

SINGAPORE GOVERNMENT PRESS STATEMENT

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BUDGET SPEECH OF THE MINISTER FOR FINANCE
AT THE SITTING OF PARLIAMENT ON TUESDAY,
3RD DECEMBER, 1968.

(To be checked against delivery and embargoed until then).

In last year's Budget, Defence Expenditure did not occupy a prominent position. Although the Republic had been building its Defence forces since 1965, the first announcement of British withdrawal plan called for no change in the Republic's Defence Programme as the assumptions on which plans were based took into account the probability of total withdrawal of the British presence by 1975. It was proposed to expand our Army to seven Infantry Battalions. These with their supporting arms and services will provide the elements of two Infantry Brigades. Last year I was able to make the following remark in my Budget statement :-

"Provided that there are no further changes of mind on the part of Her Majesty's Government the build-up of our Defence forces on land will continue as planned."

The reservations contained in the proviso struck an ominous note at that time and unhappily the fears on which they rested were realized. The accelerated withdrawal plan has totally upset the assumptions on which the first Defence plans were made and it was therefore necessary to revise and draw up an entirely new plan. From time to time, Ministers of the Government made public statements about the build-up of this or that element of the armed services. I myself made a forecast last August that there will be a very substantial increase in the Defence Budget for the coming year. I mentioned a figure of Defence expenditure reaching 10% of gross national product, as a result of which tax increases were hardly avoidable.

It is clear that this very large and rapid increase in our Defence expenditure sets the predominant theme in the Budget. In a closed totalitarian system, it is possible to incur expenditure of this size in secret without any need for a public explanation how the money is being spent. In an open Parliamentary system such as ours, it is not possible to conceal expenditure increases of this magnitude. Nor is it desirable to do so. Our young men are being conscripted by the thousands into the Defence forces. Soon taxpayers will be asked to pay more. Obviously the public has a right to know what we are spending the money on, what they can expect to get in return for it and whether they are getting value for their money.

I will deal with the Defence build-up taking each of the three services in turn. I will start with the Navy. Our original plans made no provisions for naval expansion (until the early 1970's) nor for that matter for the establishment of the Air Force this year. Obviously with the end of British protection in three years' time, no time should be lost in creating these services.

In the case of the Navy, the first phase of development is envisaged to take the form of establishment of a force of six patrol craft. Orders for these have been placed in June of this year with Vosper's. Two will be constructed in Britain and four in Singapore. Delivery will commence in the middle of 1970 and will be completed before the end of 1971.

Pending the arrival of these craft the present naval effort is confined to training of personnel. Four naval officers are undergoing training in the United Kingdom with the Royal Navy and four in Australia with the Royal Australian Navy. A school of naval training was established on the 15th November this year and the first intake of recruits will commence

training in February 1969. This will be concerned purely with training of seamen, navigation, care of ships and so on. Naval crew who will take charge of radar, or mechanical equipment, will receive their basic training in the training schools of the Armed Forces dealing with these subjects.

The establishment of our Air Force is proceeding apace. Fifteen young men selected by a rigorous procedure out of several hundred, are now undergoing training with the Royal Air Force in Britain. A further four are doing helicopter training in France. This month another five pilots are going for training in the U.K. and more will be sent there next year. On their return they will be attached to the Flying Training School in Singapore which will turn out the additional pilots required by our Air Force.

The Air Force requires not only pilots but also ground crew to service the aircraft and technical and operational teams to operate radar and air defence systems. A Technical Training School will be established to train such personnel and the staff of this school is now being trained overseas in mechanical, electrical, electronic and other trades.

The Republic's Air Force will be operational before the end of 1971 and it will consist of squadrons of Cessnas, Jet Provosts, Alouette Helicopters and Hawker Hunters. The Cessna serves as a primary trainer. It can also perform the role of spotter aircraft. The Jet Provost is the basic jet trainer. It can double-up for counter-insurgency operations and for ground attack. Alouette Helicopters are capable of performing a variety of useful duties. The Hawker Hunter is an interceptor aircraft which can be used also in ground attack operations. It is a fine and versatile aircraft.

Orders for all these aircraft together with the electronic gear and weapons systems have been placed and delivery will be effected over the next two-and-a-half years. The task of building an Air Force from scratch is an exacting one. We are indeed fortunate to have the whole-hearted assistance of the Royal Air Force. The Singapore Government is also fortunate to be able to secure after his retirement from the Royal Air Force in February 1969 the services of Air Marshal Sir Rochford Hughes. Sir Rochford Hughes currently the Air Commander of the Far East Air Force has a long and distinguished career as an Air Force Officer and we can have every confidence that with his advice and guidance the Republic's Air Force will be one of high quality.

I now turn to the expansion of the Army. This was the first arm of the service to be expanded after independence. The build-up is proceeding satisfactorily. The present state of the Army is as follows. We have increased the number of Infantry Battalions from two in 1965 to five to-day. Two of the Battalions are fully operational. Another two are in an advanced stage of training and will be fully operational by the middle of next year. The fifth Battalion will be operational in December next year. Next March the sixth Battalion of the Singapore Infantry Regiment will be formed.

I wish to mention here that the two Battalions we inherited are not just retained in the condition that we found them. The 1st and 2nd Battalions of the Singapore Infantry Regiment are being reconverted into the new battalion structure using new weapons and manned by National Servicemen. Regular soldiers of the two Battalions have been distributed to other units of the Armed Forces.

The control and command of the Battalions are vested in a Brigade Headquarters established in October this year. It is now fully operational and a second Brigade Headquarters will be established in the middle of next year.

