

MC/AUG/15/79(Prime Minister's Office)

ACTING PRIME MINISTER, DR GOH KENG SWEE'S

EVE OF NATIONAL DAY MESSAGE 1979

For us in Singapore, the most important event in the last twelve months was the invasion of Kampuchea by the Vietnamese army. This began on Christmas day last year. The next most important event was the invasion of Vietnam's border provinces by China's People's Liberation Army. This began on the 17th February this year and ended on 5th March.

These events have great significance for countries in Southeast Asia. First, we now know, if we did not believe it before, that Communist armies do not respect international frontiers. Second, the conflict brought in the Soviet Union in support of Vietnam. This will give the Russians opportunities to increase their influence in the region. Third, it is unlikely that these conflicts between the Communist powers will end soon.

A by-product of these conflicts is the great human tragedy of the boat people, the hundreds of thousands of Vietnamese fleeing the country in small boats across the South China Seas. This exodus has created difficulties in our neighbouring countries. Two international conferences, one in Bali and the other in Geneva, had been convened in an attempt to solve these problems.

Outside Southeast Asia, some world developments have not been favourable to us. The price of oil rose on three occasions this year, by 5% in January, 9% in April and a hefty increase, over 24% last month. Such increases will cause serious dislocations in the world economy which was already not in a healthy state when these increases occurred.

The industrialised countries are not doing well. Since the beginning of this year, economic growth in the United States has slowed down and many believe that the US economy is in a recession. The oil price increases can make this recession more troublesome than expected.

Western Europe and Japan are in better shape but the growth of their combined GNP this year is likely to be less than 3%. Inflation is expected to worsen, rising from an annual rate of $7\frac{3}{4}$ % in the first half of 1979 to about 9% for the rest of the year. Unemployment in the industrialised nations is already

high and will continue to increase, reaching some 18 to 19 million in a year's time.

There are no easy solutions to the problems of inflation, unemployment, slow growth and high energy prices. Much as we dislike them, they will remain with us for some time.

In spite of the weak performance of the industrialised nations, Singapore's economy continued to do well, better than expected. During the first half of this year, our GDP increased at a real annual rate of 9.7% compared to 7.6% in the first half of last year. Manufacturing did extremely well, contributing more than a third of this growth. 28,000 new jobs were created in the first half of 1979 and two thirds were in the manufacturing and trade sectors. There are enough investment and construction projects in the pipeline to keep the economy going for another year. The rate of inflation in the first half of this year was lower than in the same period last year. The consumer price index rose by an annual rate of 2.5% as against 5.3%. However with the oil price increases and the large NWC wage increases (which I will discuss shortly) inflation will get worse in the coming months.

I referred to the National Wages Council's recommendations. The Government has accepted the Council's recommendations for a large increase in wages - a \$32 per month flat increase plus 7%. For the lower paid workers, this means a pay rise of over 20%.

The reasons for the wage increase has been discussed at great length. I need only summarise the main argument. We do not want an indefinite increase of migrant labour on work permits. We are already overcrowded as it is. If we reduce the inflow of work permit holders while economic expansion continues, as we must hope it will, there will not be enough workers.

The available supply of workers should therefore be put to the best of use. One effective way of ensuring this is to raise wages to a point where all employers are compelled to economise on workers. They do this by more efficient work systems, including mechanisation and computerisation.

The adjustment process will take some years to complete. When completed, we will have a work force performing more skilled jobs than before and, of course, earning better incomes.

I must repeat that the purpose of the exercise is not to give more pay for the same work, much less, more pay for less work. It is more pay for better work and more skilled work. The adjustment process can be unpleasant for some, employees as well as employers. Workers may lose their jobs and have to be retrained for new jobs. Employers unable to adapt to higher labour cost will have to close down their business. In this way, workers will be released to industries which can employ them more profitably, mainly in industrial or service processes requiring higher skills and more mechanisation.

These wage increases assume that our economy will continue to expand. If it does, similar increases will take place next year and the year after. However, if the world economy slides into a deep recession, then the policy needs to be reviewed. As of now, no one can be sure what will happen, or to be more correct, no one can have much confidence in the many predictions made of the world economy.

