

Speech by Minister Grace Fu at the Singapore Economic Policy Forum

STAYING RELEVANT AMID SINGAPORE'S DEMOGRAPHIC CHANGES

OPENING ADDRESS BY MS GRACE FU, MINISTER, PRIME MINISTER'S OFFICE, SECOND MINISTER FOR THE ENVIRONMENT AND WATER RESOURCES & SECOND MINISTER FOR FOREIGN AFFAIRS AT THE SINGAPORE ECONOMIC POLICY FORUM AT ORCHARD HOTEL ON THURSDAY, 25 OCTOBER 2012, 0915 HRS

Distinguished Guests

Ladies and Gentlemen

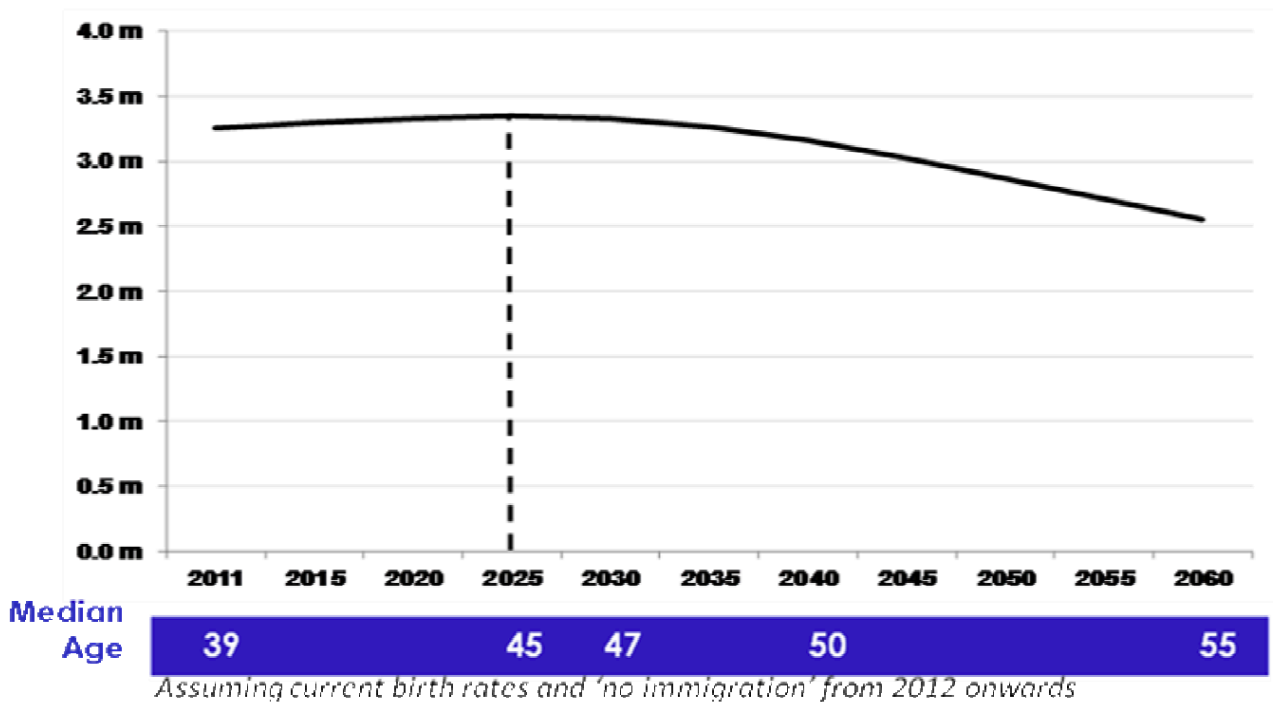
A very good morning to you. I am grateful for the opportunity to address the esteemed members of the ESS.

Introduction: Singapore's demographic changes

Our demography is at a crossroads today. The demographic changes we will see over the next 20 years, its implications and our policy responses will shape the kind of Singapore that our children will inherit in the future.

Last year, our birth rate was 1.2 and has been below replacement levels of 2.1 for the last three decades. A TFR of 1.2 means that each successive generation of Singaporeans would only be about half that of the previous generation. If we do not have immigration, the number of Singaporeans will start to decline from 2025. Our workforce of Singaporeans will decline earlier, from 2020. At the same time, Singaporeans are healthier and living longer into their silver years.

