

Singapore Government **PRESS RELEASE**

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SECTION I

THE 1981 BUDGET STATEMENT BY MR GOH CHOK TONG,
MINISTER FOR TRADE AND INDUSTRY AND
MINISTER FOR HEALTH IN PARLIAMENT ON 6 MARCH 1981

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Mr Speaker, Sir,

I beg to move

"That Parliament approves the financial
policy of the Government for the financial year
1st April 1981 to 31st March 1982".

Sir, I am once again honoured to have been
delegated the authority by the Minister for Finance
to prepare and deliver the Budget Statement under
Articles 144 and 145 of the Constitution of
Singapore.

Sir, Honourable Members of the House have
earlier been given a copy each of the "Economic
Survey of Singapore 1980". I shall, therefore, not
go into detail in reviewing the performance of our
economy in 1980.

Singapore's Economy in 1980

Singapore's economy grew robustly in 1980,
achieving a double-digit rate of growth of over 10
per cent since the first oil crisis of 1973/74.

Singaporeans have from all walks of life once again

shown their remarkable capacity to overcome great odds. We are restructuring our economy in an inhospitable international economic climate. We did better than 1979 despite slow growth and high inflation in a world economy beset by the sudden contraction in oil supplies following the Iranian Revolution and the Iranian-Iraqi War.

Business enterprises trimmed and streamlined their organisations, shedding off excess baggage. They mechanised and automated. The Civil Service and statutory boards also rationalised. The Government pushed with higher wages, and pulled with fiscal incentives. Labour productivity surged forward, doubling to 5 per cent. Had there been no productivity gains, the economy would have grown by only 5 per cent, instead of over 10 per cent.

Our workers and their unions were fully involved in the economic restructuring. The NTUC was particularly helpful. It cooperated with management to economise on the use of labour, even when it meant the retrenchment of its members. Had our unions been myopic and difficult, they would

have protected jobs and resisted change, and we would have all been stuck in the mud.

Growth in our economy was evenly spread. Manufacturing grew by 12 per cent, financial and business services by 17 per cent, and transport and communications by 12 per cent.

Our external trade expanded by 34 per cent, in dollar terms. In volume terms it increased by 15 per cent, much higher than the growth in world trade of 3 per cent.

After recovering in 1979 with a growth rate of 7 per cent, the construction sector grew even more vigorously by 10 per cent in 1980. The rapid pace of construction, however, caused acute labour shortages, and escalation in prices of building materials.

The key to the long term success of our economic restructuring strategy is not higher wages, nor fiscal incentives. It is manpower development. Reflecting this, the Engineering Faculty in the National University of Singapore took in 40 per cent more students in 1980 than 1979. The Polytechnic and Ngee Ann Technical College also increased their enrolment by 11 per

cent. The EDS's Joint Industrial Training Centres expanded their classes by 32 per cent. The Skills Development Fund gave employers grants to train over 10,000 workers.

Economic Development Plan for the Eighties

In my Budget Statement last year, I outlined the economic objectives and strategies for the Eighties.. The Ministry of Trade and Industry has prepared an indicative 10-Year Economic Development Plan for the Eighties. It contains our vision of the future and the path we should take. As an indicative plan, it has to be fleshed and implemented by the executive operating ministries and statutory boards, and more critically by the private sector. All ministries are now preparing their own detailed operational plans based on the strategies and guidelines outlined in the 10-Year Plan. I have given copies of the highlights of the Plan to the Clerk of Parliament for distribution to Members of the House (Appendix I). I welcome their comments and suggestions and assure Honourable Members that their comments will be studied closely and, where useful or valuable, taken into account in implementation.

We are holding consultations on economic policies with the private sector. These consultations will enable our businessmen to better understand the Plan so that they can identify for themselves the growth opportunities. They will also give us valuable feedback and ideas. The Ministry of Trade and Industry will publish the Plan in a form that is readily understood by the general public. The general public too can give us their suggestions.

The prime objective of the Plan is to develop Singapore into a modern industrial economy based on science, technology, skills and knowledge. If we can succeed, we shall be manufacturing high-value products like integrated circuits, computers, industrial electronic equipment, aircraft components, numerical-control machine tools, medical instruments like X-ray machines and blood counters and specialty pharmaceutical products. These new generation factories will employ more managerial staff, engineers, technicians and skilled operators than existing simple assembly plants. They will also pay better. If we succeed, we shall be less vulnerable to protectionism. Textiles, shoes,

furniture - these are subject to high tariffs and import quotas beyond our control. Aircraft and automotive components and precision equipment are less exposed.

To realise our objective, we require more engineers, accountants, lawyers, doctors, technicians, computer personnel, skilled workers and other managerial and professional personnel. We shall train them. We will also induct talent from abroad.

I shall now elaborate on the specific growth sectors of our economy.

Industrial Development

Singapore continues to attract good quality industries. New investment commitments in 1980 reached a record high of \$1.4 billion, excluding petrochemicals. Average expected fixed investment and value-added per worker of these new industries are 71 per cent and 28 per cent higher respectively, in real terms, than those committed in 1979. More gratifying, many existing international companies are upgrading their manufacturing operations. They are investing in new capital equipment and technology to increase output and labour productivity.

To help local industries to upgrade, the EDB encourages them to have joint ventures or licensing arrangements with foreign companies with the necessary technical know-how and access to export markets. In 1980, new commitments by Singapore investors reached a new high of \$203 million of which about one-third were in joint ventures.

The local industry unit of the EDB is now guided by a Small Industry Advisory Committee comprising representatives of local manufacturers. The unit serves local small to medium sized industries. Young Singaporean professionals and technicians are now venturing out to set up their own manufacturing companies. They can seek financial assistance from EDB's Small Industries Finance Scheme which granted a total of \$52 million in small industry loans to 191 companies in 1980. Local industries are also assisted in research and product development under the Product Development Assistance Scheme. Investment allowance are also given liberally to existing local and foreign owned industries to help them to mechanise and automate.

Although new investment commitments in 1980 were the highest ever recorded, future prospects are less reassuring. EDB's potential investment pipeline has become smaller since the middle of last year. Recession in the major industrialised countries has led many companies to shelve or defer new investments overseas. High unemployment in these countries has resulted in greater union pressures against companies setting up plants overseas. Excessively high interest rates have also raised the cost of financing new capital investments. Although Japan continues to be a strong foreign investor, they seem now to be putting more of their overseas investments within the markets of the developed countries - in USA and Europe. With increased protectionism, this trend will unfortunately continue.

The EDB will therefore re-double its efforts in the face of these more difficult circumstances. Together with the Jurong Town Corporation, it will continue to improve our industrial infrastructure and expand our manpower development to enhance our attractiveness to new and more sophisticated investments.

The EDB will seek out specific desirable industries and extend long term financing at fixed interest rates to them. In times of high interest rates, such long term financing will be an effective incentive, especially for the more capital intensive projects. Such fixed interest loans will be extended through leading international and local banks.

The Small Industries Finance Scheme has also been very effective in helping local small industries to upgrade and expand. The Scheme has helped young local professionals to be their own entrepreneurs in setting up new manufacturing industries. The Scheme will be extended to include medium sized local industries with fixed assets of \$2 - \$5 million, from the current ceiling of \$2 million.

Research and Development (R&D)

In my Budget Statement last year, I announced five tax incentives for the benefit of manufacturers conducting R&D. The Income Tax Act and the Economic Expansion Incentives Act have been amended to put these incentives into effect. The EDB has announced the criteria to guide companies and organisations when they apply for these incentives. The criteria emphasise the technical originality, innovative content and commercialisation prospects of the R&D work.

In addition to these incentives, the EDB will consider extending the tax exemption period to pioneer companies which invest or expand significantly in areas involving R&D activities. Funds for the Product Development Assistance Scheme to encourage local companies to undertake innovative product development have been increased from \$1 million to \$2 million.

Critical to the success of our R&D plan is the training of R&D engineers and technicians. The National University of Singapore (NUS) together with the Nanyang Technological Institute will double their enrolment of engineering students by 1985. The NUS will concentrate on producing engineers with aptitude for R&D work. To enhance undergraduate training and provide engineering students and teachers with a conducive environment for R&D work, the NUS will undertake more engineering research programmes in such fields as semi-conductor electronics, micro-processor applications, optical fibre communication, and low cost construction materials. To stimulate interest in practical research work, the Government will increase its funding for research to public institutions undertaking R&D work. For the next financial year, a sum of \$10 million has been included in the Budget to finance research and development.

Other measures to promote R&D activities include the development of a Science and Technology Park and the expansion of the material science laboratories at the Singapore Institute of Standards and Industrial Research. Land has been set aside for the development of the Science and Technology Park, adjacent to the NUS campus at Kent Ridge. The Jurong Town Corporation will develop the Park.

