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**OPENING ADDRESS BY BG LEE HSIEN LOONG, DEPUTY PRIME MINISTER AND MINISTER FOR TRADE & INDUSTRY, AT THE NATIONAL BUSINESS FORUM ON 14 OCT 91 AT 9.00 AM IN THE RAFFLES BALLROOM**

I am happy to be here at the first meeting of the National Business Forum. You will be discussing the Strategic Economic Plan, which has been a combined effort of civil servants, industrialists, traders, bankers and academics, working under the chairmanship of Mr Mah Bow Tan. It is therefore fitting that both the private and public sectors are represented here today.

I believe that both the private and public sectors have benefitted from the experience of working together on the Plan. For the Government, it has been an opportunity to tap the expertise of the private sector over a broad range of issues. It has helped to confirm where the Government's policies have been right, and identify where they need to be changed. I hope the private sector participants have gained a useful insight into decision-making within the Government, and become partners in shaping future strategies for economic growth. All have gained invaluable experience working together for a common goal. We should continue to build on this shared experience.

The Government agencies managing the economy - MTI, EDB, MAS - stay in touch with the private sector through regular dialogues. These low-profile discussions provide useful inputs and perspectives to our policy deliberations. One recent example is the two-tier levy scheme for the manufacturing sector. Before the decision was taken, MTI and the Ministry of Labour consulted extensively with both employers and the NTUC. The final scheme incorporated, and benefitted from, their views.

Such dialogues should continue. The SEP has recommended setting up an economic panel, to be a tripartite advisory body to MTI. The Government accepts and will take up this proposal. This will be an additional avenue for regular dialogue among Government, unions, and private sector on key economic issues. Through such consultation, business can understand the thinking and the concerns of Government, even as they impress upon Government and the unions their own hopes and fears for the future. No doubt we are all agreed on the final destination. But we can make the journey less hazardous for all of us by working together, or to use the words of the SEP, through National Teamwork.

In addition to continual contacts to stay in touch and resolve day-to-day issues, every few years the public and private sectors should get together, take stock of larger trends and concerns, and confirm if any changes in course are called for. The SEP exercise and this forum serve this purpose. This National Business Forum will thus be only the first of a series.

**ECONOMIC DEVELOPMENTS SINCE 1985**

To put developments in the Singapore economy in perspective, let us review the major changes in economic structure which have occurred since the last recession in 1985. The 1985 recession was a severe one, but it was only a temporary setback. It gave us the opportunity to make some necessary but painful corrections, consolidate our economy and introduce new policies to ensure future growth.

We have enjoyed five years of good growth since the recession. Our economic base today is broader and more balanced than it was in 1985. GDP has increased by half. Foreign trade has doubled. Consumer prices have risen by only seven per cent in five years, or an average of 1.3 per cent per year, lower than any other developed country or NIE. Per capita income has increased by one-third in real terms. Wages for all types of workers - professionals, clerical staff and production workers - have increased, in all sectors of the economy. The result has been high and rising standards of living for the vast majority of Singaporeans. The recent fervent discussions about bread and butter issues in Singapore have paid very little attention to these basic economic facts.

The structure as well as the size of the economy has changed. The manufacturing and the financial and business services sectors have increased their combined share of GDP from 48 per cent in 1985 to 56 per cent. We have become less reliant on the construction sector, which tends to be volatile. It used to form 10 per cent of the economy. Now this share is down to five per cent.

Within each sector, significant changes have taken place. In manufacturing, we have maintained a high level of new investments - on average $2 bn of new investment commitments per year. Sustained over five years, this has meant a qualitative improvement in the industrial sector. We are poised to attract another wave of investments in petrochemicals and downstream products. The electronics industry has grown more important. It now accounts for one-third of manufacturing value-added, compared with just over one-quarter in 1985. Although many electronics factories have operated in Singapore since the early 1970s, the rapid growth since 1985 reflects Singapore's decisive entry into the manufacture of high-technology computer and related equipment. Singapore has emerged as the world's largest producer of disk drives. We have progressed from assembling semi-conductors to fabricating wafers, from production line manufacturing to developing new products like the Motorola credit card pager.

