

FY2004 BUDGET DEBATE ROUND UP SPEECH

Mr Speaker, Sir, first, may I thank all the MPs for their contributions and, particularly, thank all those who have supported this Budget.

I am happy to note that nearly all of the MPs support the long-term vision set out in this Budget. It builds on the strategic changes launched in recent years, and sets the directions for the next few years.

On the economic front, the Budget is a continuation of the Economic Review Committee's strategies to enhance our competitiveness, to promote entrepreneurship, and to create jobs. We have lowered the corporate tax rate to 20%. That is a big move. We have exempted from tax all foreign sourced income remitted by resident individuals in Singapore, as well as all Singapore sourced investment income derived by individuals. These are moves which we have thought over for many years before finally deciding to act this year. We have expanded the scope of the Technopreneur Investment Incentive to the Enterprise Investment Incentive. It is a change of one word but it is a change of mindset. And we are exempting start-ups from corporate tax on the first \$100,000 of chargeable income for the first three years of assessment.

The Budget also sets the stage for restoring our fiscal health, following deficits in two out of the last three years, and another projected deficit this year. The Government aims to balance the budget by FY2005, barring exceptional circumstances.

On the social policy side, we are moving to focus subsidies on those who need them the most with a more equitable and sustainable basis for financing university education, and for expanding means testing in healthcare. And we have set out the principles which we will use to tackle the procreation issue.

Fiscal prudence

The first macro consideration in this Budget is to decide whether to aim for a surplus or a deficit. We need to run deficits in difficult years, but we must balance the budget when the economy recovers, and that is what we mean by fiscal prudence.

Balancing the budget

This year, we are running a deficit of \$1.35 billion, which is 0.8% of GDP. Many MPs have supported this as an appropriate fiscal stance to support the economic recovery which is already underway. Mr Iswaran has asked if the projected deficit for this year is too conservative or cautious. I do not think \$1.35 billion deficit is conservative, given that the economy is on the mend. We have to judge the fiscal stance with reference to the state of the economy. If the economy is down, we must do more. If the economy is picking up, we need to do less, or we may even have to dampen the economy. This year, the economy is recovering. I think a modest boost like this is about right. We are projecting GDP growth of 3½-5½% this year. In fact, if we look at the projections, they are at the top end of that range. But we have set the range this way, down to 3½%, because of what Donald Rumsfeld would call “unknown unknowns”. We do not know what may strike us. It could be a terrorist

attack. It could be another virus. Or it could be some totally unexpected mishap. So, just to be careful, we are telling everybody, "Watch it." But if we are just going on momentum, I think the momentum is strong and there is no need for a larger fiscal stimulus.

I note that Dr Gan See Khem felt that the Constitution forces "extreme fiscal conservatism", if I may quote her, and she argued that the Government should have a more aggressive fiscal policy and run budget deficits for many years to come. I am not an extreme fiscal conservative, but I do not think this is necessary or wise. It is not a sustainable path to take. We are prepared to run a deficit in a downturn, as we have done in the last few years, but we must not end up with structural deficits, as Hong Kong has done. Because that would undermine investor confidence, crowd out the private sector, and in fact, far from promoting growth, after a while, it will dampen growth and weaken the Singapore dollar, and inflation will go up.

Fiscal choices

As the economy recovers to its potential growth path - that means growing as fast as it has the potential to grow - we have to strengthen our fiscal position, not too early, but not too slowly either. So, as a first step, we aim to balance our budget by next year, FY 2005. But balancing the budget is only one decision. The other major decision is in what way we are going to balance the budget. And there are two ways to do this: (1) high taxes, high spending; or (2) low taxes, low spending. And that is a fundamental policy choice: do we want high spending, universal social benefits and be subject to

much higher taxes, or do we want free enterprise, more targeted social benefits and much lower taxes? It is a basic choice.

If we want Singapore to be a land of opportunity where the private sector is the engine of growth, then we have got to keep both taxes and spending low. Because by keeping taxes low, we foster a dynamic society where individuals will strive to achieve and excel, and where they are free to decide for themselves how they wish to spend their own money. They earned it, it is their choice. And by keeping public spending low, we foster a self-reliant society where individuals assume primary responsibility for themselves and their families.

Yes, we will need a safety net. Every society needs to provide a safety net, and we will provide a safety net. But we should focus the safety net on those who need it most.

Keeping taxes low

We have been steadily reducing our direct taxes over the last few years. This year, we have lowered the corporate tax rate down to 20%. There are no plans to lower it further, but let me assure Mrs Fang Ai Lian that neither is 20% a sacred cow. In fact, they have become an endangered species! Many countries are cutting their corporate income taxes. We have to continue to monitor our competitiveness. If it should become necessary to cut the corporate income tax again, we will have to do so. If the Americans bring their rate down, and if the Europeans bring their rate down, we have to do so. But,

remember, it will mean we have to make up the revenue in some other way.

Some other taxes will have to go up.

Sir, we watch the other countries. We see Hong Kong, 16½%, going up slightly. I am not sure what they will do today - it is their Budget day. Or Ireland, 12½%, as Dr Gan mentioned. But there are trade-offs. In Hong Kong, the corporate tax is low; the personal income tax is low; the budget deficit is 7% of GDP. They hope to cover it but it is going to be a tough slog.

In Ireland, the corporate tax is very low, 12½%, but the GST is something close to 20% and the personal income tax is something close to 50%. So, there are trade-offs which we have to make.

As for personal income tax, Dr Gan expressed disappointment that we have “mothballed” the reduction in personal income tax to 20%. Let me assure her that we have not mothballed the idea. We had to postpone the reduction, but I have not given up the objective. The Government remains committed to cut the top personal income tax rate to 20% as soon as our fiscal position and our economic conditions permit. We have not changed our goal.

Keeping Government trim

Low taxes mean low spending and a trim and efficient Government. No doubt there will always be strong pressures for higher Government spending. We want better teacher-student ratios. We hope for more healthcare subsidies. We press for more public transport infrastructure, more train lines, unemployment allowances, more housing benefits and so on. They are all reasonable requests, and some of them are worthwhile public expenditures.

Others are desirable, nice to have, but may or may not be sustainable. So, we have to review each proposal, decide whether it is something that the Government should do first. And if we think we should do it, then we rank it against all the other demands on the exchequer to decide where it ranks, how much we should support it, and whether it has to wait or not, so that we can meet all the pressing demands within our budget.

I therefore agree with Mr Inderjit Singh and Mr Chew Heng Ching that all Government agencies should review their missions and objectives periodically and assess the relevance of their programmes. First, we have to decide: are we doing the right thing? Then we can examine whether we are doing it efficiently or not. So, Ministries have to prioritise their activities, instead of simply employing more people to do new functions while retaining existing officers in old and outdated functions. They have to subject their functions to a market test to see which of them can be better done by the private sector. They have to restructure and streamline their operations and share resources in order to derive greater economies of scale and better efficiencies.

These are primarily Ministries' responsibilities but also Ministry of Finance's duty to ensure because we are guarding public money. So, MOF has been working with the Ministries on this and we will regularly and systematically review the functions and the activities of the Ministries and statutory boards, to make sure that they are effective - not just efficient, but effective, doing the right thing.