Infantry Battalions have to be served and supported by other combat and technical units. An Artillery Battalion has been established and has reached an advanced stage of training. It is expected to be fully operational by the middle of 1969. A second Artillery Battalion will then be raised. These Battalions use the 120 mm mortars which provide close fire support for front line troops.

One Battalion of Combat Field Engineers raised this year will be fully operational by the middle of next year. The Engineers will perform the conventional roles expected of such units, that is to help in infantry assault by breaching all types of obstacles including mine-fields. They will also have other capabilities such as providing for river crossing, carrying out all types of demolition missions, constructing fortifications and so on. The Signals Battalion has been formed and is functioning to provide communications between the higher formations and headquarters. All units of the Singapore Armed Forces are equipped with the most modern signals equipment available.

In addition to the Battalions which are performing full-time military duties, we have units of the People's Defence Force. The PDF as everybody knows consists of civilians who give up part of their time after work or during periods of leave for military training. At present the PDF is organised into three Infantry Battalions with a fourth to be raised early next year. Their present functions are confined to internal security duties. A PDF Engineer Battalion also

exists and is trained in the running of essential civilian services during an emergency. The command and control of this PDF unit is vested in the Brigade Headquarters which has been set up.

The units which I described have been raised in accordance with the original expansion plan for the Army and according to the same time-table. However, as a result of the accelerated British withdrawal, it has been found necessary to increase the force strength of the Army in 1971. In addition to the two Infantry Brigades, it is proposed to raise an Armoured unit consisting of tanks and armoured cars. The preparations for raising this Armoured unit are at an advanced stage. Orders for the vehicles have been placed and a nucleus of officers and technical crew for the unit is now being trained in the Israeli School of Armour. The main strength of the unit will be drawn from officers and men to be trained in the School of Armour which we will establish in Singapore. The Armoured unit is expected to be fully operational by 1971.

One noteworthy feature of the expansion of the Army which has not drawn public comment is that the entire body of Officers and Non-Commissioned Officers are staffed by our own citizens. It looks to us as a natural occurrence. But if we compare our Army with those recently raised by many developing countries, we will notice that many of their defence units are staffed with substantial forces of expatriate officers and technicians. In our case, apart from 23 members of the Israeli Defence Mission, serving as instructors and advisers, and, at the end of next year, Sir Rochford Hughes, the entire Defence establishment is staffed by our own officers at the higher echelons.

This satisfactory outcome is the result of a sound system of training institutions which had been established and is even now being rapidly expanded. The Singapore Armed Forces Training Institute - SAFTI - provides the major effort. In addition to infantry training up to platoon level, it is now giving advanced training to officers at company and battalion levels as well as specialised training in support weapons and military medicine.

In addition to SAFTI, a School of Artillery has been established as well as a School of Field Engineers. These are attached to the respective battalions. Training activities are also carried out to provide various technical personnel required in an armed force. A School of Electronics will be formed in 1969. Already in existence are a School of Catering, a School of Drivers, a School of Provost and believe it or not, a School of Military Accounting. The PDF training centre has been established and it runs courses throughout the year to upgrade PDF officer and NCO cadres.

The above briefly outlines the expansion of our defence forces up to 1971. It will be a costly undertaking, the annual cost in cash terms reaching some 10% of our current gross national product, or more than \$300 millions.

I have come across two reactions to our defence build-up. As they seem widespread and further appear to me to rest on incomplete understanding of our defence effort, it is worthwhile to dwell at some length on them. The first takes the position that Singapore, being small in population and in land area, is incapable of defending herself against armed attack by countries bigger in size. The other point of view accuses us of arming ourselves in a precipitate

manner and to an extravagant degree. I believe neither of these views is correct.

The first view regards building of the defence forces principally in terms of its nation-building value. Youths are conscripted into the army by national service and are brought together in a collective life. They have instilled into them certain values of discipline, loyalty, leadership and other useful qualities. While in no way denying the real worth of the nation-building functions of the defence build-up, I would like to say that these people overlook two important points. The first is that we are not creating a large body of enthusiastic amateurs. On the contrary, we expect our soldiers in all units and at all levels to attain the highest professional standards. The rigorous training systems created with the advice of the Israeli Defence Force mission ensure that they get the best training possible. Further, members of the armed forces are equipped with the best weapons money can buy.

The same holds true of communications equipment, transport and other logistic requirements.

All these preparations will ensure that we have adequate fire-power, mobility and professional skill. The second point overlooked by the pessimist is that the full-time units of the army - in this case, two infantry brigades and one armoured unit operational as from 1971 - do not represent the total potential of our army force strength, or "Order of Battle" as the professionals call it.

This is the result of National Service which allows us to have a comparatively small full-time army while building up a reserve army of increasing size in the course of time. It works out this way. The national

serviceman, after serving two years in the army, leaves the full time army and takes on a civilian occupation. He is, however, liable for the reserve service for ten years. During this period of reserve service he will be called up for full-time training one whole month each year. This enables us to build up reserve battalions as national servicemen leave the active battalions on completion of their two years' service. All that is necessary to establish these reserve battalions is to store up weapons, equipment and transport for these battalions as well as maintain a nucleus of regular officers and men. The bulk of trained personnel is provided by reservists. An infantry battalion in full-time service would reproduce itself every two years into a reserve battalion. Similarly, elements from the armoured unit, artillery, engineer battalions and other units will also be released into reserves, thereby creating a complete infrastructure of fighting units in the reserves.

The complete cycle is 12 years, with national servicemen doing full-time service for two years and ten years as reservists. At the end of 12 years from the beginning of national service, that is, in 1979, thirty infantry battalions would have been formed as reserves. In other words, by 1979, under the present rate of enlistment, we would have available on immediate mobilisation, forty-five thousand well-trained soldiers.