In the financial sector too, innovation and change have been rapid. New trading activities have grown much faster than traditional lending business. SIMEX was formed in 1984. Today, daily turnover on SIMEX is more than 25,000 lots. Financial instruments traded on SIMEX range from stock index contracts to oil futures. Singapore has become the fifth largest forex trading centre in the world, with a daily turnover of nearly US$80 billion.

Even in our traditional area of strength - international trading, we have added new activities like oil and commodity trading and counter-trade, and brought in major international traders under the Approved Oil Trader and Approved International Trader schemes.

These developments link our fortunes more closely to the international economy. In a way, they make us more vulnerable to external shocks. For example, half of the disk drives produced here are sold to the US, so any weakness in the US economy will affect us significantly. The Singapore financial market is one link in the chain of global financial markets, so that problems in other financial centres also affect us. Thus the recent financial scandals in Tokyo have affected liquidity in the Asian Dollar Market as well as turnover on the forex market. But we cannot afford to avoid these risks by staying out of these dynamic and fast-growing activities. Opting out is a formula not for greater safety, but for stagnation. We should ride each wave of dynamism for as long as it lasts, while looking out for opportunities in yet more promising new activities.

**RELIANCE ON FOREIGN WORKERS**

While overall economic growth has been successful, there are some areas of concern. I shall highlight three - increasing reliance on foreign workers, low productivity in the construction sector, and difficulties in upgrading the traditional sectors of the economy, especially the retail trade.

The Government's stated policy is to allow foreign workers in Singapore, to act as a buffer for our labour supply. The idea is to let foreign worker numbers go up in good years, and come back down in bad years. But since the last five years have been good ones, the number of foreign workers has risen steadily. It has increased from around 150,000 in 1985 to about

300,000 according to the 1990 Census. Since the local labour supply has been very tight, and unemployment has been negligible, many companies have relied on foreign workers to expand their workforce. So far, we have been able to accommodate this increase in the foreign worker population, but as a country with less than three million people, we cannot allow this trend to go on indefinitely.

It is difficult to pin down a precise number of foreign workers beyond which we will have intolerable social problems. But clearly foreign worker policy cannot be as generous when 300,000 are already here, as it was when there were only 150,000. We need to tighten the policy in order to limit our reliance on foreign workers. We have just introduced the two-tier levy scheme for the manufacturing sector. Further adjustments will continue to be necessary from time to time.

We will make both the administration and the principles of the foreign worker policy as transparent, fair and flexible as possible, both to large foreign companies as well as to smaller domestic firms. But when we tighten up on the supply of foreign workers, we will inevitably inconvenience some companies who rely heavily on these workers. This cannot be helped. These companies must feel pressure to look for alternatives to using foreign workers in Singapore, whether it is to automate and upgrade, or to move part of the activities offshore to the Growth Triangle.

Without the inflow of foreign workers over the last few years, we could not have achieved the high growth rates that we did. With less room to import foreign workers from now onwards, we must accept lower growth rates than before. Growth will have to depend more on raising productivity and less on increasing the foreign workforce.

**LOW PRODUCTIVITY IN CONSTRUCTION**

One sector which has relied heavily on foreign workers has been construction. Singaporeans are reluctant to work in this sector, so the Government has been generous in allowing foreign workers in order not to hold back major projects such as public housing, Changi Terminal 2 and the CTE Tunnels. But perhaps as a result of this leniency, the pace of upgrading in the sector has not been as rapid as we had hoped for. Productivity in the construction industry has grown by only one per cent per year, compared to 4.6 per cent for the rest of the economy.

A CIDB study found that compared to other cities, even though our costs of labour and building materials are lower, overall construction costs (excluding the cost of land) have not been correspondingly reduced. For example, in Perth, Australia, skilled labour costs four-and-a-half times that in Singapore, and basic building materials cost 60 per cent higher than Singapore. But the unit construction cost of hotels and residential apartments is only 50 per cent more than in Singapore, while that cost of factory buildings for light industries is actually lower than in Singapore. In Hong Kong, skilled workers cost double and basic material costs are about 10 per cent higher than Singapore. Yet overall construction costs are at most marginally higher than in Singapore, and are indeed often lower.