We need to watch the costs of Government, and one cost which we particularly need to watch is the rising manpower expenditure, which several MPs have mentioned. Our total Government spending is now about 18% of GDP. By world's standard, this is not high. The OECD, typically, is 30-40% of GDP. But considering that we were at 14% of GDP just a decade ago in 1995, from 14% we have ballooned up to 18%, just in nine years, I think there is reason to be watchful.

For a long time, the civil service had a headcount freeze. Then in 1996, MOF lifted it, mistakenly believing that controlling budget dollars was enough. We thought that if we just limited the amount of money the Ministries had, they would spend within their means and make sure that they were lean. But it does not quite work that way and, as a result of lifting the controls, the public sector headcount has grown by 17% since 1996. In eight years, it has grown 17%. In other words, more than 2% a year. Some of the increases have been necessary, eg, teachers, we want to improve teacher-student ratio, and we have recruited more teachers. But overall, I believe there has been some slackening.

Sir, going forward, we will have to be more stringent on headcounts. Agencies will have to be more circumspect in expanding their manpower needs, and must trim back wherever possible. I am reluctant to impose a freeze again, but MOF is working on ways to control total headcount numbers, while allowing Ministries flexibility to grow and to shrink their departments and agencies. One of the ideas that we are thinking of is to impose a headcount tax. If we think that is what you should have and you have more than that, I would

not stop you, but I am going to levy a tax here. If you do not want to pay the tax, then you bring your headcounts down in line. These are things which we have to work out.

Mr Yeo Guat Kwang and Mdm Halimah asked what this means for jobs in the public service. Just like in the private sector, every public officer must continually improve his productivity, work smarter, upgrade and learn new skills. When missions and needs change, which from time to time they do, then Government departments and statutory boards will have to restructure, and sometimes they will have to shed staff. It is inevitable, but when it happens the civil service will work closely with the public sector unions to manage the change, as we did in the case of the HDB restructuring last year. Where possible, we will redeploy the officers but where it cannot be done, then we will have to release them on fair separation terms.

For the FY 2004 Budget, we imposed a permanent 2% cut on the budget caps of all the Ministries, except MINDEF, and we are going to cut by another 2% by next year.

Mrs Lim Hwee Hua and Mr Leong Horn Kee expressed concern that the 2% cut should not be achieved by sacrificing social programmes or passing on costs to the private sector. Let me assure them that the cut will not be onerous to the Ministries. Ministries' budgets are tied to the GDP. Because we are projecting growth this year, in dollar terms, the spending caps for all the Ministries are higher this year than last year, despite the 2% cut. Because you take a percentage of GDP, GDP grows, so your budget grows, then a 2% cut.

If the GDP grows by more than 2%, in fact, in dollar terms, you still get more. So social subventions for healthcare, schools, voluntary organisations and town councils will not be cut. In fact, we are budgeting for 14% more social subventions this year compared to last year, of \$287 million.

"No free lunch"

I think all the PAP MPs understand the importance of keeping the Government trim. Even Mr Steve Chia supports our prudent fiscal position. He said so. In contrast, Mr Low Thia Khiang argued against the Government's fiscal policies. He questioned the 2% cut in Ministries' budgets; he opposed changing the basis for university fees, and he also opposed using means testing in healthcare.

These are easy, populist demands to make. But supposing we agree. Who is to pay? We are already drawing on the returns on our reserves, up to the constitutional limit. Is Mr Low Thia Khiang suggesting a further increase in GST? Or should we raise income taxes, instead of reducing them? He did not say. But his unspoken message is that someone else, presumably someone else richer, can cough up, not middle or lower-income Singaporeans.

But it is not possible simply to pass on the cost to someone else. Today, the top 20% of people working already pay 93% of the net income tax assessed. So, if we go the way Mr Low proposes, then we are going to have to tax the majority of Singaporeans more heavily, in order to pay for the benefits to themselves. In other words, tax the middle-class and lower middle-class in order to benefit the middle-class and lower middle-class. That is how welfare

states work. That is how the British work – the first pound you earn, you pay about 20 pence on the pound. In Singapore, the first \$20,000 you earn is tax-free. So, that is what it amounts to. And if Mr Low were candid, I think he would admit this.

Opportunities for individuals

Mr Chiam See Tong and some other Members have commented that this Budget does not offer much to the man-in-the-street. But maybe they have forgotten the many rebates which are still in place for the households and many programmes to get the unemployed back to work. Some were from the GST offset package two years ago; others were from the off-Budget package last September. As these are quite generous, there has been no need to increase them, especially with the economy picking up and unemployment going down. Instead, this Budget focuses on creating opportunities for individuals to help themselves.

Help for households

Let me just briefly name the items which are still in force.

We had a second tranche of Economic Restructuring Shares in January and February this year. Altogether, we have given out \$814 million worth of shares. \$814 million – that is equal to the whole corporate tax cut this year. And of this, \$562 million has been encashed, that means nearly 70% has been cashed out. And there is a third tranche, which is worth an estimated \$900 million, which will be allotted next year.

Secondly, HDB households are receiving rebates this year on the Service and Conservancy (S&C) charges (up to five months), rentals (up to four months) and they are getting Utilities-Save rebates too (up to four months), and the S&C and rental rebates are going to continue for another couple of years.

Thirdly, needy persons affected by the downturn can turn to the Interim Financial Assistance Scheme (IFAS) for help. In FY 2003, we had disbursed more than \$4 million to assist more than 8,000 individuals.

In this year's Budget, I decided to make Medisave top-ups from \$50 to \$200 for older Singaporeans, and to inject another \$100 million into Medifund for needy patients. Dr Jennifer Lee did not think that Medisave top-up was necessary, and she preferred to put the money into Medifund. But I think, on balance, it is necessary. Firstly, because the older workers are suffering a deeper CPF cut when we made the changes to the CPF system last year, and I think we owe them an obligation. I said then that at the next opportunity, the Government would do a little more for them in terms of top-ups. Secondly, we have structured the Medisave top-up to give more to those with lower Medisave balances, who are likely to be the less well-off. And if they already are on Medifund, this will help to pay for the MediShield premiums. Thirdly, I have not neglected Medifund, and I have put \$100 million into Medifund to bring the fund to its target size of \$1 billion, to look after the group that Dr Lee is concerned about, which we are also concerned about.

Middle/lower income groups gain more

Many MPs have expressed concern with the well-being of middle and lower income Singaporeans. Let me assure the House that this is a group that the Government pays close attention to. In assessing how the middle and lower income groups have fared, we have to look at a broad range of factors, not just in this Budget – consumer prices, wages, taxes, benefits. By almost any measure, the middle and lower income groups have not been left behind.

First of all, on the cost of living. This is a perennial subject. But inflation in Singapore continues to be low. Last year, the CPI rose by only 0.5%, although for lower income groups, it went up slightly more - by 1.1% - but this is still very low.

Secondly, the purchasing power of Singaporeans has increased over the years. Their real wages have gone up. In the last two decades, nominal wages have nearly tripled - they have gone up by 190% - whereas the CPI has only increased by 28%. So, real wages have more than doubled.