This is a substantial force by any standard. It should be adequate to protect Singapore against any foreseeable military threat. To give some idea of the scale of operations which our army can eventually undertake, let us consider the Japanese assault of Singapore during the Pacific War. The assault was carried out by three Japanese Divisions. The 5th and 18th Divisions landed at Pasir Laba and Lim Chu Kang whilst the Imperial Guard Division landed

to the left of the 5th Division, the front extending to the causeway. Unfortunately for us the defending troops in Singapore, consisting mostly of conscripts and regulars of other countries, did not put up a distinguished performance for reasons which need not detain us here. If we had at that time forty battalions of our own, I have little doubt that the Japanese army would have found the going a great deal harder. Of course the sensible thing to do, if there is to-day a repetition of an offensive of this nature against Malaysia and Singapore, is to send our troops to fight on the beaches of Kota Bahru and by the Slim River alongside Malaysian forces rather than wait for the invading army to reach the causeway. This rather fanciful illustration created from past history serves to underline what has been said of the indivisibility of the defence of the Peninsula and Singapore.

I now turn to the other criticism, namely that we are arming ourselves at too rapid a rate. This point of view is quite easily disposed of. At present only 20% of national servicemen are selected for full-time service in the Armed Forces. Even with the expanded Defence programme it is unlikely that the percentage of intake into full-time service will substantially increase. Further, the build-up of the army strength takes the form of increases in reserve battalions. These increases take place in gradual measured steps, quite the reverse of the precipitate action we are accused of taking. It will not be until 1979, that is the end of the next decade, that we would reach the full potential of the order of battle. This assumes of course that we will continue to provide weapons, equipment and transport for each and every reserve

battalion. We shall certainly do so in the next few years but whether we should accumulate vast stores of military hardware right till 1979 is a matter that can be decided in the light of circumstances prevailing. By the same token we are also keeping our options open for faster build-up should this prove necessary. With the training units and the know-how that is being rapidly acquired we would have the capacity before the end of 1971 to vary the rate of expansion to such levels as may be judged appropriate, taking all prevailing circumstances into consideration.

I mentioned a short while ago the kind of attack which our Armed Forces in co-operation with the Malaysian Forces would be in a position to repel. This would be approximately the kind of effort mounted against us by the Japanese in the Pacific War, that is an invasion force consisting of three to four divisions which in itself required a tremendous logistical effort. However, if a really major threat develops, say an invasion by 50 divisions or a threat to deliver a nuclear attack, then a situation arises which concerns not only ourselves but all the major world powers. An assault by 50 divisions or a nuclear threat can only be mounted by a super-power or by countries acting with the connivance and support of a super-power. As such, other super-powers will be drawn in and the resolution of a conflict of this scale will rest with the giants.

So far, I have discussed one aspect of the impact of the British withdrawal, that is, the need for us to increase our own defence capability in a very short time. The second consequence which we have to face relates to the decline in gross national product and the loss of employment of large numbers of people. I want to go at some length into the number of locally employed civilians and enlisted personnel who will be laid off as a consequence of British withdrawal.

I am circulating a Table for the information of Hon. Members as the facts are best set out in this form. I would like to say at the outset that while some of the figures are very accurate, others are not so. For instance, the number of civilians employed in the Armed services and the number of locally enlisted personnel are derived from accurate records. On the other hand, the number of domestic servants employed by British service families is very approximate as no registers are maintained in respect of them.

BRITISH WITHDRAWAL

Locally employed civilians and personnel

	<u>Apr.</u> <u>1967</u>	<u>Dec.</u> <u>1967</u>	<u>Dec.</u> <u>1968</u>	<u>Dec.</u> <u>1969</u>	<u>Dec.</u> <u>1970</u>	<u>Dec.</u> <u>1971</u>
Locally engaged civilians by the Armed Services	25,600	24,000	19,000	16,500	11,000	Nil
Locally engaged civilians by MPBW, NAAFI, AKC, etc.	4,000	4,000	3,200	2,700	2,200	Nil
Locally enlisted personnel	4,550	4,350	4,100	3,200	2,300	Nil
Domestic servants	8,000	7,200	5,800	4,900	4,000	Nil
Total	<u>42,150</u> *****	<u>39,550</u> *****	<u>32,100</u> *****	<u>27,300</u> *****	<u>19,500</u> *****	<u>Nil</u> ***

In April last year, there were some 42,000 persons employed, and by the end of this year we estimate that 10,000 would have lost their jobs. Of this ten thousand, 3,000 are those engaged in the Naval Dockyard and re-engaged by Sembawang Shipyard. Therefore, the number retrenched so far is only 7,000. Next year will see a further retrenchment, but not in substantial numbers - around 5,000. The following year 1970 will see a larger decline; another 8,000 or so. But the real crunch will come in 1971 when 19,500 persons of all categories would have been declared redundant on the closure of all Service establishments. The annual redundancies differ earlier this year when, in the absence of accurate data, I had assumed a constant rate of rundown. The British timetable is now made up. The rundown begins at a slow pace until the last year. Accordingly the counter-recession programme outlined earlier needs to be revised.

So the year 1971 from all accounts will be a difficult one, and it is well that we lay up a store of fat to meet that lean year. We have undertaken a number of measures which are intended to help redundant base workers. They include the Central Provident Fund scheme into which all gratuities are deposited and from which regular amounts can be drawn out, so that the redundant worker can have a longer period during which to find work and adjust to the new situation. We have also introduced a training scheme to fit them for new occupations in industry. It is obviously not possible to ensure that each and every redundant worker finds a job congenial to him. Nor is it possible to deal with redundant workers individually. The problem is too large for an approach of this kind.