<Chart 1: Shrinking and Ageing Citizen Population>



As we work towards a sustainable population to keep Singapore vibrant and dynamic, Singaporeans remain at the heart of our policy considerations. Let me talk about three issues in particular. First, parenthood and immigration. Second, jobs and economy. And third, liveable physical environment.

Maintaining a Strong Singaporean Core

First, we need a strong and stable Singaporean core in our population. This is important to retain a strong national identity and a population that is committed to the long term security of the country. We have redoubled our efforts to encourage marriage and parenthood since 2001, and put in place a comprehensive Marriage and Parenthood Package which was enhanced in 2004 and 2008. We have received many pieces of feedback and proposals about the costs of raising children, work-life balance and quality of childcare. We are studying these further, as we review further enhancements to the current measures. But ultimately, a whole-of-society effort is needed to promote a family-friendly culture.

While we work on improving our birth-rates, we must address the issue of an ageing and shrinking citizen population. We are reviewing our immigration policies and the number of citizenships and PRs to grant each year. One option is to take in enough new citizens each year to make up for the shortfall in births and stabilise the citizen population over time. We have to also be judicious about who we grant citizenship to. They must be committed to Singapore, be able to contribute to our society, and integrate well into the community.

Maintaining a Vibrant Economy

The second issue is related to the need for us to be a vibrant and dynamic Singapore. The world is

changing quickly and is increasingly defined by a network of leading global cities that are attractive to opportunities and human capital. Singaporeans are better educated. The quality of our workforce will rise. Singaporeans aspire towards better jobs and attractive wages. Will Singapore remain a relevant part of this network of leading global cities? How can we continue to provide good job opportunities and wage growth in Singapore? How do we adapt policies to the changing demography of our workforce? This year, our baby boomers begin to turn 65; more citizens will be retiring than entering the workforce by 2030; our citizen workforce will begin to shrink; the workforce will also be ageing.

There is no single solution to our challenges. We need a package of solutions requiring close collaboration between the Government, unions, businesses and workers.

Enhancing our Capabilities and Skills

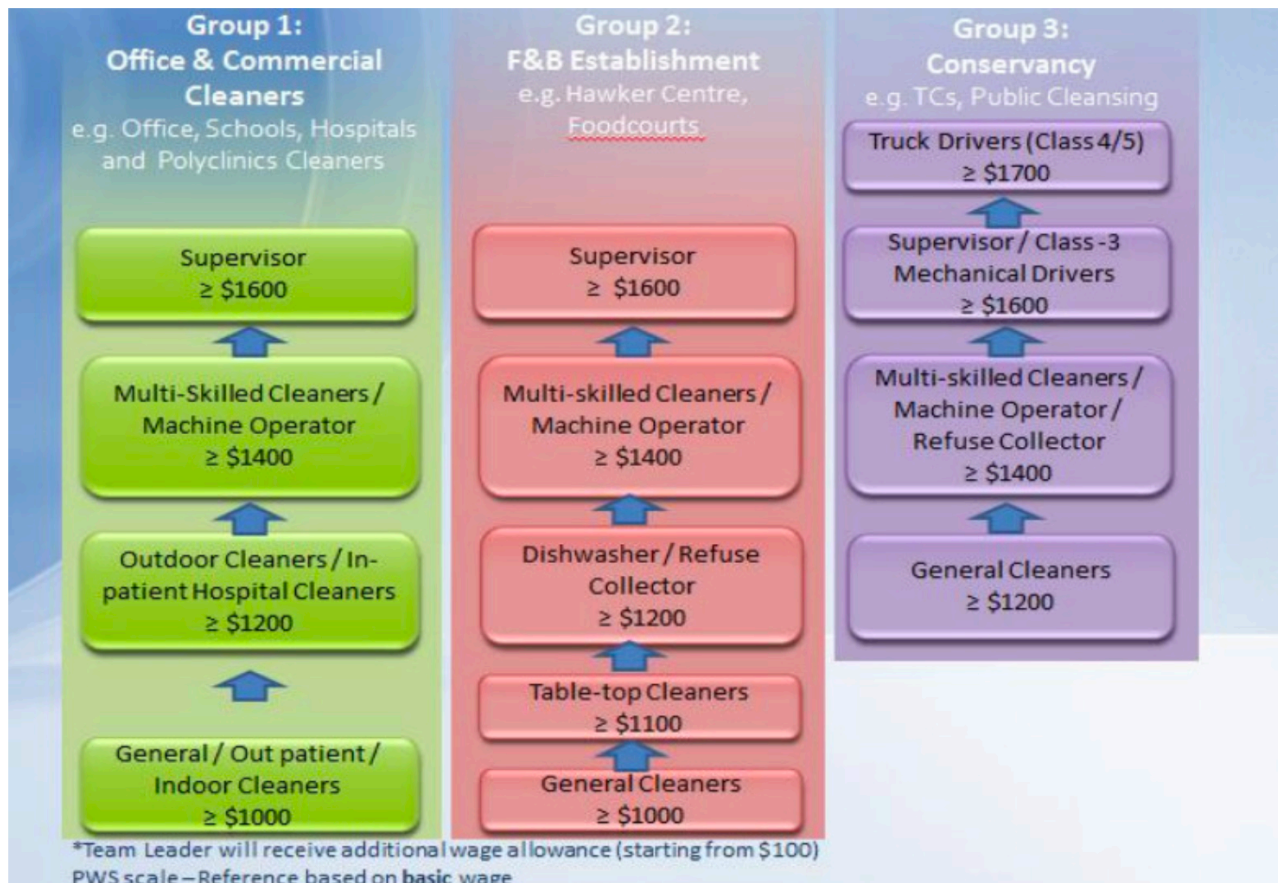
First, we must strive for *quality growth* that is driven largely by productivity and innovation instead of labour. This means pressing on with restructuring efforts to enhance the capabilities and skills of our people. Companies are facing a tight labour market today. A survey by the Association of Small and Medium Enterprises found that 84% of SMEs are facing manpower shortages, and are unable to find locals for jobs like drivers, delivery assistants and customer service officers. While businesses are adopting productivity improvements, many have voiced that the pace of restructuring must take into account the impact on local businesses. If not, cost increases may be passed on to consumers or businesses may close-down or relocate. Locals may in turn lose their jobs, as SMEs hire 70% of our workforce. The Government is working closely with businesses and unions through the National Productivity and Continuing Education Council and through schemes like the Productivity and Innovation Credit to step-up productivity efforts.