MOF recently did a study to compare different households, different income groups, different housing, all the taxes they paid compared to all the subsidies they received. I have a [Chart](#) which is also on the screens. And you can see that we have taken in all the taxes they paid – personal income tax, GST, property tax, foreign maid levy, car taxes, and all the subsidies they received (healthcare, education, public housing, plus one-off transfers like ERS and rebates on rental, utilities, and S&C charges). You can see how each household fares in terms of what they paid and what they received.

Overall, 90% of the households gain more in subsidies than they pay in taxes, that is, if they do not own a car. If they own a car, even then more than half the households gain more than they receive. If you look at a typical household from different income levels, the bottom 20% of households (those who are in the 1- and 2-room flats), they gain the most - \$13,000 or so a year. The middle and lower middle-income households, they gain about \$11,000, so long as they have no car, no maid but two children. Even households at the 60th to 80th percentile level (that means, the 5-room or executive HDB flats), if you do not own a car and do not have a maid, you are still getting about \$7,400 each year in net subsidies. In contrast, for the top 20% of households owning a car and with a maid, which most of them have, taxes exceed subsidies by more than \$42,000 each year.

So, that is how it balances out. And I think that is the background which we should remember when we talk about the middle class squeeze which Dr Amy Khor and Dr Wang Kai Yuen mentioned. In many ways, the “middle-class squeeze”, or the squeeze on middle-class households, really boils down to lifestyle choices, whether or not you want to own a car, and the car is a very big item. To some extent, the high cost is unavoidable because it reflects our need to control congestion in a land-scarce city. However, the Government recognises that many Singaporeans hope to own cars, and we have been reducing the upfront cost of owning a car. Over the last two years, we have reduced the upfront car taxes, which include the ARF and the excise duty, from 171% of OMV to 130% of OMV. Even though we have done that, if you look

at the COE prices, they have not really gone up that much. So, overall, the cost of owning a car has come down. With the ERP, I believe, over time, we can gradually lower the upfront ownership taxes further.

Help for the unemployed

Mr Othman Haron Eusofe asked how the Government is helping the older workers who have been laid off.

The Workforce Development Agency (WDA) administers training programmes, grants and other assistance measures, especially for older workers. But the older workers themselves have to be prepared to undergo training to upgrade and equip themselves with new skills, and take on jobs which can be quite different from their previous jobs.

We have the People for Jobs Traineeship Programme (PJTP) which continues to be popular for placing older workers. Every month, it places about 500 to 800 older workers and there is a subvention, part of their pay, up to half, up to quite a high limit, for up to six months. Since the scheme started in June 2001, it has placed more than 16,000 workers. Under the PJTP, the Government pays up to 50% of the wages of an older worker who takes a job in a different field for six months. Last year, 44% of the older workers stayed on with their employers, even after the salary support from Government ended. And now the proportion has gone up to 57%. So I think that we are making some headway.

Other unemployed low-income Singaporeans can also make use of the Work Assistance Programme to help them get back to work as quickly as

possible. For FY 2003, the scheme helped about 2,500 unemployed Singaporeans.

A global economy means more intense competition for investments and for jobs. Even as the output of our manufacturing sector grows, I do not expect the number of manufacturing jobs to go up. Increasingly, the growth will be through higher output per worker, not through more workers. Over the years, manufacturing has held its share of GDP to one-quarter, but the share of employment has been going down for over a decade. But this is happening in almost every economy in the developed world, and the only countries where there are big increases in manufacturing employment are in China and Russia. So, I think if we can keep our manufacturing jobs here by upgrading the industry, by bringing in new investments and replacing the jobs which leave, we are doing well.

Dr Maliki had asked where our new jobs are going to come from. So I have a Chart ([Chart 2](#)) to show Members. This is a Chart of the jobs which have been created, net jobs, over the last 10 years. And you can see that we created more than half a million jobs over the last 10 years, but manufacturing generated hardly any net jobs, in fact, from beginning to end, almost flat. Construction a few, particularly during the boom. Services generated 480,000 new jobs, and I think services is where the new jobs are going to come from and that will remain the main engine of job creation in future.

Leveraging on foreign workers

Mr Seng Han Thong pointed out that we would need to bring in foreign workers even as we upgrade and develop our own local workers. Indeed, if our local workforce is fully employed, we will still face shortfalls, particularly if the economy grows strongly and particularly in some sectors.

I think before we discuss the 'S' Pass, which many Members have been focusing on, it is useful for us to see how the foreign workers have helped us over the last 10 years. I have divided the last 10 years into two periods, the first five and the next five. If you look at [Chart 3](#), you can see the first five years, 1993-1997, boom years before the crisis. We attracted strong flows of investments. We created many jobs, nearly half a million, 470,000, and the jobs went to locals as well as to foreigners. 180,000 jobs to locals, 290,000 jobs to foreigners. In fact, in this period, more jobs went to foreigners than to locals, but nobody complained. Because there were not enough locals and if we have not given the jobs to foreigners and let the foreigners come in, our economy would have overheated, our growth would have been lower, and I think we would have been worse off.

In the second half, in the second five years, 1998-2003 ([Chart 4](#)) this was the Asian financial crisis period and post-Asian financial crisis. We lost many jobs, especially immediately after the crisis, and then again in the last couple of years, first, because of the September 11 attack and because of the global economic downturn. But if you look at the breakdown, the locals were not

badly hit. The foreigners took the largest hit, especially in the past two years, as their numbers nosedived all the way down.

So my conclusion from this is that the foreign workers play an important role in our job market. During good times, they top up our supply of workers and enable us to grow faster. But during bad times, they cushion the impact which would otherwise fall squarely on Singaporeans.

Many Members expressed concern that the 'S' Pass scheme would hurt workers. Mr Nithiah Nandan spoke for the unions and explained how his members and his colleagues saw this. I understand their concern. But, overall, I believe that the 'S' Pass scheme will benefit Singaporeans and Singaporean workers. Let me explain why.

Even as we upgrade and train our local workers, we cannot provide the full range and diversity of skills and experiences which the companies need. No single country can. It is not just numbers. It is the range. It is the experience. It is what you are able to bring to the table. So we have polytechnic graduates and university graduates. The foreign workers on 'S' Passes will complement these polytechnic and university graduates, and allow our companies to grow and hire more Singaporeans.

I give you two examples. We started the petrochemical industry in Jurong in the 1990s. We linked the islands together, building Jurong Island. There were no locals who could do the job. There was no expertise available to train the locals. Mr Nithiah would know because he represents that group of trade unions. So we allowed the companies to bring in chemical technicians and

process specialists from abroad. He may not be a graduate, but he is trained, he is skilled. He is in charge of the whole petrochemical plant, sitting in the control room, and if something goes wrong, it is his job to carry out an orderly shutdown before some disaster happens. Because we allowed them to come in, so now many Singaporean managers and engineers work on Jurong Island, and many more Singaporeans benefit from the supporting activities, e.g., in port, shipping the staff in and out, banking, dealing with the financial side, logistics, and so on.