The best guarantee that adjustment to new conditions will be both prompt and painless is to ensure a sufficiently fast growth of the economy. With such economic growth, there will be a rising demand for all categories of workers, and within this rising demand there will be more opportunities for redundant base workers to find new jobs. This leads me to discuss the general economic conditions now facing us and the immediate prospects ahead.

State of the Economy

The economy has had another good year. Trade continues to expand. Port activities, therefore, remain at a high level. Manufacturing output and sales are up because the productive capacity of the industrial sector has been enlarged. Construction too shows good progress and all in all there is satisfactory all-round growth.

Preliminary estimates of gross domestic expenditure for 1968 indicate that the economy has grown by 7.7 per cent since last year. Gross domestic expenditure is estimated at \$3,850 million. With population growth averaging less than 2.0 per cent this year per capita, gross domestic expenditure increased by nearly 6 per cent to a level of \$1,940.

Economic growth is associated with the rate of investment in fixed assets undertaken by the economy. It is particularly gratifying, therefore, to note that this year, gross capital formation or total investment has increased by 17.0 per cent over 1967. Total investment this year is estimated to be \$606 million, as compared with \$518 million last year. Its share in gross domestic expenditure increased to 15.7 per cent from 14.5 per cent in 1967.

The good performance of the economy is reflected in no small measure in the upward surge in trade. Total trade for the first nine months of this year was valued at \$6,720 million, up 14.5 per cent from the corresponding period for last year. Exports totalled \$2,880 million and imports \$3,840 million. Cargo handled at the harbours reflect this increase in trade activities. From January to September this year, a total of 26.5 million freight tons were discharged and loaded at the ports as compared with 22.6 million freight tons for the same period last year. This represents an increase of 17.4 per cent. Reflecting this increase, more ships called at our ports. Up to September this year, 11,600 vessels with a total tonnage of 47 million tons had called at Singapore. This was an increase of 15.0 per cent and 11.5 per cent respectively over the corresponding period for 1967.

The expansion in trade is partly the result of continued growth in the manufacturing sector. As the manufacturing sector grows, it requires more raw materials, plant and machinery, to be imported. Similarly, as the industries mature, they too export more and more of their products. The quarterly index of industrial production for the first quarter of this year stood at 121.3 and for the second quarter at 129.4. For the third quarter, it rose further to 131.4. The average for the whole of 1967 was 111.1 and the base year for the index is 1966. As at the end of June this year, there were 174 pioneer firms in production, an increase of 47 firms over last year. These have a total investment in fixed assets of \$436 million and a combined output of \$472 million. Investment and output increased by 19.0 per cent and 64.0 per cent respectively from the previous year. They employed a total

of 18,780 workers, an increase of 5,380 over last year. In addition to these pioneer firms already in production, there are 56 pioneer firms in various stages of implementation.

Another indicator of increased commercial and manufacturing activities is the electricity consumed by industrial and commercial enterprises. This has gone up from 521 million Kwh for the first nine months of 1967 to 659 million Kwh up to September this year, an increase of 26.5 per cent. To meet the increased demand for electricity, a new power station is being constructed in Jurong with an eventual capacity of 480 megawatts, or slightly larger than the present total installed capacity of 464 megawatts. The first phase will be completed in June next year when a 120 megawatt generator will be commissioned. A second 120 megawatt generator will go on stream in April 1971. By 1974, the total installed capacity in Singapore will be 944 megawatts, more than four times the 202 megawatts in 1961.

Building and construction too are making good progress. Commencement of new buildings, however, has slowed somewhat. In the first half of this year, 6,140 units were commenced as opposed to 8,320 units for the first half of 1967. The decline was mostly in the public sector. In terms of floor area however, there was only a 3.0 per cent decline, from 6.7 million sq. ft. to 6.5 million sq. ft. But in terms of value, which is really what counts, there was actually an increase of 8.8 per cent. The value of the buildings commenced in the first six months of 1967 was \$72 million as against \$78.3 million for the same period this year.

Tourism, too, is having its day though the rate of increase in arrivals is only a shade of the previous year's spectacular increase of 70.5 per cent. Nevertheless, total arrivals of passengers by air and sea to Singapore numbered 181,570 up to the end of September this year, up 25.3 per cent from the corresponding period of last year. This is likely to be the more normal rate of growth in future years.

At present, there are 58 tourist hotels with 2,570 rooms. The occupancy rate is 83 per cent. 18 new first-class hotels are also being built. These, when completed, will add some 6,000 rooms to the current stock. Six of the hotels are expected to be completed by end^{of} 1969, increasing the availability of hotel rooms by 1,610. With all these facilities, accommodation will not be a bottleneck constricting the inflow of tourists in Singapore in the coming year.

Symptomatic of the level of well-being of the economy is the rise in bank deposits. At a time when the international economy is beset with monetary crises, when sterling, the U.S. dollar and the French franc are being attacked by speculators, bank deposits in Singapore continue to increase, from \$1,650 million as at the end of September, 1967, to \$2,105 million as at end of September this year, up 27.3 per cent. The large increases in bank deposits month after month since June 1967 could not possibly be due to the expanding economy alone. Inflow of funds from abroad is possibly an important contributory factor. If this is so, it is a cogent reflection of the confidence that people have in the currency of Singapore, and in the final analysis, it is a vote of confidence in the stability and strength of the Singapore economy.