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What does all this mean to us? I think it means this - Singaporeans must learn to live with the current uncertainties without losing their nerve. The Vietnamese will in due course learn that they will have to conduct their relations with other countries according to rules accepted by the international community. When this happens, tranquility will return to Southeast Asia. As for the world

economy, it will survive the many troubles besetting it. Bad times will not last forever. While waiting for the better times to come, let us improve ourselves in every way possible.

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SUMMARY OF PRELIMINARY ECONOMIC INDICATORS

1. Real Gross Domestic Product (Table 1)

Singapore's economy grew faster in the first half of 1979, despite the uneven growth performance of the major industrialised countries. Gross domestic product measured at 1968 prices expanded at an annual rate of 9.7 per cent compared to 7.6 per cent in the first half of 1978. Growth was led by manufacturing, transport and communications, trade and financial and business services. Manufacturing was the most buoyant sector and made the largest contribution of 39 per cent to overall growth. The next three major sources of growth were transportation (which contributed 21 per cent to overall growth), trade (19 per cent) and financial and business services (16 per cent).

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2. New Jobs Created (Table 2)

28,000 new jobs were created in the first half of 1979 compared to 24,000 in the first half of 1978. The manufacturing and commerce sectors continued to be the main sources of employment growth. Together, they accounted for about two-thirds of the total number of new jobs created. In the manufacturing sector,

most of the new jobs were generated by the expanding electronics and machinery industries.

3. Manufacturing Output (Table 3)

The manufacturing sector performed more briskly during the first half of 1979. Industrial production expanded at a high annual rate of 17.3 per cent compared with 9.4 per cent in the same period last year. Based on preliminary indicators, electrical and electronics and petroleum refining were the leading industries.

4. Manufacturing Investments (Table 4)

During the first half of 1979, manufacturing investment commitments, net of projects withdrawn totalled \$740.4 million. This was 34.1 per cent higher than the amount committed in the first half of 1978. New investment commitments of non-petroleum projects amounted to \$523.4 million, a 136.0 per cent increase. These were mainly in the electrical and electronics, machinery and metal engineering, chemicals, as well as food, textiles and wood industries. Reflecting our strategies to upgrade into higher value added and better technology industries, some of the new projects were for the manufacture of

microwave ovens, diesel engines, oilfield equipment, military optical equipment, diagnostic aid kits and electronic toys.

Largely because of local participation in the petroleum and food industries, local investment commitments increased by almost 3 times over the same period in 1978. However, foreign investments maintained a high contribution of 88 per cent to total commitments. In contrast to 1978, investments from the United States were much higher largely because of its contribution to the petroleum project. Excluding petroleum, Japan remained the leading source of investments.

5. **Construction (Table 3)**

The construction sector reversed its two-year downtrend in the first six months of 1979. Construction work certified for payments at current prices was 12.7 per cent higher than the first half of 1978. The turnabout was due mainly to a strong pick-up in private sector construction mainly of hotels, shopping centres and industrial buildings. Public sector construction improved somewhat in the past three months to bring the level of activities in the first half of 1979 marginally above the same period in 1978.

6. **Tourism (Table 4)**

Growth in the tourist sector was sustained at a steady rate. The number of tourist arrivals by air and sea in the first half of 1979 rose at an annual rate of 8.7 per cent, compared with the 8.4 per cent recorded in the same period of 1978. Although the number of Indonesian and Australian visitors declined, there was good growth in other tourist markets such as Japan. Our major tourist markets were still ASEAN, Japan and Australia.

7. Singapore's External Trade

a) Overall trade (Table 5)

Growth in the trade sector accelerated. The value of total trade in the first half of 1979 resumed a buoyant annual growth rate of 24.8 per cent compared to a 14.2 per cent in the same period last year. This was due to high growth rates of both imports and exports. The trade deficit continued to widen but by a smaller rate of 11 per cent. Both domestic exports and re-exports grew strongly mainly because of increases in domestic exports of electrical and electronic products and petroleum products, and re-exports of rubber and palm oil.

b) Major Trading Partners (Table 6)

In terms of the value of total trade, Singapore's top three trading partners in the first half of 1979 were Malaysia, the United States and Japan.

