

EMBARGOED UNTIL AFTER DELIVERY  
PLEASE CHECK AGAINST DELIVERY

Speech by Dr Goh Keng Swee, Deputy Prime Minister and Minister of Defence on the occasion of the 5th Anniversary of NTUC INCOME at Seiwaen (Japanese Garden) Lawn & Guest House, Jurong Town, on Sunday 23rd November, 1975 at 7.00 p.m.

This occasion seems to provide a platform whereby I make predictions about the state of the economy the following year. This is what I did on the last two occasions and the predictions, unfortunately, have turned out to be close to the target.

This time of the year is suitable for making predictions because of two reasons. First, the world's major grain harvests, in the northern hemisphere, would have been gathered. Accordingly, the impact of food supplies on general prices can be more clearly seen. Second, monetary experts would have met at the annual International Monetary Fund gathering and we would have a clearer idea of what developments, if any, could be expected in the following year.

This year there is a further advantage. The Heads of Governments of the largest and richest five non-communist countries met at Rambouillet. This must have been an important meeting for they returned home with secret agreements.

One must assume that these are on important matters affecting the wellbeing of the five. One must therefore assume that when the agreed policies are carried out, they will have a beneficial effect on their economies.

Whatever these may be, my belief is that we have left the worst behind us. The US economy registered a vigorous upturn during the third quarter of this year, as predicted. Price inflation moderated markedly, down to the region of 6% to 8%. Barring unexpected shocks such as financial disturbances over New York City troubles, the US economy should see further growth and further reduction in price inflation. Other countries will benefit from this, including Singapore.

All things considered, Singapore has escaped very lightly from the effects of the current world economic recession, the longest and most severe since the Great Depression of the 1930s. While price inflation hit us very hard in 1973 and part of 1974, the last twelve months have seen a remarkable change of fortunes. The consumer price index for the twelve month period ending October 1975 shows a decline of 0.6%. This has been due to the fall of food prices as a result of better harvests.

In other aspects too, the economy of Singapore performed much better than most people dared to hope. Unemployment as measured by the monthly sample survey of the Ministry of Labour, never exceeded 4.5% over the last 12 months or so. Singapore did not have to send back the guest workers we imported from Malaysia; on the contrary, we continued to issue work permits on fairly liberal terms.

Though the GNP probably fell the first half of this year, there are indications that the upturn had started and if this is maintained, we might wind up the year with a small net increment, perhaps about 5%. Next year, if the world economy picks up as expected, we should head for better times.

It is possible that the major industrial countries of the non-communist world will not sustain the high growth rates that they had achieved the last two and a half decades before the current recession. It is not merely a question of higher price of oil. Many of the growth industries that propelled this long term boom seem to have reached maturity and there are none visible on the horizon of new ones that could provide the large investment opportunities which these growth industries did in the past.

If this were so, what are the implications for Singapore? I think there will be two consequences, one immediate the other long term. The immediate consequence would be that it will be less easy to find markets for new products for our future industries. However, this need not unduly worry us. Being a small economy, all that is necessary would be to assess opportunities on the few lines correctly. If we work hard and sharpen our competitive edge by high productivity, the opportunities will be there. The investments and increase in output that would result would be sufficient to keep our economy going at a good rate, but there are some complications here which I will discuss later.

The long term consequence, if the world economy has temporarily run out of major new growth industries, is that future recessions are likely to be longer and more severe than those of the 1950s and 1960s and future booms likely to be shorter and less prosperous. The lesson for us here is that we should diversify our products and our markets so as to reduce the impact of possible future adversity. Also we should be careful about introducing industries sensitive to business cycles, particularly when these involve heavy capital investment.

While it will be more difficult than previously to attain double digit growth of GNP, it is by no means impossible to do so, should we so choose.

What choices do we have and what consequences follow upon each of them? The first choice is to aim for the same past economic growth of previous years, 12% or more annual increase in real GNP. The easiest way to achieve this is not to be too fastidious about the kind of industries and foreign investment. This would mean accepting continuing high rate of import of guest workers from Malaysia, because labour intensive industries are the easiest to attract. But there are the social costs and the social problems connected with continuing influx of Malaysian workers. This does not make the option an attractive one.

The next choice is to select industries that require high skills. Skill intensive industries are usually associated with large investments of capital relative to employment. Obviously these are desirable industries as they allow our workers greater opportunities for developing skills and earning better wages. We also need not import so many guest workers, thereby reducing our social costs and problems.

There are, however, two problems arising from this choice. First, it is less easy to attract this kind of industry than the labour intensive type and it is not certain we can achieve double digit growth this way. But there is another factor to consider. If we allow the same liberal terms to foreign investors who bring this kind of industry to Singapore, that is tax exemption for several years and total ownership of equity, the proportion of

income generated by the enterprise which is paid out as wages to Singaporeans will form a smaller proportion of total income of the business, as compared with labour intensive industries. This is because in capital intensive industries, a larger share goes to the owners in the form of returns to capital. Under this kind of industrial structure, the GNP, that income accruing to nationals of the country is less than the gross domestic product, that is income arising within the country.

A third choice is to encourage local entrepreneurs to move into higher technology industry. The opportunities for this kind of growth are probably even less than the previous type, because the foreign investor can come here with a ready made export market whereas the local industrialist has to build up one himself. The advantage of this kind of development is that the whole of the industry's contribution accrues to us. It also develops our technological capabilities more effectively than any other options can do.

These choices are not mutually exclusive, that is to say that choosing one option does not foreclose the others. In fact, our best policy would be to choose a mix of these three choices, giving priority to the third where this is feasible, the second where it is not, and the first as a matter of last resort.

Our experience over the last few years has been that our economic policy has been sensible and effective, proof of which is our ability to withstand the shocks of the last 2½ years relatively unscathed. We have also accumulated skills and experience in the process which should ensure us of continuing growth when the world economy picks up next year.