Future Prospects

Last year, our economy was considerably boosted by panic capital from Hong Kong and a good proportion of this year's crop of new industries represents the fruition of this capital inflow in 1967. But in the next two years, the boost to our manufacturing sector will come not from Hong Kong capital, but from American capital. As Hong Kong recovers from its political troubles of last year, the number of panic enquiries has also tailed off. However, Hong Kong interest in Singapore remains at a gratifying level. Projects in the pipeline represent genuine investment in search of profit opportunities. Investment of this kind is likely to be more productive and more enduring.

Although our investment promotion programme in the U.S. and Europe is still in its initial stages of development, the results are encouraging. Large international companies, mostly American, are increasingly becoming aware of the advantages that Singapore offers to investors. Amongst the factors that they find attractive are our political stability, the national determination to work and overcome problems as manifested in the general acceptance of the new Employment Act, our price and wage stability, a sound currency, a strategic location, an honest administration, an abundance of intelligent, educated and adaptable workers, high labour productivity and excellent transport facilities. No less important are the investment and export incentives provided in the Economic Expansion Act. Also capital is available in abundance and on good terms. These ingredients for success have been confirmed by the well-known U.S. independent business consultants, Business International, who in their "Report to Managers of World Wide Operations" in February 1968, rated Singapore as an excellent place to do business.

The American companies are particularly interested in two fields of activities in Singapore. First, there is a group of companies like Caterpillar, Allis Chalmers, and International Minerals Corporation, which are keen on using Singapore as a distribution and assembling base for South-East Asia. Other American companies like Santa Fe-Pomerooy, Dillingham, McDermott and Procon are also interested in using Singapore as a supply and fabrication base for oil and mineral resources development projects in this region. Singapore can provide all the necessary engineering and supporting services efficiently. This would not only benefit the large international companies but also the neighbouring countries as the provision of an efficient supporting base could accelerate their development programmes.

Secondly, there is the group of companies interested in manufacturing a wide range of electronic components, electrical appliances and other instruments. These companies include National Semiconductors Corporation, Texas Instruments and Continental Devices. All three are American companies. These are very substantial investments and will employ large labour forces.

In addition to what have already been mentioned, there are other projects involving international consortiums for the development of petrochemicals, steel, paper and pulp, and fertilisers, watch-making, construction of fishery vessels and other specialised ships and marine structures, prefabricated houses, internal combustion engines, farm implements and machine tools. Most of these projects should get off the ground in the next two years.

In sum there are enough industrial investment projects in the pipeline to keep the economy going at a brisk rate the next two years. All this will make it easier for redundant workers to find new employment than would otherwise be the case. In my previous Budget Statement I commented on the need to establish new institutions to strengthen the industrialisation programme. In my series of broadcast talks last April, I elaborated upon the theme.

The proposal was to set up three new institutions. Two grew out of the Economic Development Board; the third is an entirely new project, an international trading company. All these three institutions have been launched and it seems appropriate on this occasion to report on progress achieved. The Development Bank of Singapore which was formed to take over the financing functions of the Economic Development Board has been successfully launched. It was formally incorporated on July 16th, 1968 and commenced operations on the 1st September. The staff of the Bank was drawn initially from the E.D.B.

In addition to financing purely manufacturing undertakings, the Bank's financial scope extends to include tourist and estate projects, the latter relating mainly to projects established under the urban renewal programme. The Development Bank has taken over from the Economic Development Board its entire loan portfolio. This includes loans to small industries advanced by the Light Industries Services as well as special loans for ship-breaking operations. The amount of loans transferred to the Development Bank comes to \$48.9 millions. In addition some \$30 millions worth of loan committed by the Economic Development Board has been taken over by the Bank. The transfer of loans from the

E.D.B. to the Bank is a comparatively simple operation.

The position in regard to equities, that is shares in industrial ventures owned by the Economic Development Board, is more complex because of problems of valuation. Where the share is listed in the Stock Exchange, a clear out basis for valuation exists, though the trouble is that prices fluctuate from time to time. Where shares are not listed it is not easy to find a mutually acceptable price. In the event, it was decided that the entire equity holding of the E.D.B. should be taken over by the Government. The Government will similarly undertake to pay up the balance of equities which were partly paid. The value at cost of these equities comes to \$25.2 millions with a further \$3.4 millions equity capital to be paid up. In addition to these, there are a number of equity commitments made by the E.D.B., paid-up capital of which has not been called. Such equities will be taken over by the Bank and the value of these equities comes to \$8.5 millions. In addition the Bank has taken over guarantees made by the E.D.B. on behalf of manufacturers making purchases of plant and equipment. The value of outstanding guarantees as on 26 November, 1968 is \$14.1 millions.

The Bank has a total paid-up capital of \$100 millions. An invitation to subscribe to this capital by providing subscription to local banks and financial institutions as well as by public invitation was over-subscribed. In the allocation of shares to the public, special consideration was given to small investors and all applications of \$2,000 or less were accepted in full.

As regards the Bank's future operations the Government will extend to the bank credit loans of \$30 millions in the first instance and another \$50 millions on

exhaustion of the first line of credit. Interest will be at a rate of 4% per annum. These funds will be used by the Bank to extend loans to industries at a rate of interest not exceeding 7%.

The Bank will also raise additional funds from local, foreign and international institutions. These operations of the Bank will be governed purely by commercial considerations. A high level technical team from the Investment Bank of the German Federal Government, Kreditanstalt fuer Weideraufbau (KfW), arrived in Singapore last month to advise the Bank on internal organisation and in the formulation of its operating policy. The KfW team stayed in Singapore for three weeks and has submitted a preliminary report. The German Investment Bank has also been asked to assist the Bank in the initial years by seconding a number of senior personnel. The Chairman of the Bank is Mr. Hon Sui Sen who has rendered such distinguished service as Chairman of the Economic Development Board. I have little doubt that under his leadership, the Bank will grow into a powerful institution for promoting economic development in Singapore.