If we had said no foreign workers, no technicians, I think we could not have started. Take banking - the major banks operating in Singapore have people here from more than a dozen countries. Standard Chartered Bank, I asked them, one-quarter (26%) of their total staff strength are foreigners. They have 31 nationalities. They have people from North America, the UK, the Indian sub-continent, various parts of Asia, and all over the world. They are not just in the top management. Many of them occupy middle executive positions. They are in corporate finance, in treasury, in private equity, in wealth management. And they possess specialised skills which are in demand worldwide. Without this one-quarter of foreigners, I do not think Standard Chartered could employ the other three-quarters of its employees who are Singaporeans. And it is not just Standard Chartered, Citibank has almost as many countries represented. DBS, if they are going to be in fore, they also have to trawl the same talent pool. So I asked them. They have got foreign

employment pass holders from 14 different countries. DBS has to do that in order to compete.

IT skills are always going to be in demand, and high order IT skills, we will need very bright people, imaginative, hardworking, creative. We have NEC Solutions Asia Pacific here, which is a well-established IT service provider and it has been here for 25 years. It has continued to expand its operations in Singapore. It has not hollowed out, gone off to India, China or somewhere. Why? Because it is able to grow here and get the talented ones. It set up new R&D centres here, hospital information systems, global e-procurement, biometrics technologies, that means, measuring your thumbprint, measuring your face, measuring your iris pattern. They could only do this because we allow them to employ IT professionals, many of them from India, to meet part of its need for skilled manpower. If we had not done that, they would be gone.

The companies that EDB is now bringing to Singapore are knowledge and technology companies. They all depend heavily on skilled workers, technicians and specialists, not on low cost labour. One major reason they come here is because they know we will allow them to hire the people they need, whether Singaporean or foreign, without hassle. The foreign skilled workers we allow in complement our own skilled workers and enable companies to grow and, in turn, hire more Singaporeans. When I was in India recently, I visited one of these IT companies and they raised this with me. They said, "Please understand, we are very happy with Singapore. Compared to any other country, you are much more flexible and that is why we are there.

But there are still some practical difficulties which we would like to draw to your attention, and please can you do something about it.” So I have looked into the matter and I think these are issues which can be resolved, particularly with the ‘S’ Pass. But they are real problems. Do we want the companies? If we do, then we have to make these adjustments.

The new ‘S’ Pass scheme allows the companies to hire these skilled workers. The criterion is not just the \$1,800 salary floor, but also the fact that the worker must have an acceptable tertiary qualification, that means, a degree. We are prepared to be flexible what the degree is, but it has to be an acceptable tertiary qualification. So we are talking about qualified trained people. And furthermore, we have put in place control mechanisms. It is not a blank cheque. We have a 5% quota. We have a \$50 levy. It is not onerous. But it is an instrument which is in place and a tool with which we can manage the demand if we need to tighten or loosen, and we can adjust. So we do not have to worry that we are going to be flooded with ‘S’ Pass holders.

Miss Olivia Lum suggests that we vary the quota depending on the sector and the type of activity. I think this is the way forward if we are going to compete and to seize opportunities. We need flexible systems where a company can get quick access to skilled workers, whether it is local or foreign, to meet new opportunities and business demands.

Let me give you another example. This is not ‘S’ Pass, but another example of where we have to be flexible because there is an opportunity which we have created. We signed the US-Singapore FTA (USSFTA). As a result, we have

given a new lease of life to the textiles industry. We thought we had left textiles behind. But now with the USSFTA rules of origin, preferential access, we have an advantage, and textile companies want to come to Singapore now to take advantage of our tariff savings. But the window of opportunity is small because other countries are also signing FTAs with America and negotiating FTAs with America, and they will secure the same tariff preferences. So we have to move quickly to get the companies here. How do we do that? All our old textile workers have retired. So we need to help our companies ride on our competitive advantage quickly and gain a headstart. We do not have enough Singaporeans, and those we have are not going to be able to pick up the skills overnight. So MOM will exercise flexibility for these companies to bring in additional skilled foreign workers during this ramp-up phase, so that they can start operations immediately. And, over time, Singaporeans can learn new skills and take up the jobs.

Preserving jobs

I know that many Singaporeans are a little unsettled by the changes we have to make to the labour market in recent years. And there are many changes - talk about flexible wage, talk about co-payment, medical benefits, retrenchment benefits, capping that, and many more. In order to preserve jobs, we have had to do all these changes to make ourselves more competitive and flexible. It is not easy, but our great advantage is that the unions have supported these changes because they accept and understand and are convinced that these changes are in the long term interest of the workers. Unlike many other

countries, we are able to implement these reforms. Because of the excellent relationship and trust built up by the tripartite partners, that is the master key, that is the magic. It is not the formula. Anybody can design the policy. But without that foundation of tripartite relationships, you cannot make the policy work. As Mr Yeo Guat Kwang pointed out, good tripartite relations should not be taken for granted and they have got to be constantly nurtured.

So that is the answer to Dr Tan Cheng Bock who asked why it was necessary for the Senior Minister to intervene in the SIA pilot issue. As SM explained, this is not just an ordinary management-labour dispute in a company. SIA is not only a big employer, but it is also an icon of Singapore and the anchor to the whole aviation sector in Singapore. Hundreds of thousands of jobs are at stake. And, more importantly, the way the issue was developing could have undermined the foundation of the tripartite approach that we have painstakingly built up over the years. Therefore, it was critical to nip the problem in the bud effectively, while maintaining the trust of all parties involved.

Why did SM do this rather than one of the other Ministers? The short answer is because this was unfinished business. It was left over from 1980, when there were troubles between SIA and the pilots which SM handled. So this time the problem had not been cleared. SM went in, and I hope this time the matter is done.

Opportunities for enterprises

Reducing business costs

There is no question that companies need to watch their business costs. But lowering the cost of factors of production-land, labour, utilities, which MPs have talked about - is only half the equation. The other critical part is how efficiently companies make use of these factors of production which determine what the company cost is.

The unit cost of labour in Singapore - we have been watching it - has not increased significantly even though wages have been rising. And this is because our productivity has risen together with our wages. In the last 10 years, overall unit labour costs only increased by 4% while unit labour costs for manufacturing actually fell by 19%. So, overall, labour costs have gone up by 4%, but in manufacturing where we are, I think both open to international competition, productivity went up faster than wages and over 10 years, our wage cost per unit output has gone down by 19%. But there are some cases where the wages have gone out of line, and downward adjustments would have to be necessary. And that is what PSA and SIA have had to do.

It is also critical that our wages respond flexibly to changing market conditions. This would allow companies to adjust to the ups and downs in the business climate and give workers more job security, of course, with the trade-off which is more variability in their wages. If you are prepared to accept some uncertainty in your pay, not from 0% to 200%, but maybe from 80% to 150%

as a range, then it is possible to have greater certainty that your job will not be lost. Not an absolute certainty, but a better chance.

The cost of land has also been on the downtrend. [Chart 5](#) shows this. Since 1998, industrial rentals in Singapore have been declining steadily, and this decline is quite independent of Government rebates, because it has happened even for the private properties and not just for the Government properties. I showed Members this same chart last year. I have updated the figures, and you can see that, even in the last one year between 2002 and 2003, land and property prices have come down by another 9%.

So, in January this year, JTC reduced its rentals of ready-built factories by as much as 17% and land rents by up to 6%. With this reduction, JTC's rentals would have fallen by nearly 40% on average since the start of the financial crisis in 1997. You can see a similar trend downwards for private industrial factories, and for commercial and office rentals.