Trade Development

Protectionism will continue to plague our exporters. The long term solution is for our manufacturers to restructure and produce higher value-added products, less vulnerable to protectionism. In the meantime, the Department of Trade will monitor policy changes in our export markets, and make representations to foreign governments on behalf of our manufacturers, when our exports are affected by protectionism.

On the brighter side, the international agreements concluded in the Multilateral Trade Negotiations hold some promise that protectionism, at least its blatant forms, will be checked. Under the new Agreement on Technical Barriers to Trade, our exporters can now gain easier access to foreign

national and regional certification systems. For the first time, the Japanese Industrial Standards (JIS) mark is open to Singapore manufacturers. This will help promote exports to Japan.

As a result of our wage-correction policy, our local manufacturers of labour-intensive products are taking steps to reduce manpower, mechanise their production, and upgrade the value of their products. The textile and garment industry is one of them. Thirty three textile and garment manufacturers have invested \$17.4 million in new and improved machinery. To encourage industries to upgrade the quality of their products, the Department of Trade will only select companies which are prepared to help themselves for overseas promotional activities. The Department will also give them preference in textile quota allocation.

Local companies are now becoming more active in promoting their products overseas. In 1980, 165 companies, compared with 102 in 1979, participated in overseas trade fairs, missions and overseas promotional trips. Several local manufacturers have established or are in the process of establishing sales and promotional offices in overseas markets.

Various suggestions have been made by the private sector through the Trade Development Advisory Committee to enhance the present package of trade incentives. The Ministry of Trade and Industry will study these suggestions and effect improvements to the trade fiscal incentives if they are necessary to encourage our exporters to intensify their export efforts.

Along with the need to improve and upgrade the quality of Singapore-made products, management in industry will have to increase their international marketing skills substantially.

The Department of Trade will assist by engaging consultants and experts to conduct marketing seminars and workshops. In 1981, the Department of Trade plans to organise such seminars for the printing and publishing, the furniture and the engineering service industries.

Services Development

Industrial development concentrates mainly on hardware. We are also emphasizing the software side of development - the brain services.

In my Budget Statement last year, I announced that in the Eighties we shall develop Singapore into a financial supermarket offering a wide and sophisticated range of financial services. As part of its operational plan to advance this objective, the Monetary Authority of Singapore is reviewing the structure and operations of the financial sector. It is reviewing in particular, the Insurance Act, the Banking Act and the Finance Companies Act. It will continue to promote new foreign financial institutions to open up branches and offices in Singapore. It will encourage existing local and foreign banks to expand the scope and depth of their business. Banks are responding to the call to expand and improve their services by introducing new schemes such as the gold and silver passbook accounts and by installing more automated teller machines (ATMs). The Singapore Clearing House Association was formed to enable automated cheque clearing. This is in line with the Government's emphasis on increased productivity and computerisation and is expected to result in even better services for bank customers. Fixed rate Singapore dollar bonds were issued for the first time last year, giving banks another avenue for tapping long-term funds.

The promotion of the computer services industry will form an integral part of our economic restructuring programme in the Eighties. We shall focus on computer education and training, and overcome our main obstacle of not having enough trained computer personnel. The plan to establish the Japan-Singapore Institute of Software Technology has been finalised and the Institute will be operational by the end of the year. Plans are also at hand to set up an Institute of Systems Science at the NUS. Statutory boards, Government companies and other major computer users are urged to train more people than they need. The Skills Development Fund will be used to encourage firms to upgrade their existing staff, and to engage top calibre teachers from abroad to assist them in their in-house training.

The public sector will take the lead in computerisation. A National Computer Board will be established. It will be responsible for the provision of computer manpower and promotion of computer services in the Civil Service. In addition, the Board will regulate the standard of trained computer personnel in Singapore. Computer hardware in the Civil Service will be

decentralised. Ministries which have the critical size for computerisation will have their own computer departments.

For the time being, the EDB will concentrate on the promotion of computer firms that will bring in foreign experts to train Singaporeans. It will also encourage existing firms to go into software development. Once we have sufficient technical manpower, EDB's promotional efforts will be intensified.

Tourism will continue to be an important growth sector for Singapore in the Eighties. Tourist arrivals increased annually at an average rate of 19 per cent in the Sixties and 17 per cent in the Seventies. For the Eighties, we target a more modest but still significant growth rate in tourist arrivals of 12 per cent. We are confident, however, that with more promotion efforts, the 12 per cent target is achievable, provided there are enough hotel rooms. An estimated 14,600 hotel rooms will be available by the end of this year and interest in hotel development is strong. The Ministry of National Development has assured my Ministry that the Urban Redevelopment Authority

(URA) will make available sufficient land for hotel development to enable us to achieve the 12 per cent target in tourist arrivals annually.

According to STPB's estimates, spending per tourist in real terms has been falling. We aim to increase spending per tourist over the Eighties. Towards this end, the STPB will consider developing more tourist infrastructure as additional attractions, and to encourage tourists to stay longer. We shall also attract more of the high yield tourists, especially conventioners. In 1980, we hosted 230 conventions and 45 trade exhibitions, an increase of 46 per cent and 50 per cent respectively, over the previous year. We will host more.

Energy Policy

Energy will become an increasingly more critical resource for Singapore's economic development.

Since my Budget Statement last year, the Ministry of Trade and Industry has been given the responsibility of formulating and coordinating Singapore's energy policy. The Ministry has

therefore set up an Energy Unit to monitor prices, supplies and consumption of oil and formulate and coordinate the implementation of our policies on energy conservation and security of oil supply. Recently, it took over the portfolio of overseeing the operation of the Public Utilities Board. The PUB has a major role in ensuring the success of our energy policy. Moreover, PUB's role in ensuring efficient and adequate supplies of electricity, water and gas has important bearing on our economic development. There are, however, other public agencies whose work relate to energy. The Energy Unit is therefore guided by an Inter-Ministry Energy Coordinating Committee which includes representatives of the Ministries of Trade and Industry, Communications, Finance, Foreign Affairs and National Development.

The twin objectives of our energy policy are, firstly, to ensure that our economic growth in the Eighties is not disrupted by energy shortages, and secondly, as oil is scarce and expensive, to maximise efficiency in the usage of energy.

We have to pay the market price of oil. Our domestic energy prices will, therefore, have to reflect world prices. Regrettably, this must mean higher PUB rates, petrol and diesel prices and bus and taxi fares each time oil prices are revised upwards by the producers.

We shall improve the security of our oil supply by making Government-to-Government purchases of oil from producing countries. Currently, we depend entirely on the oil companies. The Government has set up a fully-owned company, the Singapore National Oil Company, as its operational arm to secure direct oil purchases from producing countries.

We are exploring the feasibility of coal to supplement oil to generate electricity. The PUB has engaged an international consultant to advise on the pollution aspects of a coal-fired power station, and the economics and technology to minimise such pollution.

Energy conservation will be pursued through campaigns and a system of incentives to encourage energy saving. The Ministry of Trade and Industry will launch an Energy Saving Campaign in May-June this year. It will involve private and public organisations as well as grassroot bodies such as the Citizen Consultative Committees and the Residents Committees. It will be conducted annually to sustain interest in energy conservation. The PUB will set up an Energy Conservation Centre which will provide technical advice to industry, commerce and households on how to cut energy wastage, and use electricity more efficiently. A proper understanding of the energy consumption efficiency of various household electrical appliances will help householders to save on their electricity bills. Cutting out energy wastage is the only effective means of slowing down the increasing cost of energy.

So far, accelerated depreciation is allowed only for plant and machinery in industrial enterprises. We shall in principle extend the provision on accelerated depreciation to cover approved energy-saving capital expenditure incurred by non-industrial enterprises. The Ministry of

Finance and the Ministry of Trade and Industry will study the criteria, guidelines and mechanics of implementing this incentive scheme. We will also extend the investment allowance scheme, administered by the EDB, to include cover capital expenditure incurred by manufacturing companies to save energy. The EDB will work up specific guidelines on this.

Manpower Development

In my Budget Statement last year, I dwelt at length on the critical need to train enough manpower for the higher skilled industries and the brain services we want to promote in the Eighties. Since then, plans are being translated into reality. When fully implemented, these plans will result in an expansion of first year enrolment at the University by 20 per cent, Polytechnic and Ngee Ann by 40 per cent, and VITEB's and EDB's training centres by 125 per cent. The Nanyang Technological Institute will be set up this year to train 1,000 practice-oriented engineers a year for industries. Action is being taken to set up a separate polytechnic to train 2,500 supervisors and skilled workers for the commerce and services sectors. Service is an important sector in our economy and we should upgrade the quality of its manpower through proper training at polytechnic level.