I now turn to the second institution, the International Trading Company or INTRACO, to use its registered name. The Company was incorporated on the 5th November, 1968. With an authorised share capital of 50 million shares of one dollar each, of which 20 million shares are being issued, only 50¢ per share is being called up immediately.

Intraco will be jointly owned by the Government of Singapore with 6 million shares, the Development Bank with 3.8 million shares and the private sector with 10.2 million shares. The private sector allocation has already

been over-subscribed.

Of the three institutions, this would be the most complex, difficult and challenging undertaking. While the Development Bank and the Jurong Town Corporation were built on the foundation of solid achievement of the Economic Development Board, Intraco has to blaze its own trail not in Singapore but in the outside world. It has to meet fierce international competition from all quarters in promoting the export of Singapore's goods. This is not a task that can be accomplished overnight and the directors of Intraco have wisely decided upon a phased programme. The Company is still in its infant stages and its future progress will no doubt be watched with interest.

The third institution, the Jurong Town Corporation, takes over from the E.D.B. the ownership and management of the industrial estate in Jurong and six other industrial estates, at Kallang, Tiong Bahru, Kampong Ampat, Tanglin Halt, Kallang Park and Tanjong Pagar. The number of factories in production on the Corporation's land totals 293 at the last count at the end of October 1968. They gave employment to more than 21,000 persons and involved a capital investment of \$588 million. In addition, the Corporation runs a number of other enterprises. It owns 4,450 flats/^{and} 150 shophouses in Jurong. The flats have an occupancy rate of more than 99%. In other words, they are virtually full up. There is, in fact, a shortage of housing in Jurong and some 1,384 flats are under construction, some of which will be ready for occupation in the middle of next year. As a result of industrial investment reaching a rate which exceeded planning expectations, there is also a shortage of available factory space. To meet this excess demand, 9 blocks of flatted factories are under construction with a total floor area of more than a million square feet.

One of the major enterprises undertaken in Jurong is for the construction of a new port there. More than \$25 million was spent for construction, with 3,000 feet of wharves and various facilities for the mechanical handling of bulk cargo. The increase of cargo handled in Jurong since the completion of the wharf has been satisfactory. In 1967 the volume of cargo handled reached 342,000 tons. This year from January to November, 478,000 tons of cargo were handled, in addition to 121,000 heads of livestock. This latter is a direct result of the establishment of the Jurong abattoir.

Some problems remaining to be resolved in Jurong in addition to the preparation of more factory sites and dwelling houses, it is necessary to improve social amenities there. The Corporation is taking action to do this. One of the more pleasing outcomes of the establishment of the Corporation is a comprehensive review of the accounting system. The new system of accounts enables a separate assessment to be made of each operation of the Corporation as regards its profitability determined on commercial principles. It was a pleasant surprise for me to discover that after allowing for an adequate rate of depreciation of assets, the overall return on capital invested by Government in Jurong industrial infra-structure comes to 3%. I had feared a lower figure, even a loss. This outcome reflects credit on the land and lease policy of the E.D.B. In future years, we can expect the revenue accruing to the Corporation to increase both with the increasing number of industries as well as increases on the lease payments. Eventually, we should get ^areturn of some 7% or 8%.

Estimates, 1969

I now turn to the Estimates before Parliament. Last year I promised that I would circulate a Treasury Paper each on the Ordinary and Development Estimates setting out in detail, under each Head and Subhead, changes in such expenditures and the reasons therefor. These two Treasury Papers are now before the House and provide all the details required. This arrangement will allow me to comment on the Estimates in broad terms and avoid a tedious enumeration of figures. Those who want particular details can refer to the Treasury memoranda.

The first major change in the presentation of the Estimates is the change in the basis of the financial year. Since living recollection, the financial year in the Singapore Government accounts has been the calendar year. It is now proposed to take the financial year as the period 1st April of one year to 31st March of the following year. There is an advantage in so doing. It will be possible under the new arrangement to give a proper account of the functioning of the economy during the preceding calendar year. At present Members would have noticed the rather sketchy manner in which economic performance of the Republic has been reported in annual budget statements. Statistical records of foreign trade and calculations of balance of payments and national income aggregates are made in terms of calendar years. Putting the start of the financial year forward by three months should enable us to obtain a proper account of these useful statistical aggregates.

The effect of this change in the Estimates is greatly to complicate the presentation in this and the

next budget. The figures in the Estimates before the House relate to a period of 15 months whereas the figures with which comparisons are made, that is for the calendar year 1968, cover a period of 12 months. However, this complication will not arise in the financial year commencing April 1971 and thereafter. For purposes of comparison in my address, I will not take the amounts entered in the Estimates, that is, the 15-month totals, but the annual total so that a meaningful comparison with 1968 can be made.

The substantial increase in Defence expenditure has affected the entire financial policy of the Government. In order to finance this expenditure, the Government has adopted the following policy:-

- (a) As far as possible, advantage is to be taken of deferred credit payments from suppliers of equipment.
- (b) Full advantage is to be taken of the British defence aid proposal which offers a total amount of £50 million in soft loans and grants for the purchase of goods and services from Britain, both for defence and for non-defence expenditure.
- (c) As far as possible, non-defence expenditure was to be retained at existing levels, increases being allowed only for normal annual salary increments and for new proposals which have exceptional merit.
- (d) In spite of savings produced by stringent economy and by recourse to credit payments and British aid, it has been proved necessary to introduce new taxes and to increase the rates of some existing taxes.