As for the cost of utilities, competition in the liberalised electricity market has also gained us benefits. As of the end of last year, electricity tariffs are at least 9.5% lower than in December 2001, after adjusting for oil prices.

Mr Ong Kian Min spoke about how vesting contracts in the electricity industry have led to higher prices for some industrial users. I think the matter is more complex than Mr Ong makes it out to be. Vesting contracts seek to curb the market power of generating companies to stimulate greater competition. Since the introduction of these vesting contracts, pool prices have

fallen, which reflects the over-capacity which was there but might not have surfaced in the absence of competition. I do not have time to explain all of this now, but the Minister for Trade and Industry will respond to Mr Ong in greater detail during MTI's COS.

In the case of water, our tariffs are higher than in other countries. I think everybody understands the strategic reasons why. But now, with NEWater, we will be able to supply more cheaply to the industries, as we are already doing with the wafer fab plants, and we are building the second, third and a fourth NEWater plants.

Mr Inderjit Singh has suggested that we keep business costs low by giving permanent rebates and subsidies so that costs will stay low even when times are good. I think that would not be the right approach. We have to go on what the factors of production cost. We cannot subsidise services below their true costs. If you have to buy oil and gas, you have to pay for the oil and gas. I cannot charge you less for the electricity than it costs me to buy the oil and gas to generate the electricity. That will only lead to over-consumption and a misallocation of resources and a drain on the exchequer. We can make temporary concessions when we are in a downturn but, once that passes, we have to reassess and adjust to the new situation.

It does not mean that we are going back to the *status quo ante*. Rather, the rates should reflect the prevailing economic and market conditions. That means the rates will be set by supply and demand, and will settle at a level that

businesses can afford and people are prepared to pay. People do not understand this. When we say market prices, they fear, because they think that market prices are something which they cannot pay. But if nobody can afford to pay, it cannot be the market price, something must be wrong with the price. The market price must be one which people can afford to pay. We have industrial land and factory space, we are producing utilities, that is the rate, that is what it costs us, that is what people can afford to pay, and that is the market clearing price. So, JTC is charging market prices, but these are low market prices. They have come down, reflecting the new market realities.

Similarly, with Government charges. The foreign worker levy was high before the crisis, because the market was tight and there was a great demand for foreign workers coming in and we had to control the inflow. But we brought it down to very low levels during the crisis. Now, the crisis is over, we have to bring it up, but we have only brought it up by a little bit for the skilled workers, from \$30 to \$50. And we are not aiming to restore the foreign worker levy to the pre-crisis rate. We are going to set it depending on the circumstances now. If there is an inflow, we have to adjust it up; if there is no pressure, we will leave it where it is. But the market, the benchmark, is now, not five years ago. So, we are very mindful of costs and its impact on businesses, and businesses should not worry because, if you look at the Government part of the costs, statutory items, e.g., CPF, taxes, they have also come down significantly in recent years and overall business costs today are

quite a lot lower than a few years ago. As Prof. Koo Tsai Kee said, "We have been right-sized, Singapore is now ready to grow once more."

But even as we focus on keeping costs low, the more important challenge for us is for companies to reduce their overall costs by what they themselves can do, i.e., operating more efficiently and increasing the productivity of their workforce. So, they have to continually restructure their organisations, redeploy their workers, adjust their labour costs, and make the most of their office and factory space. These are business decisions which they have to take. They have to make themselves efficient. They have to trim. Unless they do that, no amount of subsidised labour or land will make them cost competitive. And I remind Members of this because, to see it in perspective, we have to watch our labour costs but, remember, it is not just wages. It is also what employers do with their workers. And if they do not do the right thing with their workers, then the workers will go and work for somebody else.

A pro-enterprise civil service

Just as businesses need to change, the civil service also needs to change. So, I fully agree with Mr Leong Horn Kee, Mr Yeo Guat Kwang and Mrs Fang Ai Lian that civil servants need to be more responsive, innovative and prepared to accept change. Do not be "bureaupreneurs"; too complicated. Just be entrepreneurs! Part of this involves trimming our rules and regulations to create space and opportunities for enterprise to flourish. But, of course, when we relax rules and regulations or apply them more flexibly, then we have to be

prepared to live with untidiness and stop taking care of every aspect of people's lives.

Equally, people must be prepared to accept some risks and inconveniences. I will just give you two recent examples. They are not big ones, but they show the mindset change which is necessary.

One, reverse bungee jumping. We took the plunge recently and decided to allow reverse bungee jumping even though some of us were worried about public safety. But it was not the end of the story, because our instincts are very deep. So, when we allowed reverse bungee jumping, we said stop jumping at 10.30 pm because, after 10.30pm, you jump, there may be screams, squeals, etc, and you may wake up the neighbours. But, in Singapore, it is very warm. Nobody wants to go bungee jumping in the day time, and their peak hours are late at night when you have had a drink, you want to enjoy yourself, you want to show off to your girlfriend. Hence, 10.30 pm was a problem. So, they appealed several times. Eventually, they appealed to the Head of the Civil Service and, after a thorough investigation, of course, we established that there were hardly any residents within a 50-metre radius of the bungee jumping site. So, if only three people are screaming at the time, it should be all right! And we have decided to allow reverse bungee jumping until 2 o'clock in the morning. So, we have made a small victory.

Let me give you another example - home brewing of beer. Under the Customs Act, anyone who wants to brew beer must have a licence. The licence costs \$43,200, because it is meant for Asia Pacific Breweries and people like

that. But, recently, an entrepreneur came along and wanted to sell kits to brew at home. So, he asked for exemption of the liquor duty and licence fee for people who brew beer at home for their own consumption. I suppose they are not allowed to invite their friends to a party! So, MOF had to review its rules and come up with a position.

The first question was not the licence fee. It was whether to allow home brewing at all. And there were many possible objections. We consulted all the agencies and wrote a staff paper. There were concerns about smell, binge drinking, social disturbances to their neighbourhood, etc. And from MOF's parochial point of view, loss of tax revenue. If you keep your home brewery going all the year round and produce the maximum amount of beer, you can lose \$1,000 of tax revenue per year per kit, at full capacity. But when we looked at the experience of other countries, we found that home brewing only appeals to a small group of hobbyists. It needs a lot of time, patience, effort and quite a lot of money. It is really for fun and, after a while, it is easier to just go and buy the can! So, we decided that we will not stand in the way of enterprise. Now, home brewers will enjoy a duty exemption on the beer they produce for personal consumption, and we will levy just a small licence fee of \$100 for two years, just to know who is buying the kits and whether it is successful or not.

So, the point is not home-brewing. The point is that Government agencies have to make sensible judgements and relax their rules to facilitate enterprise. We have erred on the side of caution and conservatism, and we have often

taken a "one-size-fits-all" regulatory approach. If we thought a particular activity poses risks, even if only to a small section of the population, then our instinct was to just disallow that activity.

But increasingly, our approach should be to balance the risks and potential problems the activity might pose to society at large against the overriding need to encourage private enterprise and initiative. As long as it does not cause unmanageable problems or harm to others, I think our default position should be to allow this entrepreneurial activity with as few bureaucratic impediments as possible.

Opportunities for SMEs and start-ups

Now, let me talk about SMEs very briefly, because these are small companies but a big subject, and it will be discussed in the Committee of Supply further.