Our manpower development programmes will also cover the training needs of existing workers. The VITB is working out an operational plan to step up continuing education and training to retrain existing workers to meet the higher skills needed by industries and services as they upgrade and restructure. The Skills Development Fund can be used to subsidise employers who release their workers for such continuing education and training courses. We are seeking the assistance of the Japanese Government to set up an Institute for Continuing Occupational Development.

For our training programmes to produce effectively trained manpower, we need the support of employers to take in students and trainees in our tertiary institutions and VITB training centres for short-term practical attachments. To help defray the cost to employers of taking in such trainees, the Skills Development Council will be asked to consider the provision of grants to participating employers.

Our efforts to prepare workers, employers and managers for the difficult task of economic restructuring will have to include the inculcation of proper work and management attitudes. So far, we have concentrated on workers' attitudes. We

must now extend our focus to include managers and employers. As there is much that we can learn from the Japanese experience, we have approached the Japanese Government for assistance in getting Japanese management experts to give courses and seminars to our managers here, and to receive missions of local managers to visit Japanese enterprises to see and learn for themselves how Japanese managers interact and work with their workers as a team. The Ministry of Labour is coordinating the programme. I would estimate that the interests of the workers and management overlap in 80-90 per cent of the areas. The 10-20 per cent areas where their interests may diverge should not be allowed to pull them apart. Teamwork is the key to success of an enterprise. It is the only basis for building a nation.

Concluding Remarks on Economic Policy

Last year, when I presented the Budget Statement, the prospects for the world economy in 1980 did not appear then to be bright. The world economy, indeed, suffered great strains, from the second oil shock, from inflation, exceptionally high interest rates, slow growth, and massive unemployment. The OECD countries grew by a paltry 1 per cent. The United States went into a recession. Likewise, for Britain. The German economy also weakened. Singapore, however, grew

stronger, by 10.2 per cent, because we were realistic in our expectations and assessment of the difficulties ahead. We had prepared ourselves and we tackled our problems boldly and totally. We began to restructure - in types of industries, in production methods, in management and work attitudes.

1981 will be a difficult year for us, and 1982 even more so. The current world economic ills do not appear responsive to treatment. World economic growth will continue to slow down in the first half of this year. At best, the industrialised economies will begin to recover in the latter part of the year, barring major upheavals caused by wars and sudden disruptions in oil supplies. Inflation is a chronic malady. The Iranian-Iraqi war and the volatile political situation in Poland hold grave perils for the world. An unsettled world will hurt our exports and discourage investment flows generally throughout the world. We expect our real growth rate for 1981 to be lower than last year's. If we end up 1981 with a creditable growth rate, it will be because of our current growth momentum and the realisation of the investments we have attracted in the past few years.

The crunch will come in 1982-83 if the world economic and political outlook does not improve. Already, investment commitments from Japan are beginning to decline. Japanese companies are increasingly switching their investments to the major industrialised countries to protect their markets. We will still be able to attract some foreign investments, because of the very strong assets we have built up over the years, namely political and economic stability, sound infrastructure, competitive skills and a capacity for hard-headed and practical adjustments to changing circumstances. But we must expect keener competition for investments and markets.

We cannot wish the depressing outlook away. We must, as before, assess the problems realistically and respond accordingly. Singaporeans have never allowed difficult problems to daunt them. We shall survive, work together and press on intelligently with economic restructuring, plus a change in work attitudes. If we develop new cooperative habits on the factory floor, complete with Quality Circles and a close worker-management relationship, we shall make it.

SECTION IITHE FY 1981 BUDGET

Mr Speaker, Sir, I shall now move on to the FY 1981 Budget.

The Budget has been prepared in accordance with the priorities identified in the Government's 10-Year Economic Development Plan for the Eighties. In particular, emphasis is given to manpower training, infrastructural, industrial and commercial development, and defence capability upgrading.

A total of \$4,578.9 million will be required in FY 1981 to meet the recurrent expenditure of Government programmes. This will be fully met by the expected revenue of \$6,334.7 million. The recurrent expenditure is 14 per cent higher than that for FY 1980 largely because of the modernisation of the Armed Forces, restructuring of the education system, expansion of the National University of Singapore and other training institutions to cope with the demand for skilled, technical and professional manpower, as well as higher maintenance costs. But staff increases are held down to the absolute minimum so that more manpower can be made available to industries and

other key economic areas. A total of 84 posts was created in the course of FY 1980 for new areas of work such as the Information Services Division in the Ministry of Culture, Professionals Information and Placement Unit of the Public Service Commission, and Jurong Junior College. However, this was offset by the deletion of 465 posts which have been found to be redundant or in excess of requirements. This includes 27 posts which are no longer required following the transfer of the functions of the Ministry of Science and Technology to the Ministries of Trade and Industry, Health and Education. In all, there is a net total reduction of 381 posts. Less manpower will be required because of mechanisation and computerisation of routine operations and increased staff productivity. Proposals for mechanisation, automation and computerisation have therefore been generously supported.

The total number of posts on the FY 1981 establishment will be 68,845 as against 69,226 on the FY 1980 establishment. Despite the decrease in the establishment, many Ministries are likely to experience difficulties in filling their vacancies because of the tight labour market. As at

30 November 1980, a total of 8,353 posts or 12 per cent of the permanent establishment was vacant. The bulk of the vacancies is in the Ministries of Education, Health and Home Affairs.

Other Operating Expenditure (excluding the Armed Forces expenditure) will rise by \$121 million or 38 per cent in FY 1981. About half the increase is due to rising costs of public utilities, fuel and lubricants. The balance is accounted for by higher maintenance costs and a bigger provision for payment of agency fees to URA for sale of land on behalf of Government.

Grants, Subsidies and Other Transfers will expand by \$104 million or 21 per cent compared to FY 1980. This is attributed mainly to:-

- (a) annual salary increments;
increase in CPF/MPF
contribution and a
contingency sum for the JWC
wage supplement in FY 1981
for the staff of Statutory
Boards, tertiary education
institutions and aided
schools; and

- (b) increase in the rate of contribution to the Skills Development Fund and in the number and value of PSC scholarship awards.

In the past, recurrent expenditure always exceeded development expenditure. For the first time, more than half, or 52 per cent, of the FY 1981 Budget or \$5,044.2 million is for development. Economic, social and community services together account for 92 per cent of the total development budget.

Expenditure on economic services will take up \$2,600 million or 52 per cent of the development outlay. This includes a sum of \$2,002.6 million for industrial and commercial development and \$339.3 million for the development of Changi Airport and roads in the Republic. Included in the provision for industrial and commercial development are \$1,625 million for the Petrochemical Corporation of Singapore, Ship Financing Scheme and lines of credit to the Development Bank of Singapore; \$202 million for the development of industrial estates by the Jurong Town Corporation

as well as \$141 million for the Economic Development Board's Capital Assistance Scheme and Product Development Assistance Scheme.

Although priority is given to economic development, substantial funds are also allocated for the upgrading and improvement of social and community services. A sum of \$2,036.7 million or 40 per cent of the development budget is set aside for this purpose. Of this, \$1,464 million or 72 per cent is for public housing.

We have been fortunate to be able to balance the recurrent budget every year. Sustained high economic growth has generated sufficient revenue to meet ever increasing expenditure. But we must continue to exercise the most stringent control on recurrent expenditure. We must ensure that every dollar spent is spent productively.

APPENDIX I**HIGHLIGHTS OF "SINGAPORE'S ECONOMIC DEVELOPMENT
PLAN FOR THE EIGHTIES"**Stock-taking of Achievements and Shortfalls in the
Seventies

1 Growth in the Seventies was slightly higher than in the Sixties (Real GDP growth - Sixties: 8.7 per cent; Seventies: 9.4 per cent). However, the first half of the Sixties was a period of slow growth (5.5 per cent) because economic activities were predominantly traditional, with low growth potential. Foreign investment in manufacturing was negligible. In the second half of the Sixties, after our independence, growth accelerated (12.9 per cent).

2 Double-digit growth rates continued into the Seventies until the oil crisis and world recession of 1974-76 interrupted the Economic Strategy Programme. Economic upgrading slowed down as we shifted to economic activation to get as many jobs as possible. We became less selective of the industries we wanted to promote. We lowered our economic ambition and resigned ourselves to a lower growth target of 6-8 per cent. On the growth momentum built up in 1966-73, our economy managed to weather the recession

sooner and faster than we expected. (Growth rates exceeded target in 1978: 8.6 per cent, 1979: 9.3 per cent, 1980: 10.2 per cent). Moreover, with the advantage of a headstart in export-oriented industrialisation, we did not feel the pressure of competition from labour-abundant developing countries.