Certain Ministries and departments which provide economic services, for instance, the Telecommunications

Department and the Civil Aviation Department, are to be given normal additional expenditure required to meet demands of normal growth. Similarly revenue-producing departments are allowed reasonable increases in staff. Apart from this, any increase in expenditure will be sanctioned only if the Ministry concerned can offer offset reductions in other items of expenditure.

If the total Defence budget to be incurred in the calendar year 1969 were to be paid on the normal Government basis, that is, on a cash basis, a sum of \$337.5 million would need to be provided. This refers to expenditure of the Armed Forces alone and does not include Police and other expenditure in the Ministry of Defence. This is a substantial increase on the \$47.6 million provided for the Armed Forces in the 1968 Estimates. I should, however, mention that expenditure actually incurred on Defence in 1968 is considerably larger than this.

Of the sum of \$337.5 million, a part must be paid in cash. For instance, the pay of soldiers and payments of contractors' bills can hardly be settled on credit terms. The amount of such expenditure comes to \$117.3 million. A further sum of \$156.3 million relates to purchases of weapons and equipment for which recourse to credit is available. Finally there is a sum of \$63.9 million which could be paid out of U.K. Defence Aid funds. These three components add up to \$337.5 million.

The financial provision required in the calendar year 1969 to meet such expenditure comes to \$205.1 million. This is made up of inescapable cash expenditure of \$117.3 million and a further sum representing advance payment

on credit purchases that have to be made in the calendar year. This includes payments on credits incurred in previous years. The total amount of such payments on credit purchases comes to \$87.8 million.

Of the total of \$205.1 million, a cash liability for 1969, \$157.2 million is incurred in respect of items in the Ordinary Estimates and \$47.9 million are expenditures on development projects appearing in the Development Estimates. In addition to these cash outlays, there is of course the item I referred to earlier of \$63.9 million, being purchases of British equipment paid out of the U.K. aid. This expenditure is entered not under the heading "Ministry of Interior and Defence", but under "Ministry of Finance". As a contra item the same sum has been entered as a revenue item. The reason for putting it under the heading of the "Ministry of Finance" is that payments for these will have to be made in the first instance out of the Consolidated Fund and subsequently recouped from the U.K. Aid account. To keep the accounting of such transactions under direct supervision, the unusual device of entering the Defence expenditure item under the Finance Ministry is resorted to.

It is not necessary for me to discuss non-defence expenditure at any length as the Treasury Papers give the numerical details. The broad policy of keeping non-defence expenditure, especially that on education and social services, on a standstill basis has enabled most of the substantial increases in Defence cash expenditure to be met by the normal growth of revenue. The revenue for the calendar year 1969 is estimated at \$759.2 million as compared with the 1968 Estimates of \$646.7 million, an increase of \$112.5 million. This increase results partly

from increased revenue yields due to economic growth and partly because the 1968 revenue estimates appear to have been substantially under-estimated.

The curbing of non-defence expenditure together with the increase in the revenue yields has enabled us very nearly to secure a balance on the cash revenue and expenditure on the current account. Taking the financial year of 15 months, that is, 1st January 1969 to 31st March 1970, expenditure is estimated at \$1,024.9 million. Total revenue almost comes up to this amount, the shortfall being a mere \$9.2 million. However, this does not take into account the need to transfer money from current account to the development fund, a practice which has continued without fail since my first Budget of 1959. In recent years the annual transfer is \$30 million, and over the 15-month period this would mean \$37.5 million. Taking the shortfall of \$9.2 million and \$37.5 million, there is a total sum of \$46.7 million to be met. I propose to raise this by additional taxes estimated to yield \$35 million for the 15-month period. The balance of \$11.7 million can be met by transfers from our reserves.

New Taxes

I now come to the subject which everyone is waiting for, namely, the new taxes. There has been a good deal of speculation about this and it had been necessary for me to issue a clarification to dispel unwarranted gloom and to reassure people that the new taxes would not have any damaging effect on investment incentives. This, of course, is a *sine qua non* of our economic strategy. We try to get increased revenue yields more by fast growth of the economy. Even for the coming year, as I have already explained, the greater cost of Defence expenditure will be paid for, more by increased revenue yields due to economic growth than by new taxes.

I have in mind seven new tax proposals, three of them involving increases or changes in existing rates of taxes, four of them being completely new ones. By spreading the load over seven tax measures, we reduce the risk of adverse effect either on the economy or on the revenue which might come about by concentration on one or two items. These new taxes will not have the effect of impairing incentives to economic development or discouraging and disrupting the flow of foreign investment. They have been so selected that the least burden will fall on the poorer section of the community. The four new taxes are as follows :-

- (i) A 10 per cent. levy on monthly charges of the Public Utilities Board.
- (ii) A small duty on liquid petroleum gas.
- (iii) A 15 per cent. levy on telephone bills.
- (iv) A 15 per cent. import duty on made-up garments, excluding furs.

As regards old taxes, there will be a change in the basis of valuation of motor vehicles; a general revision of stamp duties and an increase in the transfer fee of motor vehicles. Let me discuss each of these seven new tax measures in turn.

The levy on public utility services supplied to consumers will take effect by legislation which will be introduced in the House shortly. The levy will be collected by the Public Utilities Board on behalf of the Government. The advantage of this arrangement is that no new machinery of tax collection need be established, and the additional cost of tax collection is virtually nil. The rates have been so calculated that families in the lowest income group will not be affected. Large numbers of these families live in Housing Board flats and elsewhere and their monthly bill does not exceed \$10/-. No rate of tax will be imposed on those whose bills do not exceed \$10/-. No less than 58,000 consumers, that is, 25% of the total, fall in this category. For those whose bills fall between \$10 and \$20 a lower rate of 5 per cent is levied. The number of consumers involved in this category amounts to approximately 73,000 that is, 32 per cent of the total. The full 10 per cent rate will apply to households whose monthly bills exceed \$20 per month. This means that only the wealthier 43 per cent of consumers pay the full rate.