Together, they accounted for 42% of total trade. As a result of an increase in two-way trade, Thailand became our sixth largest trading partner after Saudi Arabia and Hong Kong.

c) Cargo Handled (Table 7)

The volume of seaborne cargo continued to expand but at a slower rate than the previous year. Total cargo handled during the first six months of 1979 rose at an annual rate of 9.8 per cent compared to 11.8 per cent in the same period last year.

8. Inflation - Domestic and External Prices (Table 8 and 8A)

For the first six months of 1979, the consumer price index increased by 2.5 per cent, half the rate of 5.3 per cent in the same period last year. However, inflation in most of the industrialised countries worsened.

TABLE 1
GROSS DOMESTIC PRODUCT BY INDUSTRY AT CONSTANT 1968 FACTOR COST

INDUSTRY	1978		1978 1 st Half		1979 1 st Half (Preliminary)	
	\$ Million	% Change over 1977	\$ Million	% Change Over 1 st Half 1977	\$ Million	% Change Over 1 st Half 1978
TOTAL	10,093.8	8.6	4,811.8	7.6	5,279.3	9.7
Agriculture and Fishing	149.1	-2.1	73.8	-1.2	74.9	1.5
Quarrying	35.5	-13.6	17.0	-24.1	19.0	11.8
Manufacturing	2,271.5	11.7	1,058.3	9.4	1,241.0	17.3
Utilities	300.6	13.1	144.2	12.7	161.1	11.7
Construction	511.5	-8.3	257.6	-6.3	270.5	5.0
Trade	2,742.2	7.2	1,303.5	6.6	1,389.9	6.6
Transport and Communications	1,783.4	16.3	832.9	15.6	928.7	11.5
Finance and Business Services	1,502.2	8.3	723.6	6.1	797.4	10.2
Other Services	1,192.6	7.4	587.2	6.5	618.8	5.4
Less: Imputed Bank Service Charge	394.8	na	186.3	na	222.0	na

Source: Department of Statistics.

TABLE 2

ESTIMATES OF JOB CREATION BY SECTORS

	1978			1979		
	1 st Qtr	2 nd Qtr	1 st Half	1 st Qtr	2 nd Qtr*	1 st Half
1. Agriculture	-	-	-	-	-	-
2. Mining & Quarrying	-	-	-	-	-	-
3. Manufacturing	5,000	4,000	9,000	8,000	1,000	9,000
4. Electricity, Gas & Water	-	-	-	-	-	-
5. Construction	-	-	-	-	-	-
6. Commerce	4,000	4,000	8,000	4,000	4,000	8,000
7. Transport, Storage & Communications	-1,000	1,000	-	1,000	2,000	3,000
8. Financing, Insurance, Real Estate & Business Services	1,000	2,000	3,000	2,000	2,000	4,000
9. Community, Social & Personal Services	2,000	2,000	4,000	2,000	2,000	4,000
TOTAL	11,000	13,000	24,000	17,000	11,000	28,000

Source: CPF Records

Notes : (i) Positive figures indicate increases
Negative figures indicate decreases

(ii) Figures are rounded

* Provisional

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TABLE 3

QUARTERLY INDEX OF INDUSTRIAL PRODUCTION, CONSTRUCTION WORKS CERTIFIED FOR PAYMENT
AND TOURIST ARRIVALS, 1978 - 2ND QUARTER 1979

PERIOD	Quarterly Index of Industrial Production		Construction Works Certified for Payment						Tourist Arrivals*	
			Total	Public	Private	Total	Public	Private		
	Index 1974=100	Annual Change (%)	\$ Million			Annual Change (%)			Thousand Persons	Annual Change (%)
1978 1 st Quarter	121.3	10.6	404.5	325.0	79.5	-8.5	-2.6	-26.7	430.3	9.7
2 nd Quarter	130.9	8.4	415.3	321.1	94.2	-9.6	-9.9	-8.5	423.2	7.2
1 st Half	126.1	9.4	819.8	646.1	173.7	-9.0	-6.4	-17.8	853.5	8.4
2 nd Half	144.6	13.8	902.8	661.4	241.4	-45.6	-47.8	-38.4	978.2	9.3
1979 1 st Quarter	141.2	16.4	446.8	316.2	130.6	10.5	-2.7	64.3	454.8	5.7
2 nd Quarter**	154.6	18.1	447.0	330.7	146.3	14.9	3.0	55.3	472.8	11.7
1 st Half**	147.9	17.3	923.8	646.9	276.9	12.7	0.1	59.4	927.6	8.7

* Includes Malaysian visitors embarking direct from Peninsular Malaysia by air and sea.