2 On hindsight, we were overcautious in our response to the oil crisis and the world recession. We were content with merely reacting to events, and not responding enough to the challenges and opportunities ahead. It was understandable that the popular wisdom was one of caution and resigned acceptance of slower growth, as the four-fold oil price increase was a traumatic experience. However, South Korea, Taiwan and Hong Kong pressed ahead with high growth. Their real GDP per capita growth after the oil crisis (8.0 per cent) was higher than before (6.6 per cent). Before the oil crisis, our growth (11.4 per cent) was higher than theirs. After that, it was lower (6.0 per cent). Their businessmen were compelled to be more efficient to survive the world recession, protectionism and higher domestic wages (23 per cent compared with our 11 per cent wage increase, 1976-78, in terms of US dollar). Their productivity increased faster than ours.

4 The Economic Strategy Programme of the seventies has now benefited us. Our economy is more diversified. We now have a stronger infra-structure to develop financial, telecommunication, port and air services further. Although it is still too labour-intensive, our manufacturing base is now wider. We have been liberalising our immigration policy to attract skills and talents. We have been expanding professional, technical and industrial training. Investors' confidence in Singapore has strengthened. If not for the Economic Strategy Programme, our growth would have been slower.

Lessons for the Eighties

5 We must draw lessons from our experience in the Seventies to plan ahead for the Eighties. The main lessons are in the following paragraphs.

6 Our wages must be related to the labour market. In a full employment economy, low wages will lead to an overtight labour market. Inefficient businesses, which have no place in a fully-employed, open competitive economy, will continue to hoard labour which should be more productively employed by more efficient firms. The efficient businesses, squeezed for labour, will be hindered from expanding and upgrading. Even they

will find it comfortable not to introduce new technology and to automate and mechanise. The efficiency of every firm from the most efficient to the least efficient, will be lowered. In an overtight labour market, with excessive job hopping, employers find it cheaper to employ excess men, as the holding cost of idle or unproductive workers is less than the cost of new and better machines or of introducing better management and work system and the inconvenience of displacing inferior managers by better managers.

7 Low wage does not bring out the best in a worker. It discourages training. In their efforts to get more workers for industrial training, while wages are low, training institutions such as VITB and EDB are compelled to use expedient methods such as paying and increasing the allowances to get workers to attend training courses. When the allowance is not much different from the wage, training is wasted as the trainee does not put in his best efforts or is not employed in the skill for which he is trained.

8 Another lesson is that we must continue with our economic philosophy of open and free competition. It is a harsh but effective approach of rewarding the capable and punishing the

incapable. We have no choice, given our small domestic market, lack of natural resources and limited leverage in the world market. We cannot follow a self-sufficiency or self-reliance economic ideology. Our philosophy must be to :

- a import from the cheapest reliable source for raw materials, machinery, parts and components; we cannot close up our domestic market to shelter local industries.
- b attract foreign investment and technology; we cannot reserve nor demarcate areas for local businesses nor compel foreign companies to combine with local companies.
- c attract professional, technical and industrial skills and talents from overseas to lead us into higher growth and new businesses; we cannot adopt close-shop practices to protect the interest of local professionals at the expense of the wider economic interests.

9 We must continue to diversify our economy to achieve the economic security objective as well as to make our economy more competitive both within and in the export market. We must diversify :

- a our economic activities; eg
many international integration
pyramids rather than few
national integration pyramids
in manufacturing; new brain
services : computer, medical,
consultancy and warehousing
services.
- b our markets : to get around the
problem of protectionism and to
expand our export to developing
countries.

Scenarios in the Eighties

10 The Plan takes into account both domestic and external factors in the Eighties.

11 The domestic factors are as follows :

- a Domestic labour supply will grow more slowly in the Eighties (32,000 now; 24,000 yearly in 1981-85; 16,000 yearly in 1986-90).
- b Rising expectations for better wages, which we can afford to pay only if we can create many higher skilled jobs. Expectations for better housing, recreational facilities and more comfortable living standards which can be realised only if they get much higher income from better paying jobs. We must respond by stepping up training and creating skilled jobs to realise the full potential of our people who will earn their living by

marketing their skills, brains and talents.

c We do not have a strong base of local entrepreneurs and will therefore have to continue to depend on foreign investment for skills, technology and market.

d With inflation and rising incomes and the growing importance of the middle-income groups, our income tax rates will become over-progressive and discourage the more enterprising from exerting more effort and saving and investing more.

12 The external factors which will affect us in the Eighties are as follows :

a The slower growth of the industrialised countries in the Eighties will prevent us from achieving high growth

only if we do not upgrade and restructure our economy. It only means that to achieve high growth, we have to sharpen our competitive edge to get a bigger share of the world market. We must export higher skilled products. Some developed countries will adjust to the slower growth by protecting their labour-intensive industries. Others will restructure their economies from medium to higher technology industries. We can attract the medium technology industries only if we step up training.

- b Oil prices will continue to rise in the Eighties. The impact will not be disastrous for the world economy, as it has adjusted well to the quantum jump in 1973/74. Alternative energy sources will become viable as oil prices increase. Only if we

upgrade can we afford to pay
for higher energy costs.

- c We face keener competition
from South Korea, Taiwan, Hong
Kong, and unless we
restructure our economy we will
face graver pressure in
labour intensive products from
other developing countries
with abundant labour,
especially China. On the
other hand, as these
developing countries expand
and diversify their economies,
they will import higher
technology products which we
may help to supply.

Targets

12 We must aim to achieve the following broad
economic targets :

- a Real GDP growth of 8-10 per
cent per annum to reach
present Japanese per capita
GNP by 1990.

- b Productivity increase of 6-8 per cent per annum.
- c Full and better paid, higher skill employment.
- d Lower than world inflation.
- e Healthy balance of payment.

Strategies

14 We shall upgrade and restructure our economy to achieve higher skill and value-added manufacturing and services. We will then realise the full economic potential of our people. We will also be in a stronger position to pay for higher oil prices, overcome protectionism and remain competitive in the export markets.

15 We must first break the vicious circle of low wages sustaining too labour-intensive activities, which lead in turn to poor productivity growth, an overtight labour market and slower economic growth. Corrective wage increases over 3 years will force employers to save labour. Underemployed labour will be released for more

productive employment in the better industries and services. After the transition period of 3 years of corrective wages to untighten the labour market and bring it back to normal, we must continue to have market-oriented wage increases.

16 Wage increase alone is not enough to achieve economic restructuring. We must step up training at the universities, technical and industrial training institutions. We must also provide tax incentives to encourage automation, mechanisation and computerisation and research and development.

Pillars of Growth in the Eighties

17 The achievement of our plan objectives, targets and strategies will depend on the following growth pillars :

- a Manufacturing
- b Trade
- c Tourism
- d Transport and communications
- e Brain services : computer, financial, medical and consultancy services.

Manufacturing

18 We shall transform the manufacturing sector

into a more dynamic prime mover for high and sustained rates of economic growth. It will set the pace for high productivity increases in other sectors and provide better-paying jobs for our workers and more opportunities for our local entrepreneurs to participate in better industries.

19 As a prime mover, manufacturing must increase its share of GDP from 23 per cent now to 31 per cent by 1990. Its value-added should increase by 11 to 13 per cent annually. Value-added per worker must catch up with other higher value-added sectors, to attract skills to industry.

20 We must manufacture more parts and components and assemble less end products. Parts and components are less visible than end products and are less prone to protectionism.

21 We should expand industrial servicing such as maintenance of sophisticated industrial and agricultural machines, aircraft, etc. We must exploit our strategic location at the centre of international waterways and air-routes by developing more sophisticated services for vessels and aircraft. There is a large market for other types of industrial services.

22 Our local manufacturers who cannot pay the market wages will relocate to other countries. As raw materials and semi-manufactures are key inputs for our future industries, we must encourage these manufacturers to process raw materials and manufacture simple components in relevant countries by exempting their remitted profits from our income tax. Our industries can concentrate on the higher value-added production, using these materials and components. On the other hand, we can export our higher value-added parts and components for assembly in the other countries.

23 We must improve and expand our supporting industries to link up with the higher value-added industries. Our local entrepreneurs should be encouraged to invest in these supporting industries, which do not require much capital and can find ready market in the Multinational Corporations (MNCs) operating in Singapore. However, they must be upgraded to provide reliable and precision parts and services. The Government can assist them with loans and incentives.

24 Our industries will require more land as they become more capital intensive. On the other hand, the large claims for land for social and recreational purposes will continue unabated. The

Ministry of National Development must accord higher priority to industrial land and set aside more land in or near housing estates for the clean and higher value-added industries.