SMEs are a key part of our economy. The Government will support SMEs where we can, but we cannot smother them either with too many rules or with too much help. Contrary to the popular perception, SMEs are not so badly off. They do get a fair share of business opportunities. For example, we made a sample of the small Government tenders which were awarded in FY2002, of values up to \$100,000. There were 404 tenders awarded. Of these, 70% went to companies with net assets which were less than \$50,000, which are very small companies, and 90% went to companies with net assets of less than half a million dollars. And this does not include supplies procured through quotations or Government work performed by such SMEs through subcontracting.

Mr Leong Horn Kee suggested that the Government could help the SMEs by giving them non-strategic and non-critical Government projects. I think this is not right. Government projects must be allocated through open tenders. We cannot exclude big companies from tendering because they are too efficient or too strong. If they offer me a good price, I have to take the good price. If they offer me better quality, I have to accept that. I cannot say, "No, you are too big. Only the little guys are allowed to play." This would only raise cost to the Government, lower efficiency and reduce the drive and enterprise of the SMEs themselves.

The right strategy is to help the SMEs upgrade their capabilities, improve their productivity and competitiveness, and venture abroad if they can. And we are doing a lot in this respect, which MTI will deal with in the Committee of Supply.

In this Budget, we have granted a 3-year tax exemption for the first \$100,000 earned by the start-ups. Miss Penny Low, Mr Ang Mong Seng, Mr Arthur Fong and several others have asked the Government to consider extending the tax exemption period. Mr Leong Horn Kee further suggested that the Government grant the tax exemption from the first year of profit rather than the first year of operation. I have had a look at the data. Based on IRAS returns over the last six years, about one quarter of start-ups become profitable ever and, of those who do, most do so in their second year of operations. So, if you look at it, in the first year, hardly any are profitable. In the second year, a few are. The third year, about one quarter are profitable. Fourth year, also one

quarter profitable. Fifth year, also one quarter profitable. I am not sure they are all the same companies in every year. But, by the third year, if they are going to make it, the chances are that they would have made it. So, I think three years is reasonable. Nevertheless, I will keep an open mind and consider whether to extend the length of the exemption after monitoring the results over the next few years.

Anyway, even after the 3-year tax exemption period, small companies and start-ups will not get taxed at the full corporate tax rate on the first \$100,000 of income because we have a partial tax exemption within our corporate tax structure. For the first \$10,000 of chargeable income, there is a 75% discount. For the next \$90,000 of chargeable income, there is a 50% discount. So, Mr Ang Mong Seng says "*san mian er jian*", that is, three exemptions and two reductions. This is even better than that. This is "*san mian chang jian*" - three exemptions, perpetual reductions. But, of course, after some time, you ask for more.

Enhancing competition

Now, let me say something about enhancing competition. The Government will continue to divest its stakes in GLCs which are non-strategic or have no international potential. We have done our first review of corporate holdings for the Ministries and statutory boards. We have identified about 90 companies that are no longer relevant to the Government. 10 of them have since been divested. This is not counting the 12, which I listed in the Budget Statement, which was done by Temasek. We will divest the rest progressively, subject to

the right market conditions. MOF will keep on reminding the Ministries to do so.

As for the major GLCs, divesting them will not help the SMEs. The issue is not how SMEs can compete against the GLCs but rather whether they can hold their own against large companies. Whether or not the GLCs are divested, SMEs will still face the same competition.

The Government will continue to ensure that GLCs are not given unfair advantage. The Competition Law to be enacted next year will provide a level playing field for companies in Singapore. MTI will begin consultations on the draft in the next two to three months.

Mr Sin Boon Ann extols the virtues of competition but, at the same time, he blames excessive competition for over-capacity in the power industry, resulting in Power Seraya retrenching its workers.

Mr Sin's statement could be misleading because as I have said, the power industry is a very complex one. A fairer, still not complete, explanation would go something like this. Technological advancement has led to the emergence of gas plants, which are much cheaper and cleaner to operate than steam plants. This has made our existing steam plants obsolete and expensive. The question is: what should the Government do? If we had done nothing, if we had allowed SingPower to continue to operate as a monopoly, chances are we would have continued with the old technology and just passed on the extra costs to consumers and businesses. Because there is no market test, it is a monopoly, whatever my costs, add the return, mark up, and pass on. But by restructuring

the industry and introducing competition, we have forced generating companies to restructure, lower their costs and to adopt the new technology. In the transition period, we will have both steam and gas plants operating, contributing to excess capacity. But prices have come down. Some generating companies are taking a hit but from the point of view of the economy as a whole, we are deriving a benefit, and we are doing the right thing.

May I say in passing that Mr Sin Boon Ann raised many other issues in his speech, many of which I disagree with. But if I respond to all of them, I will have no time to respond to all the other MPs. So let me just say two things.

First, he is wrong on the property market. He talked apocalyptically and glibly about negative equity. But an MAS' study showed that less than 3% of private property owners were in negative equity. Negative equity means owing the bank more than the property is worth. As for HDB owners, the percentage is even lower.

He is also wrong on healthcare, another complicated subject, but just one small example, we only have one gamma knife centre, and not two. I state this so that nobody thinks that because I did not counter Mr Sin's arguments, that means I agree with them.

Affordable healthcare for all

Means testing

I note that many MPs have supported the principle of means testing and agree that subsidies, whether for healthcare, education, housing or other livings costs, should be targeted according to need.

I also agree with Mr Loh Meng See, Mr Zainul Abidin and the others that we need to proceed carefully. Mr Gan Kim Yong has suggested that MOH adopt a multi-tiered approach, rather than an all-or-nothing framework to determine the subsidy level, with an appeal mechanism for deserving cases. I think that is a workable pragmatic strategy. We have to make judgments. We have to look at many factors. It is not just his pay, it is not just his wealth. It is his family obligations, his family circumstances, his needs, his outlook. A judgment has to be made but we should avoid having a step function, where a small difference in the judgment makes a big difference in the subsidy which he gets. There has to be some smoothness in what he gets.

The step-down care sector and the primary care services, which means the community hospitals, nursing homes and home nursing, where means-testing has been running since July 2000, use a three-tier subsidy level. We have some experience doing this. We will continue to accumulate experience. I assure MPs that we will try and learn how it works in practice and we will consult extensively before settling on the rules for expanding means testing to other parts of the healthcare sector.

As we target our medical subsidies at those in need, we will also need to ensure that healthcare remains affordable for the middle income group. Our current 3M health financing framework is quite sound - Medisave, MediShield and Medifund. Our Medisave is actually a very important part of this scheme. We introduced it in 1984. The amounts have been building up gradually. On average, Singaporeans are saving more than enough in their Medisave accounts

to provide for their needs - themselves and their families. If we look at the CPF accounts, each year, contributions to Medisave amount to about \$2.5 billion, while withdrawals amount to only about \$1 billion.

So for most Singaporeans, affordability is not a problem. The problem arises if you are unlucky, because not everybody has the same medical expenses. \$1 billion is on average. But if you happen to have an accident or a serious illness requiring expensive treatment, you may be in trouble. So there is a problem. The solution to that is to make greater use of medical insurance, beyond MediShield, to cater for non-catastrophic illnesses, so as to stretch the Medisave dollar. It has to be properly designed - there must be co-payments, there must be deductibles. But I think with risk-pooling, with Medisave, we can make the Medisave dollar go further and we can lift the worry which many people have, that is, just in case, they have kidney disease or are incapacitated, who is going to look after them and how they are going to cover this. This is something which MOH is studying.