This tax will apply to all consumers of public utilities with two exceptions. The first are the poor families I refer to. The next are industries which depend on power supply to a significant extent. They already qualify for special industrial power rates. In order not to reduce their competitive position, I intend to exempt them from this levy.

The yield of this tax is expected to amount to \$11 million for the coming financial year.

It is necessary to protect P.U.B. gas and electric supply as a means of fuel supply for cooking and therefore a compensating tax on liquid petroleum gas is necessary. A rate of three cents a lb. will maintain the competitive advantages of the different

sources of fuel at their existing level, and it is expected that this will yield \$0.8 million for the financial year.

As from 1st January, 1969 subscribers to the Singapore Telephone Board will pay a tax of 15 per cent on their bills. This amounts to an additional payment of £27 a year by each domestic subscriber and \$37.50 per line per year for each business line. Collection will be undertaken by the Singapore Telephone Board. The yield of tax is estimated at \$3.8 million for the financial year.

Import duties are introduced on made-up garments for the first time. It is quite amazing that while we are a substantial supplier of made-up garments to the United States, Britain and Western Europe, we continue to import vast quantities of made-up garments. The value of annual imports comes to more than \$50 million. The receipts from these duties are estimated at \$12.0 million for the financial year.

There is, of course, no reason why local consumers cannot buy our locally-manufactured garments when Americans, Swiss, Englishmen and Europeans are satisfied with their quality. If, however, people still prefer imported clothes as against locally-made clothes, it is not unfair to require them to make a special contribution to the Defence effort.

I propose to revise the present system of assessing the value of motor-vehicles on which the additional registration fee is levied. The present basis of assessment for imported vehicles is a c.i.f. value and for locally-assembled vehicles the equivalent of c.i.f. value. This latter figure is a notional quantity and is likely to be increasingly fictitious as an increasing proportion of vehicles registered come from local assembly plants. It is therefore necessary to revise the system and adopt a more realistic basis. With effect from today, the additional registration

fee will be based on "open market value".

Under the "open market value" system, the assessment is based not only on the C.I.F. but also on other incidental costs, such as handling charges, advertisement costs and agency commission. Generally, the "open market value" will be between 10 and 15 per cent higher than the c.i.f.

There have been instances of under declaration of c.i.f. values by importers in collusion with the suppliers, which has resulted in an evasion of revenue collected by the Registry of Vehicles. The new basis of assessment is in line with the practice in Malaysia and in the Customs Department.

The result of this change to a more realistic valuation system is to increase slightly the additional tax payable.

The increases are likely to range from \$20 in the case of the cheaper vehicles to \$180 in the case of the more expensive ones.

Hitherto, locally-assembled commercial vehicles and omnibuses have not been subject to tax. This was because until recently there were no local assemblies. It is proposed, with effect from today, to impose an ad valorem tax of 5 per cent on commercial vehicles and omnibuses. This levy is similar to the existing levy that has been payable on commercial vehicles and omnibuses imported from Commonwealth countries. The estimated yield for these two measures for the financial year is \$1.6 million.

I also propose to levy a transfer fee of two per cent. on the value of vehicles on transfer of ownership subject to a minimum fee of \$5.00 for a motor-cycle and \$20.00 for a motor vehicle. The yield is expected to be \$2 million for the financial year.

There will be a revision of stamp duties. At present the annual yield on stamp duties amounts to \$9 million. As Honourable Members know, stamp duties are payable on a large

variety of documents and instruments - on receipts, cheques, transfer of title deeds and so forth. Some of these duties were revised in 1952. The previous major revision took place in 1931. Rates levied in the 1930's still prevail over nearly half of the items. The present revision does not introduce any drastic changes in rates and charges, but are more in keeping with present-day conditions. The revisions are expected to yield an additional \$3.3 million in the coming financial year.

Conclusion

I began my address with Defence expenditure and I will conclude on the same theme. The new taxes which I announced will help to pay for rather less than 10 per cent of our Defence expenditure incurred next year calculated on a cash basis. We were fortunate in being able to offset part of the expenditure with British aid while, in respect of another substantial amount, we could take advantage of credit terms offered by suppliers. But in the main the additional expenditure had been financed by siphoning off the major part of additional revenues towards Defence. This is achieved by maintaining non-defence expenditure on a standstill basis.

The same pattern is expected to continue over the next three years, that is to say, by placing a ceiling of money available for the development of the social services on health and education. We allow most of the additional revenues resulting from economic growth to be channelled towards Defence expenditure.

This is the price that we are paying. The cost is not so much the additional burdens which taxpayers have to meet by new tax measures. The cost is in the limitation of expenditure on non-defence items. We get a bigger Armed force by spending that much less money on schools and universities and on better health amenities.

It goes without saying that nobody regards all this with any great pleasure. But there would be few who would be bold enough to say that what we are doing is unnecessary.

When the British military withdrawal is completed in 1971, a new era would have been ushered in. This event is not less significant than our departure in 1965 from the Federation of Malaysia. Since 1965 we have proved that as a separate economic entity Singapore has a far greater survival potential than even many people, here and elsewhere, had believed possible. After 1971, we have to go through another test, perhaps a more rigorous one, and that is our survival potential as a separate political entity in a difficult and turbulent part of the world. If in the intervening years we have put to good account our resources in money, manpower, skills and organisation, I believe we shall pass the test of political survival as adequately as we are now passing through the test of economic survival.

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