing with a new toy. Accordingly, their judgement on economic affairs is often suspect.

In this connection, I have a suspicion that when a definitive economic history of Britain in the post-war era is written, it is not only the British TVC that will be held responsible for the economy's poor performance. I suspect that the scientists and engineers in the Ministry of Technology (or Mintech) have a lot to answer for.

What happened was that a substantial effort was mounted in the frontier-of-knowledge industries - jet aircraft engines, civilian and military aircraft, rocketry and missiles, sophisticated electronic systems - where the British engaged American industries in an unequal contest. The Japanese and Germans, having lost the war, set their sights lower and concentrated on relatively low technology products - motor cars, ships, steel mills, industrial machinery, radio and T.V. sets, cameras. As their best brains were engaged here, they had no difficulty in outperforming British products in the export markets. The British got the worst of both worlds becuase Mintech's scientists deployed high-quality brain-power in the wrong way.

I am not saying that our scientists and engineers are of no value in planning our future industrial structure. Their opinion must be sought but this needs to be tempered with economic realism. Economists, on the other hand, know little about industrial processes. In making judgement on the type of problems described above, an economist needs to have extensive knowledge of technical processes in industry. Only then can he have an adequate grasp of inter-industry linkages, a matter which lies at the core of the problem.

We want our industries to be so structured that components strengthen each other and we maximise our gains from external economies of scale. Such support between industries takes several froms. The most obvious is the supply of components, packaging material, tools and dies, maintenance and supporting services. A coherent structure would enable a more effective training programme to be mounted in our schools, Polytechnic and the Universities. Further, it will be easier to mount a research and development effort worthy of the name. All this would mean that in the long perspective, Singaporeans themselves would not only be able to man the technical and management positions, but also contribute to product development and innovation.

I may perhaps make my point clearer by considering what will happen if we fail to establish industries which fall together coherently. Perhaps we may have a petro-chemical plant here, a watch factory there, a computer plant elsewhere. Each of these is linked to the headquarters of the multi-national companies, to their overseas markets, depending for development and progress on the research efforts overseas. This is the danger which is what we are facing and which we want to avoid if we can by a policy of selective encouragement.

This is a long term problem as I see it. I have defined the problem somewhat sketchily. It is not easy to see a solution in sufficient detail as to be of operational value. It seems to be a field to which research economists should devote their attention. However, if they are to be effective, it is necessary for them to acquire additional technical knowledge, possibly by some formal course of training both theoretical and practical. In this respect, I may mention that the Japanese economists seem to have a much firmer grasp of technical and engineering matters than economists trained in the British and American tradition. Perhaps this is one reason why the Japanese have been able to select industries with the greatest growth potential, on which they mounted a concentrated effort with such conspicuous success.

I now turn to the level of wages, the other aspect of income distribution. The factors influencing the long term level of wages are as follows:-

i) The inflow of Malaysian workers we allow each year.

ii) The mobility between occupations granted to Malaysian workers under the conditions of their work permits.

iii) Competition from other under-developed countries to attract multi-national corporations.

iv) Trade union policy and action.

It is one of the ironies of history that a few years ago relations between Malaysia and Singapore deteriorated visibly as a result of our action to replace Malaysian workers by Singapore workers as a means of reducing unemployment. Now the inflow of Malaysian workers in substantial numbers will be required to sustain our growth. There seems to be a convergence of interests here as our employment of Malaysian workers contributes in no small measure to relieving their unemployment difficulties. Should Malaysia achieve full employment at a general wage level comparable to ours, thereby stopping this source of labour, we will have to look to other sources. Fortunately, over-populated Asia gives us many options.

The Malaysian worker is of excellent quality, being more serious, diligent and persevering than the Singaporean worker who is a rather demanding employee. Further, the work permit issued to the Malaysian workers is valid only in respect of the employer who engages him. This makes him an even more attractive acquisition than the young Singaporean who hops from one employer to another in the mistaken belief that he is thereby improving his future prospects.

Regarding the third factor, competition from other lesser countries, at present the contestants are South Korea, Taiwan, Hong Kong, with Malaysia a potential candidate. There is no reason why other under-developed countries should not enter the field. All they have to do is to provide a firm, stable and efficient administration, stop the habit of dipping their hands into the public till, discipline their work force, provide the infra-structure and introduce the kind of economic policies that we have. Competition is not a matter which should worry us unduly. There are probably more multi-national companies looking for an offshore haven than Singapore can possibly play host to. But we should not at the same time take unnecessary chances either by allowing an uncontrolled wage hike to take place, or by letting up on our promotion efforts, at least until we reach the fateful year I talked about.

As regards trade union action, the point to note is that in an export-oriented economy such as ours, wage increases not matched by productivity increases do not lead to the kind of domestic inflation as they do in other types of economies. They will lead to the lessening of Singapore as an attractive investment location and to that extent, they will endanger the growth of our economy. This is why the decision to establish a Wages Council was a wise one. The prospects, so far as I can see them, are for a steady, sustained, but moderate wage increase over the years until the point when we decide to level off our economic growth.

After that, much will depend on whether we have wisely selected the industries for location in Singapore. If we have, our dependence on multi-national companies will be lessened; we would be able by our efforts to develop export markets for such products as we have the capacity to specialise in. The scope for improvements in wage level will be all the larger and will depend on the resourcefulness of our salesmen, the ingenuity of our scientists and engineers, the efficiency of our management and the skill and industry of our workers. Under such conditions, there is no reason to believe that wage levels could not eventually approach those of the modern industrial states.

If, on the other hand, our industries consist largely of a hotch-potch of unrelated manufacturing enterprises dependent on the markets and management of multi-national companies, there may be severe constraints on wage increases.

Even if it was no longer necessary to attract new enterprises into the Republic, it is likely that by the end of this decade, we will have several competitors among developing nations, as hosts to these multi-national companies. As I said earlier, the pre-requisites are not so difficult to achieve as to make our case unique for all time. For instance, Ceylon could enter this league if her people were to stop politicking and get down to serious business. Malaysia, too, could provide a congenial environment, though she will have to adopt economic strategies and policies different from those recommended in her Second Development Plan.

Should other developing countries succeed in attracting multi-national companies and if we fail to develop our own indigenous industrial effort, and if our dependence on the multi-national companies is complete, a difficult situation may emerge with a growing gap between our GNP and our GDP. It would be accompanied by increasing not diminishing inequalities in the distribution of income. This is not a prospect that we can contemplate with equanimity.

One concluding observation. I am not saying that we should be wary of multi-national companies. Quite the contrary, we should continue to welcome them and give them the inducements, incentives and support that they require. But we should be more selective and discriminating in our role as a host country. Most important of all, we should ensure a sound growth of indigenous entrepreneurship, management, scientific and engineering skills.