Education opportunity for all

Now, let me talk about educational opportunities and university funding. Several MPs have asked how the review will affect students. Let me assure everybody again that nobody will be denied an educational opportunity which is appropriate to his talents and abilities. Meritocracy and full and equal opportunities are key tenets of our society, and always will be.

Prof. Low Seow Chay today said that when he was a university student in 1969, he paid annual university fees of \$600 at a time when the starting salary

of graduates was \$900 per month. So now that starting salaries are \$1,500-\$2,000, university fees should be lower than the starting salaries, but they are not. I think this is the wrong principle.

Prof. Low earned \$900 as a starting salary at a time when only 4% of the cohort went to university. He was very privileged to go to university. Today, 21% enter university. So graduates no longer command as large a premium when they start work. Are they badly off? No. Are they as privileged as their previous generation? Neither. But the relativities have shifted. And because we have widened university education, we have allowed the economy to grow. Graduates are not poor, and I think we can no longer expect to say university fees should be lower than their starting salaries. Because even now, university fees are still small compared to their earning power. Even if you add up all the university fees for taking an engineering programme, let us say, \$6,000 a year x 4 years is \$24,000, it is one year of a starting salary. In fact, it is very affordable.

It is not the right principle to say fees must be lower than starting salaries. The right principle is to relate fees to the cost of the university education and to the value of this university education to the individual over his working life. Here, I agree with Prof. Low that we should be looking at the cost of providing undergraduate education and separate out the cost of post-graduate education and the research institutes. In fact, that is how MOE does its sums. But even then, you must remember, since 1969, the number of undergraduates has gone up six-fold. The quality of university education has improved tremendously.

The facilities have changed, the laboratories have changed, the quality of the staff we are looking for has gone up, and there are the opportunities to travel and link up with other institutions. Who is going to pay the cost of all these?

So far, the Government has paid three-quarters of the operating costs, plus all of the infrastructure costs. The undergraduate pays only 25% of the operating costs and that is just the operating costs of the undergraduate education. If, over the next few years, still more university students make it to university, and if we want to improve the quality of their education further, then we need to adjust this balance. It is not to put all the load on the student, but to shift the balance to something which is more sustainable. The Government will still account for a big part of the university costs through its subvention. But I think, proportionately, it should be a smaller part than now.

Dr John Chen said that graduates pay higher income tax and therefore they benefit society more than the individual. Therefore, there is no need to charge them more when they go to university. He has a point. We need to pay for this university education and I suppose we could raise income taxes to meet the higher costs of more people going to university and more expensive per capita cost. But not all high income earners are graduates. So why should a non-graduate who has done well pay more income tax to finance the education of graduates? He did not benefit, why should you tax him the same? But Dr John Chen has a point. If we follow Dr John Chen's argument, then we should have a graduate tax, which I think is what Mr Iswaran suggested and is similar to what

the Australians do. We can consider this, although I am not absolutely sure Dr Chen would prefer it.

MOE will study this problem carefully. We are not making any sudden changes. We have said, no adjustments this year, and even if we have adjustments next year and beyond, this will be phased in gradually over several years. This is a long-term problem, not an immediate one.

We would ensure affordable financing arrangements. There will be scholarships, bursaries and loans available to all students. The loan repayments will be reasonable. We are not out to bankrupt you, to squeeze you, or to profit from you. We just need to recover the costs, and you have a whole working life to pay back, and we will work out repayment terms so that you can afford to get married early, have a flat, have your babies, and not have to say - "I have to pay back my study loans, I cannot afford two babies."

Mr Low Thai Khiang, of course, made a political point of this and accused the Government of intending to treat foreign students better than our local students when we revise the university fees. He has made up a fictitious scenario and twisted the facts. The Government will always treat Singaporeans better than foreigners. In fact, that was one of the principles when we talked about the baby procreation incentives, and one of the things which we are going to study as to how we can make this distinction clearer. But as far as university education is concerned, the distinction is already there because under the Tuition Grant Scheme, foreign students pay 10% more than locals in school fees. If school fees go up for the locals, they are going to go up for the

foreigners too. There are even a few foreigners who pay a 100% fee with no tuition grant. I asked why they did that. The answer was: if you have a tuition grant, there is a three-year bond to work in Singapore. We do not give away our money for free and, least of all, do we give away money for foreigners at the expense of Singaporeans.

Raising families for our future

Holistic approach, realistic expectations

Now, let me talk about babies. More than any other issue, the topic of marriage and parenthood has dominated the last three days of discussion in this House. I am heartened by this because it shows that Members understand the seriousness of the problem. They have applied their minds to it and, in many cases, obviously their hearts as well.

Many spoke with passion on this subject, not only the parents, but also the grandparents. Some devoted large parts of their speeches to analysing the problem and to suggesting ideas to tackle it. So, over the next few months, the Working Committee on Population will carefully consider all the views that have been put forward. I understand that Mrs Yu-Foo has added them altogether, and counted 50, and has given the list to Mr Lim Hng Kiang.

As Dr Amy Khor pointed out, most young Singaporeans want to get married. And most married couples want to have children. The trouble is not all the young Singaporeans get married and not all those who get married end up having children. But, anyway, they do want to and this is an important starting point. Hence, the SDU and SDS provide match-making services,

which are very popular, despite the fees that Dr Teo Ho Pin complained about. I asked SDS and SDU what the explanation was and they gave me two very good explanations. First, the fees are very low compared to the private sector because they charge \$30-\$150, whereas the private sector charges \$700-\$1,000. So it is a real bargain. In fact, Mr Inderjit Singh may accuse us of unfair competition one of these days. But the second reason is from SDU's and SDS' experience, people who are prepared to pay a fee are much more serious in wanting to look for a partner than those who use the services because they are free. So I think that this is quite a good thing going on and we should not disturb it.

The Government's role is to foster a conducive environment and strengthen the support network to help Singaporeans fulfil their aspirations and to enjoy parenthood and family living. As I emphasised in my Budget Statement, the Government will take a holistic and coherent approach to this issue.

At the same time, we have to be realistic in our expectations. Members have made many suggestions on how we can create a pro-natal environment. They cover everything under the sun: reduce stress in school; 5-day week in the civil service; different permutations of maternity or paternity leave; flexi-work arrangements; more subsidies for childcare; reduce foreign maid levy; reduce abortion rate; make adoption easier; ensure gender equality; equal medical benefits for men and women in the civil service; grant citizenship by descent to children born overseas to women citizens; make boys and girls

spend time together through national service; and many more. And even this is not an exhaustive list.

The Government will do its best to reduce the burden and anxieties which families face in having and bringing up children. But the Government cannot solve all of life's problems. The package will be holistic, but it must also be realistic. We would like people to get married and have families, even if we have not succeeded in making Singapore perfect in every respect. But, finally, at the end of the day, if somebody still says, "I have this unhappiness and you have not solved it. Therefore, I am unhappy; therefore I have no babies." Well, I will try my best, but I would not always be able to solve the problem.