Trade

25 In the Eighties, we will export more higher value added and technology goods. The Multinational Corporations (MNCs) can export such products successfully. By successfully promoting the better industries, we will have achieved our export target. Trade development is therefore dependent on our industrial development.

26 The Department of Trade should continue to assist the better local manufacturers to develop their export markets to upgrade their operations. It can provide supporting services without interfering with our liberal trade policy. The Trade Development Section in the Department of Trade will carry out this task. Annual export targets for regions and priority markets will be set. Its operational plan should be reviewed and improved annually.

27 We will expand the re-export and transshipment of non-traditional products. Local manufacturers and traders will be encouraged to

make more use of trading houses or to group together to form larger trading companies. We will encourage trading companies to venture into international marketing and to develop Singapore as a major warehousing and distribution centre. Incentive schemes should be modified where appropriate to encourage local traders to form larger companies and venture into new areas of trade.

28 In domestic trade, the Department of Trade will pursue the twin objectives of security of essential supplies and stability in their prices. We will maintain our open trading policy to obtain essential supplies from the most economical sources. We will encourage more competition and educate consumers. We will continue to attack profiteering and cartel practices by trade associations.

29 Trade documentation procedures will be continually simplified. The processing of export and import declarations and the collection and compilation of trade statistics will be computerised where appropriate.

Tourism

30 World tourism will continue to grow. We

should target for 12 per cent growth in tourists to induce more hotels. More hotels will keep room rates competitive and induce hoteliers to employ staff more efficiently. New hotels with better design can lower staff-room ratio. We must encourage tourists to stay longer and spend more. We must promote high yield traffic such as conventions, exhibitions and trade fairs. We should develop Singapore as a tourist junction like London for tourists to the region.

Transport and Communications

31 The transport and communications sector grew rapidly in the Seventies to become the third largest sector (share of GDP - 1970 : 12 per cent; 1979 : 18 per cent). This was due to the high growth of air, sea and telecommunication services. For the Eighties, the sector must continue to perform well if we are not to lose out as a major communications centre.

32 The targets set by the Ministry of Communications for sea, air and telecommunication services for the Eighties appear low when compared with the achievements in the Seventies. MinCom should review the targets regularly. Such services must continue to be one of our growth pillars. Moreover, they provide essential services on which

the growth of other sectors will depend. We must not lower our economic ambition, especially after we have sunk in the large investments in the port, airport and telecommunication exchanges and equipment.

Computer Services

33 The computer services industry is desirable for Singapore because it is knowledge-intensive and non-polluting and requires less manpower and energy. Computers can raise the technology and productivity of other sectors. We have the following advantages to develop computer services : a growing domestic and Asian market; many of our young people are literate in English and Mandarin and are numerate; good infrastructure, especially telecommunications; and strategic location.

34 We must step up computer manpower training. Students in our schools, Polytechnic and universities should have easier access to computers. To step up computerisation and develop a computer software industry, we must train more programmers and system analysts (we will need 5,800 senior staff by 1990). National University of Singapore should expand and upgrade its Computer Science Course, and EDB should proceed with plans to establish computer training centres. We should

give training grants and scholarships through the Skills Development Fund to encourage companies to send their staff for training in computer software.

35 We must stimulate computerisation in the public and private sectors. To encourage more use of computers, the Ministry of Finance has allowed accelerated depreciation on computers and peripheral equipment for all sectors of the economy. Computerisation of public administration should be accelerated. The Ministry of Finance should organise and implement a programme to computerise the Government administration.

36 We must attract internationally reputable software companies by intensive promotion and through tax incentives. Besides granting the International Consultancy Services Incentives, we should consider giving a 10 per cent concessionary tax rate for more desirable projects and pioneer status for highly sophisticated software industries.

37 A high level Committee, chaired by Dr Tony Tan, the Minister of Education, has been formed to lead, plan, implement and coordinate policies on computerisation, computer manpower training and the growth of the computer services industry. Its

report on the development of computer services has been adopted by the Government.

Financial Services

38 We should further expand financial services, as we have laid the foundation in the Seventies. We must develop Singapore as a "financial supermarket", offering the widest range of financial services. We should continue to sharpen our competitiveness, through higher productivity.

39 Insurance services should be aggressively promoted especially "non-traditional" services such as specialised risks and offshore business. We should adopt a more liberal policy to admit new insurance companies.

40 We should develop Singapore as a regional fund management centre. We should liberally allow reputable international and regional companies to list in the Singapore Stock Exchange and the trading of securities of companies not listed in Singapore. In addition, we should promote the development of the Singapore Gold Market as well as other promising markets, such as currency futures.

Medical Services

41 We have not been realising the potential of

selling high skill and high value-added medical services despite having the best medical facilities in the region. There were no concerted efforts to promote such services as a growth area. The potential of developing Singapore as a regional medical centre exists because there is a large catchment of patients in the region and in our tourist and expatriate population. We should therefore develop Singapore as the Medical Centre of the region by selling high skill and high value added medical services. This can be achieved without sacrificing standards of health services for our own people. Indeed, specialist skills in Singapore will increase in standards and widen in range of specialisation with spin-off effects on our Government or University specialists, and medical students.

42 We must train more doctors. University enrolment must increase. More specialists should be trained by sending our doctors for postgraduate training. The success of a medical centre, in large measure, depends on the reputation of the foreign doctors we can attract to Singapore. We must allow more foreign doctors to practise here. Our medical registry should be opened to foreign doctors with recognised qualifications without demanding reciprocity. The problem of Government

doctors leaving for the private sector should be solved by increasing the output of doctors and correcting the unattractive pay in the Government service. Doctors leaving for the private sector are not net losses to Singapore. So long as the best are ready to pass on their knowledge and expertise to younger doctors training to be specialists, they can be given use of Government and University hospital equipment, supporting medical staff and beds in return for training postgraduate and undergraduate students as consultants and visiting professors. For those who remain in the public sector, terms and conditions of service will be reviewed and adjusted regularly.

43 We must have good quality medical facilities to sell our services. Tax incentives should be considered for investment in private hospitals and in medical equipment.

44 We can promote our medical services through greater publicity of our services and facilities, holding of medical conventions, and publicising locally developed R&D work in medicine.

Construction Consultancy Services

45 During the last ten years our construction industry has built up substantial expertise and capacity. Potential markets for export of construction consultancy services exist in neighbouring countries : the Middle East, Sri Lanka and Pacific economies. Our reputation and record in development and urban renewal are strong credentials for our construction expertise in planning and construction. We must do the following: build up track records of our local firms; modernise our construction industry by integrating the professionals with the contractors; provide financial and tax incentives to local construction firms exporting their services overseas; and beef up INDECO.

46 A 5 per cent preferential margin has been given to local contractors in Government tenders to help them to get track records to sell their services overseas. Where local firms do not have the capacity or expertise, joint ventures with less than 50 per cent foreign participation will also enjoy the concession pro-rated according to the local equity share. Other incentive measures

include vertical integration by professionals and contracting firms, tax incentives and financial assistance through performance bond guarantee facilities.

47 The Ministry of National Development plans to beef up INDECO. The plan includes the restructuring of INDECO's capital diversification of projects, setting of export revenue targets, manpower deployment, and pooling of public sector expertise.

Resources for Growth

Manpower

48 The critical resource that we need to achieve high growth in the Eighties is the supply of skilled, technical and professional manpower. We need many more engineers, graduates, technicians and skilled workers, to achieve economic upgrading and restructuring. We will develop the full potential of our Talent Pyramid to maximize our manpower contribution to our restructuring.

Forecast of Demand¹ and Supply of Professional,
Technical and Skilled Manpower
1979-1990 (Annual Average)

	Real GDP Growth: 8% Productivity Growth: 5-7%		Real GDP Growth: 10% Productivity Growth: 7-8%	
	<u>1979-80</u>	<u>1981-90</u>	<u>1979-80</u>	<u>1981-90</u>
Engineers				
- Demand	590	770	620	810
- Planned Output	350	420	350	420
- Shortfall	240	350	270	390
- Required Enrolment	1,050	1,410	1,140	1,500
Other Graduates				
- Demand	2,600	2,930	2,780	3,130
- Planned Output	2,330	2,100	2,330	2,100
- Shortfall	270	830	450	1,030
- Required Enrolment	2,950	3,290	3,130	3,500
Technicians				
- Demand	2,630	3,560	2,850	3,850
- Planned Output	2,170	2,940	2,170	2,940
- Shortfall	460	620	680	910
- Required Enrolment	4,430	5,300	4,770	5,700
Skilled Workers				
- Demand	7,640	11,190	8,160	12,080
- Planned Output	4,470	10,080	4,470	10,080
- Shortfall	3,170	1,110	3,690	1,980
- Required Enrolment	15,160	21,545	16,080	23,330

Note: ¹ - Projections include requirements for new services, viz promotion of R&D activities, medical services and computer services.

