ADDRESS BY THE PRIME MINISTER, MR. LEE KUAN YEW, AT THE MEETING OF THE ASIA-PACIFIC COUNCIL OF AMERICAN CHAMBERS OF COMMERCE, AT THE MANDARIN HOTEL, ON SATURDAY, 25 FEBRUARY 1978

Six weeks ago, I was persuaded to speak to this distinguished gathering of top American executives in the Asia-Pacific region on the assurance that it would help improve the investment climate. Since then, the US$ has weakened to nearly 2.02 Deutsche Mark or 1.79 Swiss Franc. Dow Jones industrial averages, having broken through the 800 psychological floor, is now 750.

Last Wednesday, I was cheered to read the Straits Times carry a news agency report that AFL-CIO believed that their support for the Burke-Hartke bill for comprehensive trade legislation was a mistake. On Tuesday, the Asian Wall Street Journal of Wednesday, February 22, disabused me of the illusion that they have had a changed of heart. It was a change of tactics. Mr. Meany was still against the export of jobs and wanted, amongst other things, (1) import duties on the full value of products which have been assembled abroad from parts manufactured in the US, instead of the present tax restricted only to the value added by the assembly work, (2) elimination of DISC's (Domestic International

Sales Corporations) which allow corporations to defer payment of income tax on part of their export sales profits, (3) termination of OPIC (Overseas Private Investment Corporation) which insures corporations against expropriation, revolution and other acts of god or demi-gods of foreign governments, (4) an end to foreign tax credit and tax deferral on foreign profits.

These items are before your Congress. So too is Section 911 of the Tax Reform Act of 1976 and related sections of the Internal Revenue Code which will reduce the earned income after tax of Americans working overseas.

Foreigners, like myself, have been heard by the Carter Administration before the 'tax package' went before Congress. Now it is up to the lobbies to fight it out in Congress. Assuming that the labour supporters win, do these changes comprise the solution to America's problems of high inflation of 6% and high unemployment of 7%? If no more jobs are exported by American industries, and if Americans, instead of shining each other's shoes, are making each other's shoes at 3-4 times the cost they now pay for shoes made in Korea and Taiwan, worse if Americans begin to make and assemble each other's electronic products, with much larger and more expensive but not necessary more nimble fingers, will American unemployment and inflation go down, the GNP go up and balance of payments less in deficit? Will they import less oil? Will they sell these products

Americans made at American labour costs abroad – in Europe, in Japan, in the OECD countries?

If the AFL-CIO succeeds in limiting imports to levels during a 5-year period in the late 1960s, and allowing them to rise only as the US markets grew, will this not encourage the West European and Japanese unions to press for similar measures? Then what happens to the economies of the non-communist world? Does everyone get better off because there is no more free flow of capital and technology and goods, which are now produced at the lowest cost with the most efficient labour? Then what happens to the whole geopolitical balance between the West and the East? What happens if the North-South dialogue ends not in sensible agreement but in their reappraisal of political identification and a realignment of policies?

Is there much sense arguing about withdrawal of troops from Korea and promising some $8 billion worth of military aid in place of the security of these troops, if the South Korean government were to be undermined economically by a squeeze of their exports to the US? And if the West Europeans and Japanese, who have also gone multinational, were also persuaded by their unions not to export their jobs, would it be the end of the world? Well, it may be the end of the world we have known and grow comfortable in for the last 25 years. But it is not the end. It will probably be the beginning of a meaner and more dangerous world. If the terms of trade and investments that link the non-communist free-trade bloc were to be incapable of holding the system together, then we are going to be worse off; all of us.

Naturally, all this talk of organised and orderly free trade is disconcerting. People in the industrial countries are confused. Their governments have promised them low unemployment, moderate inflation, and fair economic growth. For growth alone will make possible an increase in real consumption of their lower-income workers, without a corresponding decrease in consumption in the upper-income brackets. Instead, they have found themselves trapped with persistently high inflation, intractable unemployment and sluggish growth.

What went wrong since the London Summit in May 1977? Some say the Germans and the Japanese did not live up to their commitments. They were asked to be locomotives, to join the US engine in pulling the sputtering engines of the rest of the industrialised world. What is clear is that both Germans and Japanese were never convinced that reflation was the remedy to the world's present economic plight. The trade off between high inflation and lower unemployment was already not working before the oil crisis. Like drug addiction, it was requiring bigger and bigger reflation to produce smaller and smaller decreases of unemployment, in countries like Britain, before the oil crisis.

On a last visit to America recently, I learned that several leading American bankers and industrialists also doubt if there is a trade-off between 4-6% inflation for fuller employment. This trade-off is known as the Phillips' Curve (named after a British economist who demonstrated in 1958 the nexus working on British inflation and unemployment figures between 1861-1913). Now, Mr. William Miller, next Chairman of the Federal Reserve, is reported to have said that the Phillips' Curve is not applicable because the nature of unemployment has changed as a result of high welfare benefits for the unemployed.

I suspect that there is some trade-off possible between some reflation and some unemployment. But only if reflation is financed from the existing supply of money, by borrowing from the commercial institutions, banks, insurance companies and others, not by borrowing from the Central Bank which prints new money to meet government deficits. What the peoples of the developed world may have to learn to live with is that their governments can no longer make the kind of high and steady growth of 6-8% for over 20 years up to 1973. The era of new scientific discoveries leading to fast growth sectors in petrochemicals, electronics and aviation have now reached saturation point. The energy crisis in

October 1973 simply aggravated the shock of this painful change to slower growth.