We should not focus exclusively on any single measure or solution. Different parents have very different needs. Different women have very different needs. That is one reason why there are so many different suggestions. So our package must take a balanced approach.

I hesitate to go into all of these suggestions. As Miss Indranee Rajah reminded us, the more I speak on the suggestions put forward, the greater the risk that the women may hear me differently and, maybe, even the men! So Minister Lim Hng Kiang and his committee will carefully evaluate all of them, but let me just comment briefly on three of them.

First, citizenship by descent to children born overseas to women citizens. We will do this. We will amend the Constitution so that children born overseas to female Singaporeans will be of the same status as children born overseas to

male Singaporeans. The Minister for Home Affairs will elaborate on this in the Committee of Supply.

Secondly, the 5-day work week for the civil service. The Government has said "no" many times before. But many Members have argued that this is important to families. And I can tell you that many civil servants have told me that it is important to them. So the Working Committee on Population will study it carefully, taking all the other suggestions, and taking into consideration the need to maintain service standards in the civil service.

Thirdly, equalisation of medical benefits for men and women in the civil service. This also has been raised in this House many times, especially by our women MPs. On this too, the Government has said "no" many times. In fact, my answer is already drafted for tomorrow's Committee of Supply. But in the spirit of leaving no stone unturned, and never saying never, I will also refer this to the Working Committee to consider.

But I would like to add that couples wanting to have babies should not wait till the announcement of the package in August. I have heard of some women who are planning to start a baby, but have decided to hold off trying until the incentives are announced, in case the baby is born too early.

Mr Iswaran has suggested that I backdate the procreation benefits. I do not think we need to go that far. August is not too long away, to be exact, it is less than nine months away. So the Government has decided that the procreation benefits will take effect once we settle and announce them in August. So, it is definitely not too early for all couples to start trying for babies now.

But, ultimately, it is our attitudes and values that we need to reflect on and to shift. We can have the most family-friendly practices enshrined in law, but if social attitudes do not support parenthood and families, and if couples do not see having babies and bringing up families as one of their personal priorities, our birth rates will continue to languish.

Mr Tan Soo Khoon mentioned how Italy has a generous maternity leave scheme. Well, we have studied Italy. I am told that although the legislation allows working women five months of maternity leave, many do not take it. Our study team went there and they were told by unions and academics that some companies require their employees to sign undated resignation letters when they join. And then when the female employee becomes pregnant and applies for maternity leave, date applied, contract terminated. The women sign the letters because they need the work. But then they 'vote with their wombs' and forgo having more than one child.

So that is why the challenge cannot be solved just by Government measures. We need the support of employers, unions, and society as a whole to help our fellow Singaporeans have children and to raise babies. The decisions to marry, have children, and raise a family are personal ones. We are guided by our values and attitudes towards life. Maternity leave, flexi-work arrangements, financial incentives and all the other measures, 50 or more, influence these decisions, but they are not the decisive factors.

I agree with the many MPs who have said that this is an issue of the heart, of emotions, not one that can be solved by financial incentives alone. They

spoke eloquently and with feeling about the joys of parenthood. As a father, I share their sentiments, because ultimately it is for the love of children that we have children.

So our values and priorities in life will need to shift. Couples will need to realise that while it is important to pursue a career, it cannot be the only thing in life. It is good to go on holidays, three, four or five times a year, as some young people wrote in the *Straits Times*, but that is not the only thing in life. We become whole through our families, and society must not only recognise this but embrace it.

Women are caught at the heart of the many difficult trade-offs involved in having children and raising families. The women MPs have all reminded us that what we need are mindset changes - in the home, the workplace, and society at large. The challenge of parenthood is one where both husbands and wives must shoulder together.

So, as Mr Tan Soo Khoon said - this year, I agree with most of Mr Tan Soo Khoon's speech - the question of whether to raise a family is one that every Singaporean will have to seriously ask himself or herself. And the answers that each one of us gives, taken together, will decide what kind of Singapore this is going to be. Is it going to be a young vibrant, forward-looking society, or an aging self-centred declining society? It is not just about building a critical mass of people to ensure the security and economic vitality of Singapore, or even a question of who is going to look after us when we grow old. It is about the values which will shape the society of the future, and what we ourselves

will leave behind when we pass on. Because having children is believing in the future. It is about setting aside our own comforts and conveniences for their sake. It is the same values that make us good parents - sacrifice, selflessness, confidence, and resilience - that will also make us a strong society. And that, more than anything else, is why we must help Singaporeans to raise families for the future.

Creating a future of opportunity

Dr Wang Kai Yuen spoke passionately about how Singapore could be a land of opportunity. We must grow by 7-8% per year, grow our population to 8 million, and exploit our strengths as a safe and peaceful oasis in a world of turbulence. He described how impressed he was by the United Arab Emirates - he did not say, but I think he was referring specifically to Dubai - doing this in the Gulf, and he asked: could Singapore do the same? I say, why not? Let us do it. We have many things going for us. We have a good market catchment, especially the growing wealth in India and China. We have a safe, clean and green environment and a cosmopolitan culture which welcomes foreigners. Our arts, leisure and entertainment scene is now much livelier. Even our old Parliament House has become an Arts House.

I am not sure we can achieve and sustain 7-8% growth. We are past that stage of rapid expansion. Also, I do not think that reaching 8 million population in 15 years is realistic because it means growing our population by more than a quarter million per year. It is not possible. But we must do our utmost to grow our economy, and if we can make 3-5% growth per year, and

more in good years, then we will progressively change the face of Singapore. We should also work hard to grow our population so that we can come closer to Hong Kong or Switzerland which are both 7.3-7.4 million and have that critical mass and that verve. And we are a safe and peaceful oasis in a turbulent world, a special red dot that is a haven for Singaporeans and foreigners alike.

Dr Wang described how Dubai is building Palm Island, a beautiful resort attracting foreigners from all over the world, buying beachfront properties and building homes. I think the PM on his recent Middle-eastern trip visited it. Dr Wang referred to Sentosa Cove, suggesting that we should we do the same. In fact, we will do the same. We have decided to allow foreigners to buy landed properties at Sentosa Cove, for precisely the reasons that Dr Wang has argued. This is a special arrangement for Sentosa Cove. It does not apply to the rest of Singapore. BG George Yeo will tell you more about the plans in MTT's Committee of Supply.

Our future is full of promise. As we connect ourselves to the global economy, as we build a cosmopolitan, open society that is more welcoming to diversity, we will preserve a cohesive society with strong social bonds, where the able and well-off care for and help the weak and the poor, and where the family unit remains as our foundation and our future.

This Budget continues what we started off doing in the Economic Review Committee - to promote industries, to promote entrepreneurship and encourage restructuring; and to create a nimble and flexible economy, with enterprising

people that can take advantage of the rise of Asia. And as we restructure our economy, we also focus on the long term social challenges. We must rise to these challenges to preserve the vitality of Singapore for many years to come.

Conclusion

So let us pull together as one to make Singapore a Land of Opportunity: Opportunity for each person to be the best that he can be; the opportunity for businesses to start, grow and thrive; the opportunity for parents to raise their children in a safe and secure environment; and the opportunity for all Singaporeans to build a Singapore they can be proud of as a country and a home.