We may not be able simply to transfer the experience of other cities where conditions are different. But clearly we have still considerable room to improve our construction industry. The industry not only needs to employ more efficient building methods like standardised and prefabricated components. Most important, it must develop a skilled long term workforce and reduce its dependence on unskilled foreign labour. This is the only way forward for the industry in the long term.

**UPGRADING AND RESTRUCTURING PAINS**

Upgrading the economy not only means attracting new business, but also requires upgrading existing businesses. In manufacturing, as we began to produce disk drives and specialty chemicals, we moved out of sawmills and plywood factories. If we had not done so, we could not have freed up scarce resources, both land and labour, and put them to more productive use in new and more profitable industries. This process of restructuring is a continuing one. It cannot be avoided, because growth inevitably means not just expansion, but also turnover and renewal.

Restructuring is also taking place in commerce, especially the retail and small business sector. Changing lifestyles and shopping habits have permanently altered the economic environment. The new generation of consumers are more demanding. They have more disposable income and different tastes. They look for comfort, convenience, brand names and even "lifestyle" products. Wet markets are still popular, but provision shops are losing out to mini supermarkets like Fairprice, Seven Eleven or Econ Minimart. Mineral water, far from being a yuppie product, sells well in coffee shops in HDB estates all over Singapore.

Many of the older HDB shopkeepers are finding that their business is not improving. On the one hand, the market has changed and demand has shifted away from the traditional retailing business. On the other hand, high economic growth has resulted in keener competition for resources, whether workers or shop space, pushing up wages, rentals and operating costs.

The problem is felt in both old and new HDB estates. In the older estates, where younger people have married and moved out, leaving the old folks behind, the shopkeepers have felt the pinch. But shops in newer estates, where average incomes are higher, do not automatically benefit. With the MRT and convenient transport, retailers are no longer protected by distance. Consumers can shop downtown instead of downstairs - in the town centres of new towns, or in the shopping centres of Orchard Road or Marina. They shop in their estates mainly for food and provisions, but when buying clothing, shoes, furniture or electrical products, they go wherever the best shops and bargains are.

The SEP has identified this traditional sector of the economy as one requiring special attention. This sector employs a significant share of the workforce, but its output is not commensurate with the workers employed. Typically value-added per worker is only one quarter to half that in other sectors like manufacturing or banking. Unless the sector becomes more productive, it cannot pay well enough to improve the standard of living of the workers or the proprietors, no matter how low HDB rentals may be, or how many foreign workers they are allowed to hire.

We cannot ignore these realities. For older retailers who are caught by them and find it difficult to upgrade, the changes are painful and unsettling. Yet the traditional sector must find ways to make these changes if it is to survive and prosper.

The Government will do its best to smooth the path of transition and ease the pain. The solutions will not be quick or easy. We cannot turn back the clock, and demand that young people work long hours in the family shop in return for board and lodging, when their friends either work office hours in comfortable offices, or are paid overtime and shift allowances in hi-tech factories. I have asked EDB to study the problems of the retailers and small businesses in more depth, and to work together with HDB, MOL and other agencies to come up with practical proposals to help the sector. Their conclusions should be ready within a few months.

This problem is not unique to Singapore. Some countries have tried to solve it by protecting the retail sector from competition. In Japan, for example, government regulations prevent department stores from setting up, so that little mom-and-pop shops can survive. In other words, Japanese consumers are compelled to patronise these shops for lack of an alternative. Such a solution is unlikely to work in Singapore. We cannot confine the shopping centres along Orchard Road to serving tourists, and even if we did Singaporeans can vote with their feet by shopping in Johor, or even Batam.