American industrialists who exported capital equipment to restore the war-ravaged economies of Europe and Japan are now finding the Europeans and Japanese fast on their heels, producing and exporting similar products with ever keener competitive edge – steel, cars, TV sets, computers and even some aircraft, like the European Airbus. The Japanese in turn are finding themselves pressed in steel, shipbuilding and petrochemicals by South Korea and Taiwan. Possible new frontiers for the industrial economies of the West, in the Soviet Union and the East European countries have not materialised. Partly, it was because of political conditions related to Jewish emigration and people-to-people contact which were never acceptable to the Soviet Union. China, which could have been a vast new frontier for spurting sales of industrial equipment, has turned out, for Chinese domestic reasons, to be a slow market until her political priorities are settled and production of exportable items increased.

Despite this, the OECD is forecasting 3.5% to 4% growth for 1978 for its 24 members. The OECD has been wrong several times before since the oil crisis and always erring on the optimistic side. Their forecast may turn out to be 3% to 3.5%.

Economic ministers in Germany and Japan may speak as if they were using neo-Keynesian language. But their policies are heavily influenced by Friedman's writing on monetary aggregates. In short, unemployment in the industrial countries, especially those with high welfare benefits for the unemployed, may continue to be high, inflation may be moderate, varying from a low of 2% to 4% in Germany, 4% to 6% in the US, and 7% to 10% in Japan, with 9% to 11% in Britain, and Italy, plagued by political and social instability, the highest scorer in the OECD league.

However, some time in the next few weeks, the Carter Administration will get an energy bill through Congress. The US$ must stabilise. But at what level? Some Europeans and Japanese suspect the US$ will be at a suspiciously new low to help boost US exports. Then with the prospects of an export-led expansion, Dow Jones industrial averages will rise.

But as long as the polity of a non-communist free-trading bloc is not fractured, and there is free transfer of capital and technology to countries where there is stability, countries which have governments whose commitments are dependable and whose policies are predictable, then developing countries like Singapore will get by. We will still grow, but like the developed, at half the pace we used to.

From 1960 up to 1973, our average growth rate in 1960 terms was 10% to 11%. Since the oil crisis, we have made for 1974 6.8%, 1975 4%, 1976 7%, and 1977 7.8%. On average, it is half what it was before the oil crisis. Despite adverse international factors, the ASEAN countries have done well. Two of the members, Indonesia and Malaysia, are oil exporters. All have made more than 6% growth each year since 1973. Japan and the US are the two main locomotives for the ASEAN countries. And they are still pulling our economies along. Therein probably lies one lesson worth drawing.

Twenty years ago, in the late fifties, the French, preoccupied with the Algerian Revolution and their own internal political troubles, allowed their economic presence in Southeast Asia to decline. Ten years ago, Britain, gearing for a future in Europe, allowed their priorities to tilt towards Europe. Inevitably, there was a diminution of her economic thrust in Southeast Asia. In these twenty years, the Americans, the Japanese and the West Germans have increased their share of Southeast Asia trade, but only in terms of percentage of capital investment. Neither the British nor French gained a commensurate advantage in Europe, or elsewhere, by not maintaining and sustaining their commercial and industrial presence in the region.

If the American legislators choose to hobble their managers and industrialists, then Japanese and Germans will press ahead. Maybe even the British and French could recover lost ground. For the ASEAN region has the advantage of political stability and cohesion, are dependable in the commitments of their governments, and are predictable in responding to change.

In Singapore, we have learned by the negative examples of some Third World countries to cut down bureaucratic controls. We have proved in the last 18 years that the open competitive system, which rewards good performance, and enables men with talent to rise to the top without depending on family or political ties, can work to the benefit of all the people, giving better standards of life, education, health and housing. We have abjured vexatious licensing and government controls so that entrepreneurs can seize economic opportunities without having to wait for bureaucrats to grant multi-million bonanzas by issuing permits or licences.

In Singapore, both with the government and with the workers, "profits" is a clean and wholesome word. When an enterprise makes large profits, government and workers are pleased, for the government gets 40% of corporate profits in the form of taxes and the worker can look forward to a bigger annual wage increase, which is determined by a National Wages Council in which the government, the unions and the employers confer to reach consensus. We are mindful of the dangers of high welfare and unemployment benefits, watching the consequences of this compassionate policy on the job seeking habits of the unemployed. Visiting the major cities of the industrial countries, I am struck by this curious phenomena of high unemployment and yet a shortage of waiters, cab drivers, nurses and garbage collectors. Some jobs are not worth doing, as a result of welfare benefits. Whatever principles may be applicable in highly developed industrial countries, for a resource-poor country like Singapore, hard work and high performance amply rewarded, is the best way to attract capital and technology into the country to generate wealth.

Recently, I had four days of meeting and talking to Mr. Morarji Desai, India's Prime Minister. He is 82. He emerged after 1½ years in prison to form a coalition government. I found him serene and in good spirits. He told me he carries no worries.

I was profoundly shaken. I have only 2.3 million people to look after. He has 650 million people, 300 times my burden. He is 30 years my senior.

I had to console myself. So I hoped that the rest of 2.3 million Singaporeans have been infected by my restlessness, and my incurable habit of seeking solutions to problems before they come upon me. Then perhaps I can be justifiably optimistic. But this thought does not make me serene. It makes me go out of my way to make doubly sure that the other 2.3 million Singaporeans do their work and do it well. I was fated not to achieve serenity yet.