49 More students must make it to the higher ranges of education in the Eighties by increased intakes and offering second chances to those who fail their entrance, and by part-time and full-time programmes for those already in employment. Only thus can we catch up with the backlog of earlier years, as well as meet the larger demands for professional and technical manpower. Failure to do this will undermine our efforts to upgrade and restructure our economy, unless we allow freer immigration of high level professional and technical manpower.

50 We must maintain standards of higher education and the quality of graduates, whilst we widen the range of courses to suit students of varying inclination and ability. Those who reach top grades must be measured against the graduates of the best universities in Britain like Oxford and Cambridge. We must, however, have a larger base of graduates to drive our economy forward in the Eighties and beyond, and to do this our general degrees pass students must be given second chances to make it.

51 Training of skilled workers must also be stepped up. Besides expanding the industrial training institutions, we should encourage employers to use the Skills Development Fund to

upgrade and retrain the skills of their workers. We should also encourage and provide for continuous retraining of managers and workers to upgrade their skills because of the faster changes in technology in our upgrading economy.

52 The Council on Professional and Technical Education had deliberated on the issues and examined the need for trained manpower to support our economic restructuring programme. Its recommendations have been adopted by the Government.

53 University education provides only the basic training of professionals. They will need work and commercial experience and exposure to competition to sharpen their skills. They must also measure up to international standards of professional competence if we were to achieve the objective of developing Singapore as a centre of higher technology manufacturing and brain services. Protectionist and close-shop practices of professional cartels will discourage overseas talents from coming to Singapore and therefore deprive us of a necessary source of better and changing technology. Such practices make our professionals complacent and lethargic: they lead to inbreeding and the exclusion of fresh ideas.

As they are protected from the pressure of competition, the best in a person is never brought out.

54 We must remove close-shop practices by liberalising registration requirements. The authority to decide on application for registration should not be with the professional bodies. These professional bodies must bear the onus of justifying their recommendation to reject an application.

55 We can also optimise our scarce manpower by encouraging more women and "prematurely" retired persons to work. One of the most effective ways to get more women to work is to site factories on or close to HUD housing estates. HUD should allocate more land in housing estates for the clean industries which should have higher priority over backyard factories. The Ministry of Social Affairs should implement promptly and cost-effectively the recommendations of the Study Team which was formed to examine ways and means to retain female workers in the workforce. These recommendations cover child-care facilities, leave for child-care, retraining scheme, part-time employment and income tax incentives.

56 Our retirement age is lower than many industrialised countries facing labour shortages and ageing population. Labour force surveys show that our workers begin to stop working after 50-55 years old, perhaps because of contractual forced retirement, reluctance of employers to continue employing older workers at senior levels of salaries or wages, or unwillingness of retired workers to want to continue working. As life-expectancy in Singapore has increased significantly, "premature" retirement is an economic waste. Our labour-short economy needs every worker still capable of productive work, especially when they have long experience in specialised skills. That their productivity may not be as high as when they were at their prime can be reflected in adjusted salary or wage rates for the older workers. Moreover, where "prematurely" retired workers tend to degenerate physically, Government will have to spend more for their social and health needs. The Government will encourage employers to retain retired workers and the retired workers to continue working through concessions on reduced CPF contributions of the over-60's. Regular retraining of workers before retirement could solve the problem of technological or skill obsolescence in retired workers. We may need to modify tax policies, besides graduated reductions

of CPF contributions for workers over 60 years.

Finance

57 As we must upgrade and restructure our economy, we should divert less funds from and make available more liquidity for the private sector. We must capitalise on our comparative economic advantage of a strong financial position to maximise our growth potential. This can be done by liberalising our tax policy (eg reducing income tax rates and allowing more generous depreciation allowances for capital equipment) and reviving the role of the State as an entrepreneur to pioneer and stimulate investments in new industries and brain services.

58 Other tax proposals are : revised depreciation schedule to encourage automation and mechanisation and accelerated depreciation for computers and research and development equipment tax incentives to promote research and development, removing or reducing certain stamp duties which impede economic growth, and incentives to promote offshore leasing.

59 When we started our industrialisation, the Government had to act as the pioneer or leader by investing in or providing loans to industries, as manufacturing was a new and untested field.

Moreover, it paid lower returns than entrepot trade. Businessmen were therefore reluctant to invest alone, if at all. As we want to restructure and upgrade our economy quickly, the state must resume its role as an entrepreneur, not to supplant private enterprise but to encourage and assist entrepreneurs to venture their capital on new machinery with labour saving devices.

Research and Development

60 Singapore has identified specific areas of promising industrial upgrading and our R&D policy should reflect this perspective. Without experience in the field of R&D, we should adopt a pragmatic approach to R&D planning, guided by the experience of those who have pioneered R&D in other developing countries, mainly the governments and the multinationals who have established R&D facilities in South Korea, Taiwan and other such rapidly industrialising countries.

61 Trained R&D manpower (engineers, scientists and technicians) is the critical factor. The best way to train R&D manpower is by immersion in R&D environment. We should expand and improve our higher engineering education, build a good research tradition in the University as well as nurture a pool of R&D workers, managers and leaders.

62 Besides offering fiscal incentives for companies undertaking R&D, Government must also invest in supporting R&D infrastructure. While we should preferably rely on private initiative, some Government funding in public research is necessary to stimulate private research. The question is how to decide on the minimum amount of Government funds needed to produce the right conditions for private industries to undertake R&D. The following measures are being examined :

- a Developing a Science and Technology Park adjacent to the Kent Ridge University to stimulate university-industry interaction;
- b Developing a Competence Laboratory in Material Science in SISIR. A knowledge of materials is a prerequisite for manufacturing. This laboratory will be aimed at servicing industries' needs, such as in the choice of

technology, testing of
manufacturers' claims and
other extension services;

- c Developing the Engineering
Development Division of the
Applied Research Corporation
as a resource centre for the
application of micro-
processor technology;
- d Setting up our own patent
office to enable patents to
be directly registered as it
will be a great source of
technical information for
industries; and
- e Developing a suitable course
in Tool, Die and Mould Design
at the Singapore Polytechnic
involving collaboration with
private companies which will
provide the necessary
on-the-job training.

Energy

63 We have become more efficient in the use of
energy as indicated by the decline in the

energy-growth ratio from 1.74 in 1976 to 1.45 in 1977 and 1.37 in 1978. However our ratio is still high compared with Japan and EEC countries' ratio of between 0.8-0.9 for 1978. The uncertainty over supply, together with the preference of oil producers to hold back output, will lead to rising oil prices in the Eighties. We must ensure that our economic growth is not disrupted by energy shortages. At the same time, we must reduce our energy-growth ratio. We must encourage interest in discussion on, and dissemination of energy-saving methods found effective in industry, office, shopping centres and hotels. We shall use a combination of inducements and punitive measures to conserve energy. Tax incentives will encourage and speed up investment in newer energy-efficient equipment to replace older energy inefficient machines, just as SIA has found it economic to sell off older aircraft which were fuel guzzlers and to buy new aircraft with fuel efficient engines. Fuel economy standards should be set to encourage use of smaller cars. Taxes will be used to encourage the use of fuel efficient cars. Improved public transport system should slow down the growth rate of car owners. As the implementation of energy policies falls under various industries, an Energy Coordination Committee has been formed to ensure consistency in our energy policies. The Ministry

of Trade and Industry has set up an Energy Unit to coordinate conservation policies and to deal with energy-related matters.

64 Every consumer must pay the world market price of oil. Only when domestic energy prices reflect world prices can we be assured of adequate supplies. We are trying to procure oil through more stable sources such as Government-to-Government purchases in case oil supplies through the oil companies are disrupted for political reasons. We are also diversifying our sources of crude oil. In addition, we must explore other ways of generating energy rather than rely solely on oil. In Singapore, coal is the most feasible alternative to oil for generating electricity.

Land

65 Land in Singapore is scarce and cannot be increased by further reclamation except at great cost. There should be optimal utilisation of land not only to improve the social well-being of the people but also to achieve economic growth. We must therefore ensure that guidelines for the allocation of land are clear and consistent with the prevailing economic and social objectives.

66 Government must continue to direct, guide, coordinate and control all physical development activities in Singapore to ensure compatible and optimal usage of land, and maintain desirable levels of intensity. For major projects such as the MRT, Marina City, Raffles City, Pulau Ubin and Pulau Tekong projects, and sizeable reclamation, the economic agencies should be fully involved in the planning decision. The Ministry of National Development must work in close collaboration with the JTC to ensure adequate allocation and development of land and physical resources for industrial development. Whilst industry will continue to be the catalyst for Singapore's economic growth, our future appears brighter as a services and information centre.

