SPEECH BY THE PRIME MINISTER AT A RECEPTION TO REPRESENTATIVES OF CITIZENS' CONSULTATIVE COMMITTEES AND MANAGEMENT COMMITTEES OF COMMUNITY CENTRES ON TUESDAY, 5 FEBRUARY, 1974

What happens in 1974 depends on how the major industrial nations of the world react to the energy crisis. Assuming that the Arab oil embargo is lifted as progress is made towards a settlement for the Middle East, the 20 major industrial nations of the world, members of the OECD, will try to make up for production lost because of the oil embargo and pay the price of much higher oil prices. In this case, production may increase between 2-4 per cent over 1973 production, assuming the embargo is lifted in the first half of this year. Then the volume of world trade will increase. We shall also benefit from the increased production and trade.

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On the other hand, the major industrialised countries may become very concerned over their huge balance of payments deficits because of the high oil prices. Each may try to restrict imports and expand exports. At the same time each will vie to reach bilateral agreements separately with the oil producers, to get oil in return for industrial equipment, technology, arms, and know-how, so cutting down on foreign exchange losses. In this case, balance of payments

deficits for the countries succeeding in reaching such agreements will be less. But those not able to barter industrial technology, arms and know-how for oil will be affected by the bigger deficits. We are in this unfortunate group.

However, if there were no lifting of the Arab oil embargo, because progress towards a settlement is slow, and there are deadlocks from time to time, then the world may face lower production, because of shortage of energy supplies, lower volume of world trade, and lowered standards of living.

These things are beyond our control. In a world so closely inter-dependent and inter-related, it is not possible to isolate ourselves from conflicts in which we are really spectators. It is like the two "Red Army" Japanese and two Arabs who have hijacked the LAJU after letting off plastic explosives in Bukom. We are the third largest oil refining centre in the world, after Houston and Rotterdam. If the Bukom raid had been successful, the considerable refining capacity would have been knocked out for several years, affecting not only Singapore, but also the countries in the wider region which get their supplies from Singapore. Then even if the oil embargo were lifted, and limitless supplies of crude oil were available, there would still be a shortage of oil in the region because there would have been a shortage of refining capacity. These other countries are also bystanders in the

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Middle East and Vietnam conflicts, but they have nevertheless suffered through the oil cuts and may have suffered more if the refinery had been destroyed.

Our duty is clear -- to take every precaution to prevent sabotage to property or industrial production, or danger to lives. We will minimise the reasons of any group to pick any quarrel with us.

In any case, 1974 looks an unpromising year. From February, all those earning less than $1,000, will get $25 more per month. In July, there will be a review. But it is impossible to expect that because you have more money in wages, therefore you will be able to buy much more things. In the industrial West, prices rise at 8 percent to 12 per cent a year. Because of oil shortages compounding industrial strikes and business uncertainty, the economies of most western countries are slowing down. So they are having increasing unemployment and inflation. That is the fearful meaning of stagflation, stagnation and inflation, low economic growth, plus increases in prices. The only silver lining is the possibility of good harvests in 1974, despite the higher costs of fertilisers derived from oil. This would bring food prices down.

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Most of these things again are beyond our control. But it is in our control not to make the inflation in Singapore worse than it already is because of rising costs of imports. Wage increases must be matched by increased productivity and exports at better prices. We are not blessed with oil or minerals or agricultural commodities. But we have got a strategic economic position, a sound infrastructure for industrial production, and efficient services, from repairing ships, aircraft, and replenishing their oil and stores, to providing expertise in engineering and management problems, and an ever more efficient financial centre and money market. If everybody works his best and his hardest, real standards of living may not go up very much, but they will not go down.

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