**LONG TERM GROWTH TRENDS**

The more effectively we help existing sectors restructure and upgrade, the faster the economic growth we can sustain. Some years ago, MTI projected Singapore's long-term growth rate at four to six per cent. Many people disbelieved us. They said that MTI was as usual being too conservative, and that we should add another two per cent points to the range. When growth rates averaged 9.5 per cent in 1987-90, the critics felt vindicated.

But the high growth since 1987 was only achieved at the cost of a sizeable increase in the number of foreign workers, not by employing indigenous resources alone. Furthermore, it happened in the immediate rebound from a severe recession, with surplus capacity waiting to be soaked up. Since 1988, GDP growth has been steadily slowing down, quarter by quarter. Over the longer term, demographic changes like an aging population will affect our growth. Countries at similar levels of economic development, like Hong Kong, New Zealand, Spain, Israel and Ireland are all growing much more slowly than we are. We must try to continue to outperform them, but their collective experience gives an indication of what is possible. So a four to six per cent forecast for the long term is not really that wide off the mark, although perhaps it was a little too early.

MTI's responsibility is to put off that long term for as long as possible. In the shorter term we can and should try and do better, for example by upgrading the quality of our workforce, increasing the output of the universities and polytechnics, developing the Growth Triangle to tap regional sources of growth, and restructuring the traditional sector of the economy. If these strategies work, for the next five years at least, we should be able to average five to seven per cent growth.

Singaporeans will have to get used to these lower but ultimately more sustainable growth rates. If we can maintain five to seven per cent, standards of living will rise steadily year after year. The Government will collect enough revenue to carry out its programmes. It will not need to raise taxes, provided it continues with the present conservative approach to spending public money. But we will have less leeway to pursue redistribution at the expense of some economic growth.

We have become so used to high growth rates that we sometimes assume they will automatically continue in future, and that we can trade off a little of this natural high performance to enjoy a more leisurely lifestyle, or more generous state welfare, or looser national consensus. If indeed we can have all these things, and growth will only slow down from eight per cent to five per cent, that might be a reasonable trade off. But if the natural rate of growth is already only six per cent, then we will have less fat to shed. To put it in concrete terms, at six per cent growth, it takes 12 years for incomes to double; at three per cent growth it takes 23 years. At six per cent growth, COE prices will go up from year to year, perhaps causing anxiety among Singaporeans aspiring to own cars. At three per cent growth, we will no longer have to worry about rising COE prices, because fewer Singaporeans will be able to afford new cars in the first place.

Of course, some believe that generosity is cost free, and that we can make all the changes without trading off any growth, indeed with a consequent great release of energy and flowering of creativity. The challenge for this view is to produce actual examples of countries which have followed the prescription and prospered as predicted.

**OUTLOOK**

While our expectations for the medium and long terms must be realistic, the question of most immediate interest is always how the economy is performing right now. As a young country, we are perhaps a little prone to alternating bursts of euphoria and gloom. Earlier this year, when MTI forecast that growth for the whole year would be between six per cent to eight per cent, some pundits criticised this as being too conservative, and confidently declared that growth would exceed eight per cent. When some signs of slowdown emerged, the stockmarket was abuzz with rumours of low growth in the third quarter - three per cent, even zero per cent! The figures for the third quarter will only be ready next month. But you have read what Mr Lim Boon Heng said: third quarter growth was above six per cent, so stockmarket watchers and punters can relax a little.

The main reason for the more cautious outlook is external, especially the slow US recovery from the recession. The IMF, in its latest update of the World Economic Outlook, has forecast that world economic growth this year will be at its slowest in nine years. As usual, our manufacturing sector is the first to be affected. Some industries are still doing very well, for example ship-repairing, paints, pharmaceuticals and other chemical products, and printing and publishing. But the electronics industry cannot escape the worldwide slowdown in the industry. Output of disk drives, semi-conductors and telecommunications equipment are all down from a year ago. It will be some months before the business picks up again. Some disk drive companies have even retrenched workers, a prospect unimaginable last year. Fortunately, the workers have quickly found jobs in other firms.