** Preliminary.

Source: Department of Statistics.

TABLE 4

GROSS & NET MANUFACTURING INVESTMENT COMMITMENTS
(1978 - 1ST HALF 1979)

(\$'000 in Fixed Assets)
(Updated as at June 1979)

	Total Gross Commitments			Total Net Commitments		
	Foreign	Local ^{1/}	Total	Foreign	Local ^{1/}	Total
1978						
1 st half	525,603	28,970	554,573	523,103	28,970	552,073
2 nd half	248,940	18,826	267,766	232,730	17,656	250,386
TOTAL	774,543	47,796	822,339	755,833	46,626	802,459
1979						
1 st half	653,915	86,741	740,656	653,615	86,741	740,356

SOURCE : Economic Development Board

^{1/} Only larger local projects and local investments granted tax incentives are recorded.

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TABLE 5
EXTERNAL TRADE 1974 - JUNE 1979

PERIOD	Imports		Exports		Total Trade	
	S\$ Million	Annual Change (%)	S\$ Million	Annual Change (%)	S\$ Million	Annual Change (%)
1974	20,404.9	63.1	14,154.6	58.9	34,559.5	61.3
1975	19,270.4	-5.6	12,757.9	-9.9	32,028.3	-7.3
1976	22,404.5	16.3	16,265.9	27.5	38,670.4	20.7
1977	25,521.9	13.9	20,090.3	23.5	45,612.2	18.0
1978	29,601.3	16.0	22,985.5	14.4	52,586.8	15.3
January - June 1977	11,995.7	16.2	9,571.8	27.6	21,567.5	21.0
January - June 1978	13,857.5	15.5	10,768.3	12.5	24,625.8	14.2
January - June 1979*	17,085.7	23.3	13,655.8	26.8	30,741.5	24.8

* Preliminary

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TABLE 6
TRADE WITH SELECTED MAJOR TRADING PARTNERS, 1977 - JUNE 1979

S\$ Million

Countries	1977			1978			January - June 1979*		
	Total	Imports	Exports	Total	Imports	Exports	Total	Imports	Exports
Total	45,612.2	25,521.9	20,090.3	52,586.8	29,601.3	22,985.5	30,741.5	17,085.7	13,655.8
Malaysia	6,340.0	3,466.0	2,874.0	6,987.1	3,793.6	3,193.5	4,428.1	2,443.0	1,985.1
USA	6,348.0	3,227.2	3,120.8	7,456.3	3,771.8	3,684.5	4,408.1	2,348.6	2,059.5
Japan	6,392.1	4,474.0	1,918.1	7,894.2	5,668.2	2,226.0	4,214.5	3,025.3	1,189.2
Saudi Arabia	4,074.9	3,781.4	293.5	4,282.3	3,908.5	373.8	2,186.9	1,893.6	293.3
Hong Kong	2,125.2	651.2	1,474.0	2,361.8	731.4	1,630.4	1,289.0	390.4	898.6
Thailand	1,133.1	571.0	562.1	1,708.8	814.7	894.1	1,140.3	538.4	601.9
United Kingdom	1,603.3	957.0	646.3	1,841.6	1,116.8	724.8	1,052.8	625.6	427.2
Germany Fed Rep	1,649.4	880.3	769.1	1,877.3	1,117.6	759.7	1,045.7	606.3	439.4
Australia	1,635.2	644.6	990.6	1,526.0	597.5	928.5	844.8	357.5	487.3
Taiwan	876.1	583.8	292.3	1,081.8	732.6	349.2	671.8	452.4	219.4
China, People's Rep	815.1	670.4	144.7	906.2	775.5	130.7	594.4	421.7	172.7
Iraq	584.1	548.6	35.5	828.9	769.5	59.4	576.9	528.9	48.0
Others	12,035.7	5,066.4	6,969.3	13,834.5	5,803.6	8,030.9	8,288.2	3,454.0	4,834.2