The Economic Strategies Committee has set out a target of 2 to 3 percent productivity growth per year over this next decade, a challenging target. Developed economies achieved an average of about 1 percent productivity growth per year over the last decade, which slowed from close to 2 percent in the two decades before. Singapore did better. We attained an average of 1.8 percent productivity growth per year in the last decade, down from 3.3 percent two decades ago. A 2 to 3 percent target means that we have to do significantly better than what we have done in the last decade. It is therefore a challenging target and requires comprehensive effort by the Government, businesses and workers. But ultimately, this will ensure sustainable wage growth and quality jobs for an increasingly educated Singaporean workforce.

At the same time, we must continue creating opportunities for Singaporeans at all skill levels. We are up-skilling our workers through Continuing Education and Training, or CET. About two-thirds [64%] of our residents aged 40 to 64 have secondary and below qualifications. To achieve an inclusive growth strategy, we are concerned with the welfare of this segment of workers, many of them in blue-collared jobs. Recently, the Tripartite Committee for Cleaners, comprising representatives from NTUC, SNEF, industry and government agencies, recommended a progressive wage model for the cleaning industry. Recommendations were made on the wage levels for 3 segments of the industry, with clear progression of wages in tandem with skills and training. The Government is supportive of the recommendations and have included it in the enhanced accreditation framework, along with other requirements such as productivity initiatives, training road maps and workplace safety requirements. The Government is also taking the lead by requiring tenderers of our cleaning contracts to be accredited with effect from 1 April 2013. We are moving towards requiring all cleaning companies to adopt progressive wage practices and to raise the standard of the industry over time. The key point to note about this plan is that it is a targeted

one, taking the needs of the employers, employees and companies of the industry into consideration. We believe this is a more effective and sustainable way of helping this targeted segment of our workers.

<Chart 2: Progressive Wage Model>



Maintaining our Workforce Flexibility and Economic Resilience

Second, we must maintain our workforce flexibility and *economic resilience*. Business cycles are getting shorter while our growth is slowing down as our economy matures. We strive to maintain low unemployment rates and increased wages for Singaporeans even in competitive and volatile market conditions.