SECTION IIIREVENUE AND TAX CHANGES

For FY 1981, total revenue is estimated to be \$6,335 million, which is an increase of \$886 million or 16.3 per cent compared with the revised estimates of \$5,449 million for FY 1980. The healthy growth expected in revenue receipts is due largely to good economic growth in 1980.

Income tax will continue to be the mainstay of revenue. Over 70 per cent of income tax collections are derived from corporate income taxes as compared with 68 per cent prior to FY 1978. For FY 1981, total income tax collections are expected to reach \$2,460 million, which is an increase of \$550 million or 29.0 per cent over the revised estimates for FY 1980.

The total budgeted expenditure for FY 1981 is \$9,623 million of which \$4,579 million is recurrent expenditure and \$5,044 million development expenditure. The revenue of \$6,335 million estimated for FY 1981 is therefore insufficient to finance total recurrent and development expenditures.

I now come to tax changes for the new fiscal year.

TAX CHANGES

Revision of Domestic and International Passenger Service Charges

The existing rates of domestic and international passenger service charges are \$4 per passenger for flights to Malaysia and Brunei and \$10 per passenger for flights to other destinations. With effect from 1 April 1981, the domestic and international passenger service charges will be raised to \$5 and \$12 respectively. The revised charges will apply to the Changi, Paya Lebar and Tengah Airports. This will help to defray the increased recurrent expenses at the new Changi International Airport which is expected to open in July this year.

The additional revenue yield is estimated at \$5 million in the first year.

Duty on Bets

At present, the duty on bets is 10 per cent of the amount of bets. This duty has not been raised since 1947. It may be one reason why the amount of bets has increased from \$7.3 million in 1950 to \$320 million in 1979. I have, therefore, decided to raise the duty on bets from 10 per cent to 15 per cent of the amount of bets. The revision in duty which is expected to yield an additional \$16 million per year will take effect from 1 April 1981.

Entertainments Duty

In September 1980, the Cinematograph Film Exhibitors Association applied for approval to merge the present two lower admission classes of cinemas and to do away with the lowest class.

I have decided to allow the merger of the two lower class seats. This will result in some saving in manpower for the cinema operators.

At the same time, the entertainments duties for cinemas including drive-in cinemas, amusement parks, trade fairs and exhibitions, will be changed to an ad valorem rate of 35 per cent. The present rates are specific and graduated. They work out to an average of 34.2 per cent. The present graduated duty rates for open-air cinemas and live-shows, such as stage-plays, variety shows and circuses, will also be replaced by ad valorem duties of 15 per cent and 25 per cent respectively. The existing rates of 15 per cent for professional boxing and wrestling and 10 per cent for games and sport other than trial of speed of animals, vehicles, motor vessels or aircraft, will remain.

The changes in entertainments duties, which will be effective from 1 April 1981, will not result in any significant increase in revenue.

Duties on Petrol

The duties on premium and regular petrol have not been increased since January 1976. The specific duties of premium and regular petrol amounted to 47.6 per cent and 51.0 per cent of pump prices respectively in 1976. Since then, prices of petrol have gone up significantly without any adjustment in duty. As a result, the specific duties of premium and regular petrol form only 33.3 per cent and 34.5 per cent of pump prices today.

It is proposed to adopt an ad valorem duty for premium and regular petrol. The present import and excise duties are specific in nature, being \$3.60 per dal (decalitre) for premium petrol and \$3.45 per dal for regular petrol. These will be replaced by an ad valorem duty of 40 per cent, using pump prices as the basis of assessment.

The change from specific to ad valorem duty will result in an estimated increase in revenue of \$10 million in the next fiscal year.

The new duty will be implemented after the Customs Act has been suitably amended.

TAX CONCESSIONS

(i) Separate Assessment on Unearned Incomes of Married Women

Option for separate assessment on earned incomes was first given to married women in 1963. It is clear today that many married women are capable of deriving unearned incomes in their own right. This, however, has not been given due recognition by our tax laws and I propose to amend it to reflect the current income position of married women. From the Year of Assessment 1982, all married women who can satisfy the Comptroller of Income Tax that their unearned incomes are derived from their own earned incomes in the past shall be allowed to have these unearned incomes assessed in their names.

This will reduce the combined tax burden of husbands and wives. It should encourage married women to remain in the workforce, particularly those with tertiary or professional qualifications.

The loss in revenue is estimated at \$3 million.

(ii) Relief for Disabled Persons

This is the International Year of Disabled Persons. As our contribution, I am increasing the earned income relief for handicapped persons from \$1,000 to \$2,000.

This is in recognition of the contribution of disabled persons in our workforce and to encourage more active participation from our disabled population. This relief will take effect from Year of Assessment 1982.

(iii) Personal Income Tax Rates

I have in my Budget Statement last year stressed the importance of spreading the income tax net to cover as many individuals as possible. Let me reiterate the reason for this. The more citizens we have paying income tax, the greater will be the appreciation amongst Singaporeans of the basic fact of life - how to finance various programmes, like health, housing and social welfare. Our people will have a keener understanding that more expenditure on welfare programmes and subsidies must mean an increase in their income tax.

Those who have to pay income tax to meet the costs of welfare programmes will at once ask themselves why they must work to subsidise the leggards and the indolent who are able-bodied but reluctant to work.

I am pleased to inform the House that there was an increase in the past year of 91,868 taxpayers. This is a threefold increase over the number of new taxpayers in 1979. They include new entrants to the labour force, hawkers and taxi-drivers, self-employed

individuals and others who have previously evaded tax.

As at 31 December 1980, there were 481,255 individual taxpayers which is 45 per cent of the employed labour force. The overwhelming majority are wage-earners who cannot evade tax. Because of the nature of Singapore's society, where the many self-employed can evade tax, income tax has been an inequitable tax borne largely by wage-earners and those professionals who are paid by customers or clients who will report their payments to claim tax deduction. Other professionals not paid by corporations behave like taxi-drivers and hawkers in evading income tax.

It may be many years yet before we bring all the evaders within the tax net; but this is an exercise that the Inland Revenue Department is vigorously pursuing. The Inland Revenue Department is studying the possibility of presumptive taxation of hawkers, restaurateurs, taxi-drivers, property brokers and other freelancing commercial intermediaries who do not keep proper accounts. Under this scheme, the Department will take sample investigative surveys to determine what these groups are earning. All those in these groups will be deemed to have chargeable incomes based on the findings. The onus of proof will then be on them; it is up to any one of them, hawkers, restaurateurs, property brokers, etc, to rebut presumed taxable income by accounts which show his true income to be lower.

We are now restructuring our economy. For this to succeed, we must make it worthwhile for workers, especially the young, to spend time and effort in acquiring skills and knowledge. They will find it worthwhile if they can earn more and retain more of their incomes. A worker's effort must not be penalised through too steep a tax. While tax rates must be progressive and linked to ability to pay in order to lighten the burden on the lower income groups, they must never be so high as to suppress the will to strive and to excel. Last year, every taxpayer was given a reduction in tax ranging from 6.8 per cent to 19.9 per cent, depending on his tax bracket. The average reduction in tax was 16.1 per cent.

For the Year of Assessment 1981, I propose to retain the existing tax rates. Inflation, however, has pushed many wage-earners into higher income tax brackets. To take account of the pernicious effect of inflation on tax burdens, and to give Singaporeans further incentive for their effort, I propose to give a tax rebate of 10 per cent to every resident taxpayer on his total tax liability. In other words, if a resident taxpayer is assessed to have a tax liability of \$5,000 on the existing rates, he will be given a tax rebate of \$500. or 10 per cent of his assessed tax. If his tax liability is \$300, he will get a tax rebate of \$30.

The total revenue loss is estimated at \$45 million.

I am not revising the tax rates for the Year of Assessment 1981 because tax returns have already been sent out and computer assessments based on the existing programmed rates have begun. Any change in tax rates for this year will delay the work of the Inland Revenue Department inordinately.

I propose to make the following changes to tax rates but applicable only from the Year of Assessment 1982, i.e. on incomes earned this year.

With your permission, Sir, may I table the revised Rates Schedule (Appendix II) which will be effective from the Year of Assessment 1982? May I also have your permission to circulate the Schedule to Members of the House? In the revision of tax rates, I have paid special attention to the senior clerical, supervisory and skilled grades, and the middle-income group. These are the groups whose chargeable incomes generally fall within \$5,000 and \$75,000. They will enjoy the largest reduction in tax in percentage terms, a reduction ranging from 17.8 to 25.9 per cent.