* Preliminary

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TABLE 7

SEABORNE CARGO DISCHARGED AND LOADED, 1974 - JUNE 1979

Period	Cargo Discharged		Cargo Loaded		Total Cargo Handled	
	Thousand Freight Tonnes	Annual Change (%)	Thousand Freight Tonnes	Annual Change (%)	Thousand Freight Tonnes	Annual Change (%)
1974	37,713.6	-2.2	22,738.9	0.2	60,452.5	-1.3
1975	33,032.0	-12.4	19,067.2	-16.1	52,099.2	-13.8
1976	37,703.1	14.1	20,273.4	6.3	57,976.5	11.3
1977	39,833.8	5.7	24,284.8	19.8	64,118.6	10.6
1978	44,832.5	12.5	28,506.7	17.4	73,339.2	14.4
January - June 1977	19,034.9	13.1	11,476.6	15.3	30,511.5	13.9
January - June 1978	20,786.6	9.2	13,315.7	16.0	34,102.3	11.8
January - June 1979*	22,793.7	9.7	14,666.1	10.1	37,459.8	9.8

* Preliminary

Source: Department of Statistics.

TABLE 8

CONSUMER PRICE INDEX, 1976 - JUNE 1979
(June 1997 - May 1978 = 100)

	All items	Food	Clothing	Housing	Transport & Communication	Miscellaneous
Weight	100.0	49.0	4.6	16.6	11.4	17.8
Period						
1976	94.2	91.5	96.7	97.1	99.6	96.3
1977	97.2	96.0	98.2	98.6	100.1	97.6
1978	101.9	101.7	101.1	99.8	104.6	102.9
1978 Jan-Jun	100.8	101.0	100.5	99.8	100.5	101.7
1979 Jan-Jun	103.4	102.0	103.5	101.3	108.8	105.5
	Percentage Change Over Corresponding Period of Previous Year					
1976	-1.9	-6.1	0.7	5.9	4.1	1.2
1977	3.2	4.9	1.5	1.5	0.6	1.4
1978	4.8	5.9	2.9	1.2	4.4	5.4
1978 Jan-Jun	5.3	7.5	2.1	1.3	1.4	5.2
1979 Jan-Jun	2.5	1.1	3.0	1.5	8.2	3.7

Source: Department of Statistics

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TABLE 8A

A SUMMARY TABLE OF CONSUMER PRICE
INCREASES IN SELECTED COUNTRIES

Period	USA ^{1/}	UK ^{1/}	Japan ^{1/}	West ^{1/} Germany	Hongkong ^{2/}	Malaysia ^{3/}	Taiwan ^{4/}	South ^{5/} Korea
	Annual Change (%)							
1971	4.3	9.4	6.0	5.3	3.8	1.6	2.1	12.1
1972	3.3	7.1	4.6	5.5	6.1	3.2	3.0	11.9
1973	6.2	9.1	11.8	6.9	18.1	10.5	8.2	3.1
1974	11.0	16.0	24.3	7.0	14.4	17.4	47.5	23.8
1975	9.1	24.2	11.9	6.0	3.1	4.5	5.2	26.3
1976	5.8	16.5	9.3	4.5	3.0	2.6	2.5	15.4
1977	6.5	15.8	8.1	3.9	5.8	4.8	7.0	10.2
1978	7.7	8.3	3.8	2.6	5.9	4.9	5.8	14.4
<u>1978</u>								
1 Qtr	6.6	9.5	4.3	3.1	4.5	4.4	6.8	12.5
2 Qtr	7.0	7.6	3.6	2.7	5.4	5.3	6.4	13.3
3 Qtr	8.0	7.9	4.0	2.4	5.9	5.4	3.0	14.5
4 Qtr	8.8	8.1	3.4	2.2	7.9	4.5	7.1	16.8
<u>1979</u>								
1 Qtr	9.8	9.6	2.7	3.0	7.4	3.6	6.4	16.0
2 Qtr ^p	10.6*	10.2*	2.8*	3.7	10.5*	*4.2	7.9*	20.1*

Source : ^{1/} Monthly Finance Review, Ministry of Finance, Japan

^{2/} Hong Kong Monthly Digest of Statistics

^{3/} Consumer Price Index for Peninsular Malaysia

^{4/} Taiwan Financial Statistics

^{5/} Monthly Statistics of Korea

* April-May

p = preliminary