An important competitive advantage of Singapore is our responsive labour practices, stemming from strong tripartism. Singapore, as a small, open economy needs to remain flexible to maintain competitiveness and create jobs. This will help Singaporean workers find jobs quickly. Companies will also benefit from being able to find the right people for the jobs they need to fill.

Our workforce must continue to remain agile in light of a shrinking and ageing citizen workforce. Every worker matters, and we are working with businesses to make it possible for more Singaporeans, including older workers and women, to enter and stay in the workforce. The Ministry of Manpower is working with businesses and unions to re-design jobs and encourage more flexi-work arrangements. This requires mindset shifts on the part of employers, who will ultimately benefit from the valued contributions of these workers. Employers should find ways to leverage on our older workers as a valuable resource. We encourage our younger workforce to

tap on the experience that our older workers bring, and also look at ways to use elder-friendly technology to support the continued employment of older workers in the workforce.

As Singapore's growth is dependent on external opportunities, we should be responsive to seize growth opportunities as they come, and anchor industries with good growth potential here like biomedical sciences, oil rig, water and clean energy. Foreign workers play a complementary role to Singaporeans especially in the initial stages of the industry's growth. They help root industries here while equipping Singaporeans with the skills to eventually take on high-value, leadership roles.

An Inclusive Socio-Economic Strategy

As we work towards quality growth, we also strive for *inclusive growth*. Globalisation and technological changes are key drivers of rising wage disparities around the world. To grow in a sustainable way, we have to compete robustly with other cities for business, investment and human capital. At the same time, we must take care of our lower-income Singaporeans and ensure that they too benefit from the fruits of growth.

Our approach to social spending is a holistic, yet targeted one. While we have progressively enhanced our social safety net, a key feature of our socioeconomic strategy is to keep our citizens employed, relevant and socially mobile. Initiatives like CET help our workers up-skill and build capabilities, while Workfare keeps our low-wage workers employed. Helping people to get back on their feet helps cultivate self-reliance and engender hope.

The Government has committed \$2.5 billion in CET over the five years from 2010. By next year, there will be two CET campuses providing training and career coaching. In addition, the Workfare Income Supplement and Workfare Training Support schemes support low-wage workers as they up-skill while supplementing their incomes. We have also enhanced the Special Employment Credit, which is a payout to employers who hire lower-wage Singaporeans above 50 years old. The Government is effectively taking on the role of supplementing the income of low-wage workers instead of imposing it on businesses. The enhancements are expected to benefit about 73,000 employers employing 350,000 Singaporean employees. Together with tripartite efforts to promote good employment practices and job redesign, these efforts will address the challenges faced by low-wage workers.

A Sustainable Population

The final issue is related to our physical environment, and this is something that concerns many. We want a quality living environment of good standards. Many Singaporeans feel the squeeze today in our trains and social spaces as population growth exceeded the capacity of parts of our infrastructure.

We are ramping up our infrastructure developments, including expanding our rail networks, bus fleets and launching more Build-To-Order flats. We will also have more nursing homes and hospitals.

In the longer-term, the number of people that we can have in Singapore will depend on how well we plan our urban environment and how we adopt new technology. We have to plan ahead to

ensure that our physical infrastructure is well thought-through and caters to our needs. Many have provided very good suggestions including building more high rise and integrated buildings, and even building deeper underground. Others talked about greening our environment through the use of rooftop gardens and even vertical gardens on HDB flats. There are truly many possibilities and we are planning early, so that Singaporeans can continue to thrive in a good living environment and vibrant economy.

Forging a Common Future Ahead

As our economy matures and growth slows, we will need to press on with restructuring efforts to boost our productivity and strive for quality growth, as we moderate our inflow of foreign workers. This will not be easy, and requires efforts all around.

Our strength as a country is that we have been able to look beyond our constraints and challenges, and forge a good future for Singaporeans. Our economy must continue to be vibrant and competitive to meet the rising aspirations of Singaporeans for good jobs and a high quality of life. It must also be inclusive as we strengthen our social safety nets to help uplift all Singaporeans. At the same time, we must ensure that Singapore is well-planned and all of us enjoy a good living environment and diverse art and cultural offerings.

As we forge a common future together, there are many paths ahead which we can choose. All of you here today represent an important group that will help us shape the future of Singapore. I encourage you to participate actively as we work together to create a vibrant Singapore that we and our children are proud to live, work and play in. Thank you.