The financial and business services sector, which was the leading growth sector in the last two years, also saw slackening growth. Preliminary signs are that business services are still expanding, but financial services are flat. The stockmarket is lacklustre. Daily turnover on the forex market has fallen from a record high of US$96 billion in October 1990 to US$65 billion in August 1991. The Asian Dollar Market has continued to consolidate, with total assets falling from US$390 billion at the beginning of this year to US$342 billion in end-August. The slowdown in the financial sector reflects worldwide trends towards consolidation and adverse external developments, like the financial scandals in Tokyo, the need to meet BIS capital adequacy requirements and tighter liquidity in regional countries.

Commerce, too, has been affected by fewer tourist arrivals. The Gulf war caused tourist arrivals to fall by seven per cent in the first quarter of the year. STPB projects that tourism will only grow marginally by one to two per cent for the year as a whole. Fortunately tourist numbers have been increasing since May, so that by next year the industry should be picking up.

The bright spot is construction which has continued to record double-digit growth. But as we learnt in the last recession, we cannot rely too heavily on the construction sector. High growth in this sector helps us to cushion temporary slack in the rest of the economy, but it is ultimately not sustainable.

Looking ahead, we see some uncertainty in the external environment. Germany and Japan are expected to see more moderate growth next year. The IMF and other agencies have predicted that the US economy will recover in 1992, but the signals from the US economy are still mixed. On the one hand, the index of leading indicators and manufacturing output appear to be still pointing up. On the other hand, consumer confidence remains weak with fears of further retrenchments. Forecasts of a US recovery have been postponed from this year to some time next year. Even then, the strength and duration of the recovery are by no means assured.

MTI is therefore more cautious about the economic outlook than it was earlier this year. The second half is unlikely to equal the 7.3 per cent achieved in the first half. But we should still achieve 6.5 per cent to seven per cent growth for the year as a whole.

**COMPETITIVENESS**

In view of the less favourable external environment, we need to be extra watchful about our competitiveness position. When MTI last reviewed Singapore's competitiveness 6 months ago, our position was still comfortable, although our costs were rising relative to the other NIEs. All the NIEs are facing labour shortages and hence experiencing high wage increases. In Korea, for example, wages in the manufacturing sector rose an average of 22 per cent per year in 1987-90. In Taiwan they rose 13 per cent per year in the same period. Singapore's wage growth has been more moderate. Unfortunately, our productivity growth has also been less impressive. In Korea, productivity grew by a phenomenal 12 per cent p.a. in 1987-90 whereas Singapore managed only 3.5 per cent. Our relative competitiveness is therefore likely to weaken somewhat this year.

In good times, this is not a serious concern. Higher labour costs can co-exist with high growth, as the experience of the NIEs in recent years testifies - Korea grew by an average of nine per cent p.a. in 1987-90 and Taiwan by seven per cent. But for the time being, in the present more uncertain environment, we should be careful not to aggravate external weaknesses by incautious domestic cost increases.

Companies and workers must be aware of the state of the overall economy, their industry and firm when they decide on wage settlements. The first companies to settle their annual wage adjustments after the NWC recommendations were published this year did so around 10 per cent. This is well and good for companies that are doing well and can afford such settlements. Others which are operating in weaker markets should not aim so high. Provided we exercise moderation and responsibility, we can ride out this temporary slowdown and avoid too sharp a dip. This will save us from making violent and painful adjustments later.

**CONCLUSION**

Our economic development has been for one purpose: to enable all stakeholders of Singapore to earn a high and rising standard of living for themselves. The ultimate test of our economic policy is not how many disk drives we export or how much forex we trade, but how well we are able to translate impressive economic figures into real improvements in the lives of the citizens. This requires attention to both the forms of consultation between the public and private sectors on economic policy, as well as the substance of the deliberations and the logic of the conclusions. It means never wavering from the long term objective, but always keeping a watchful eye on closer events. It means knowing your own businesses and industries well, but also being sufficiently objective and detached to view the issues and interests from the national perspective.

This has been the difficult task of the participants in the SEP discussions. I thank you all for your contributions, and wish you a successful conference ahead.

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