In changing the Rates Schedule, I have decided to merge the lowest two tax brackets and levy a common tax rate of 4 per cent for this new first taxable bracket of up to \$5,000 chargeable income. Taxpayers in the existing lowest tax bracket of \$1 - \$2,500 will not benefit from any tax reduction. For the Year of

Assessment 1980, there were 141,843 taxpayers or 37.2 per cent of the total number of taxpayers in this bracket. Together they contributed only 1.4 per cent of total personal income tax collections. The average tax assessed was \$45 which is not onerous. In contrast, the top 14,547 taxpayers, constituting only 3.8 per cent of the total number, paid \$266.8 million or 59.9 per cent of total tax collections of \$445.5 million. A large proportion of the tax incidence was therefore borne by this small group of taxpayers whose chargeable incomes exceeded \$35,000. The table which is attached to the Schedule which I have earlier distributed to Members, shows the distribution of the tax burden among the various income groups.

I have decided to give substantial reductions in tax as our objective is to encourage, not to smother, individual drive and enterprise. The highest marginal rate of 55 per cent will be reduced to 45 per cent, and on chargeable income exceeding \$750,000. With the proposed change, very few individuals will be paying tax at more than 40 per cent effectively on their chargeable incomes.

Except for the first tax bracket the reduction granted varies from 12.5 per cent to 25.9 per cent and the overall average reduction is 13.0 per cent. The revenue loss is estimated at \$78 million. Most of

the taxpayers in the first chargeable income group are young workers. They should quickly move up to higher income levels and benefit from tax reductions.

It bears repeating that personal income tax must never be used to equalise disposable income. To do so is to blunt the spur to excel, to outperform one's peers, the very basis of our vigorous growth. Singaporeans must be encouraged to aspire for higher incomes, through acquisition of higher skills and more knowledge, and their diligent application to the production of quality controlled goods and services.

Everyone must be encouraged to enlarge his contribution to the national economy. Only then will there be bigger and bigger rewards for all. Then even the semi-skilled will enjoy higher wages because they are part of the total effort.

(iv) Estate Duty

Members may recall that in the 1979 Budget, an additional exemption of up to \$200,000 was granted in respect of residential houses in an estate. This is in addition to the \$100,000 exemption which is granted for assets other than residential properties.

To ensure that the concession continues to give relief to beneficiaries in the lower and middle income groups, I am raising the exemption ceiling for

residential properties from \$200,000 to \$600,000.

This is to take account of the rise in property prices in the last two years and to protect the dependants of the deceased who might otherwise have to dispose of their family homes to pay estate duties.

The new exemption ceiling will apply to all deaths occurring on or after 1 January 1981. The loss in revenue is estimated at \$23 million.

Concluding Remarks

The tax changes this year is a continuation of the liberalisation of the tax system begun in FY 1978, when the Minister for Finance reduced personal income tax rates substantially. Further changes in the tax system including income tax, may be expected in the next two or three years. We shall adjust our tax regime as income patterns change, as spending habits change, and as investment behaviour changes. Our taxes are designed not to punish effort both collective and individual effort. They are also designed to encourage investments in order that we can enjoy a more productive future.

Business enterprises have been encouraged to invest and expand, through various tax concessions introduced in previous Budgets, eg, realistic capital allowances for plant and machinery, equipment and other assets, rationalisation of stamp duties, investment allowances and incentives to encourage research and development.

Individuals are encouraged to excel through periodical adjustment of the income tax rates to take into account inflation and growth in the economy.

It is our ability to enlarge the economy through intelligent hard work that allows us to reduce tax rates even as Government expenditure increases. We must, however, not be complacent. It is a mistake to believe that we will continue to clear hurdles easily just because we have won a few races in the past. We will not, unless we take each hurdle seriously and make adequate preparations before we come to the obstacles. We must press on vigorously with our economic restructuring. We must bring about a qualitative change in economic activities by the end of this decade.

We must work together to enlarge our national income. Workers must pull together with management to attain corporate objectives. Management must look after the interests of the workers. They must have an easy relationship of trust, one as between partners in a common endeavour. Our major task in this decade is to inculcate new work attitudes and establish this close working relationship. The Government will motivate and reward. Enterprises and individuals who excel will be rewarded accordingly.

Economic growth, desirable as it is, is not an end in itself. It is the means which enables us to forge the kind of society we want. Singaporeans are not homogeneous. There was no quality control in our past immigration policies. Nevertheless, we have succeeded in getting the different races together, to build up a team spirit instead of dissipating our energies in quarrels, jealousies and strife. We must build on this strong foundation.

We want to have a stable and durable society built on tolerance and equality of opportunities. We want to be a self-respecting, self-reliant people, free of poverty, free of bigotry, free of communal religious, linguistic and other social tensions.

The building brick of our structure is the family unit, closely-knit by abiding ties of mutual love and mutual support. Without these strong bricks, each bonded to another by lasting ties of mutual respect and trust, the whole structure of our society will crumble under its own weight of intolerance, divisiveness and strife.

For our society to remain durable the old must take care of the young, and the young the old. The able must support the disabled and the destitute. The employers must look after the interests of their staff, and staff must be loyal to their companies.

The Government must work for the people. The people must work with the Government, to bring about a cohesive and harmonious society, where our children and our children's children will continue to live, work and play in an ever improving Singapore.

Singapore belongs to all Singaporeans. It is our niche in the world. We face difficult times. It is an uncertain world. There is disharmony between the superpowers. The political equilibrium in the world is precarious. We must be prepared for the worst but the worst must hold no fear for us. Recession, unemployment, higher oil prices, protectionism, regional conflict, security threats, international turbulence - they threaten our livelihood. We cannot avoid getting wet in bad weather, but if we have made adequate preparations, we can put our raincoats on, and when we get indoors, change into dry clothes.

Sir, I beg to move.

APPENDIX II

82

INDIVIDUAL INCOME TAX REDUCTION UNDER REVISED RATES SCHEDULE FROM TAX OF AVERAGE 1932

Chargeable Income Group	Existing Rates	Revised Rates	Average Tax paid	Average Reduction in Tax		Effective Tax Rate at End Points	
				\$	%	Existing %	Revised %
1 - 2,500	4	4	45	-	-	4.0	4.0
2,501 - 5,000	7	4	178	33	18.5	5.5	4.0
5,001 - 7,500	9	7	377	98	25.9	6.7	5.0
7,501 - 10,000	11	9	629	148	23.6	7.8	6.0
10,001 - 15,000	14	12	1,066	219	20.2	9.8	8.0
15,001 - 20,000	17	14	1,859	342	18.4	11.6	9.5
20,001 - 25,000	21	17	2,817	517	18.4	13.5	11.0
25,001 - 35,000	26	21	4,545	846	18.6	17.1	13.9
35,001 - 50,000	32	25	8,112	1,584	19.5	21.6	17.2
50,001 - 75,000	34	30	14,919	2,652	17.8	25.7	21.5
75,001 - 100,000	36	32	24,593	3,750	15.3	28.3	24.1
100,001 - 200,000	40	35	41,194	5,765	14.0	34.1	29.6
200,001 - 400,000	45	40	92,875	11,893	12.8	39.6	34.8
400,001 - 600,000	50	43	193,561	24,198	12.5	43.0	37.5
600,001 - 750,000	55	43	300,097	44,508	14.8	45.4	38.6
> 750,000	55	45	652,714	117,067	17.9	-	-

DISTRIBUTION OF TAX INCOME IN 1980

83

Chargeable Income Group \$	Taxpayers		Tax Assessed	
	Percentage Distribution %	Cumulative Distribution %	Percentage Distribution %	Cumulative Distribution %
1 - 2,500	37.2	37.2	1.4	1.4
2,501 - 5,000	24.1	61.3	3.7	5.1
5,001 - 7,500	12.3	73.6	4.0	9.1
7,501 - 10,000	7.1	80.7	3.8	12.9
10,001 - 15,000	7.3	88.0	6.8	19.7
15,001 - 20,000	3.6	91.6	5.8	25.5
20,001 - 25,000	2.1	93.7	5.0	30.5
25,001 - 35,000	2.5	96.2	9.6	40.1
35,001 - 50,000	1.7	97.9	11.5	51.6
50,001 - 75,000	1.3	99.2	16.4	68.0
75,001 - 100,000	0.3	99.5	7.2	75.2
100,001 - 200,000	0.4	99.9	15.8	91.0
200,001 - 400,000	} 0.1	} 100.0	6.1	97.1
400,001 - 600,000			1.5	98.6
600,001 - 750,000			0.7	99.3
> 750,000			0.7	100.0