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DIFFICULT TIMES AHEAD

New Year Message
by
Mr Lee Kuan Yew
Prime Minister, Singapore
on 31 December 1982

It is traditional for me to wish all a Happy and Prosperous New Year. I have to add, however, that the new year abounds with problems, uncertainties and dangers. It looks more troubled than the old. We started 1982 aiming for 8-10% real growth. We ended it grateful that we made an estimated 6.3% growth in our GDP with 4% inflation and a 0.9% productivity increase.

Bleak prospects

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World prospects are bleak. Economists, bankers and Finance Ministers are perplexed. They are unable to find a way out of persistently high inflation, high unemployment, high social welfare spending, large budget deficits and low investments. When America tried to control inflation by reducing money supply, unemployment increased because interest rates went sky-high and demand fell. And neither in America nor Western Europe has it been possible to cut back on

high welfare spending which creates large budget deficits, which forces up interest rates, leading to low investments and high unemployment. With unemployment over 10% in America and Western Europe, protectionism leading to a trade war, is threatening. Six weeks ago in November, Trade Ministers from 88 countries met at GATT meeting in Geneva to work out measures to check protectionism and to roll it back. After seven days of wrangling the meeting ended in disarray. The future looks ominous.

False forecasts

Many economists forecast a recovery in America for the second half of 1983. But previous forecasts for a 1982 recovery have turned out false. In any case, it is unlikely that Western Europe or Japan will improve before America. OECD forecasts a 1.5% growth for its 24 members in 1983. Such a weak performance will not make it easy for Singapore to achieve good rates of growth.

And the forecast of 1.5% growth for OECD in 1983 may turn out to be over optimistic. In 1982 OECD forecasted 2% growth. In fact, it turned out to be - 0.5%.

We were fortunate to get investment commitments of \$1.7 billion for 1982, only slightly lower than the \$1.9 billion for 1981. EDB officers are not optimistic about 1983, because of the continuing recession.

Lower real growth in 1983

We must expect real growth in 1983 to be lower than the 6.3% for 1982. Even a modest target of 4% growth in GDP for 1983 may have to be pruned down to 2-3%, unless a sustained recovery in America and Europe takes place by the second quarter of 1983. On the brighter side, Ministry of Trade and Industry expects inflation to be lower at 2-4%. Productivity increase is hard to predict.

What Singaporeans must do

During a world recession, Singaporeans must use the time to improve themselves, in order to take advantage of the upturn. We must raise our standards of education, increase the skills of our workers and enhance their productivity.

Workers now in employment who missed their primary school passes in English and Mathematics should either attend in-house training for literacy in English and Mathematics, or take BEST courses at NTUC and PAP centres.

Danger of debt default

There is danger of a serious upset in the international financial system if one or more big debtor countries, especially those in Latin America, default. Such

defaults can lead to the failure of many big banks and a disruption of international trade. This problem is beyond our control. Nevertheless we must be alive to this threat and prepare ourselves, not least psychologically, for sudden and grave setbacks. Unlike our ASEAN neighbours, we have no agricultural base to fall back on. However bad a depression we still have to have foreign exchange to pay for food imports, although our exports of manufactured products will fail. In the last depression in 1930-33, international trade fell by 60%. We must keep improving our competitive edge in industry and services. A world depression cannot last forever. There will be a recovery and world trade will resume. Meanwhile technological innovations will make further breakthroughs. And the new technology will require workers with higher education and skills. So those peoples who are well-educated, well-organised, and highly productive, will recover quicker than those who are inadequately educated, and unprepared to meet the new challenges of the computerised, robotised society of the 1990s.


 If we continue to work hard and to increase productivity, we can still make some growth in 1983, provided that there is no major upset in the world.

Table 1 shows how five main sectors, manufacturing dropped by -5.1%, compared to a 10% increase in 1981. Exports have dropped as world recession continued. Growth rates in trade, transport and communication, financial and business services, were lower in each case for 1982, compared to 1981, although

the 1982 growth rates for these sectors were still good. Only construction increased, doubling from 17% in 1981 to 35% in 1982. Without this dramatic increase in construction, our GDP growth would have been lower.

TABLE 1: REAL GROSS DOMESTIC PRODUCT
(Percentage Change over Previous Year)

Sectors	1981	1982 ^e
OVERALL	9.9	6.3
Manufacturing	10.0	-5.1
Trade	5.9	4.8
Transport & Communication	12.6	11.1
Financial & Business Services	18.0	16.8
Construction	17.0	35.0

Note: e - estimated

Table 2 sets out the productivity growth, overall and for each sector.

Productivity is measured by growth in GDP compared to growth in employment.

For manufacturing, GDP growth was -5.1% whilst employment increased by 0.3% making for a negative or -5.4% productivity growth. For trade, GDP increased by 4.8% whilst employment grew more at 7.8%, also making for a negative or -2.8%

productivity growth. Many factories have cut out overtime. In textiles and garments, timber and wood products, chemical and rubber products, and

electronics, the workweek of about 7,000 workers has been cut to 3-5 days. About

13,000 workers in electronics were laid off for 1-2 weeks last year. In spite of

lower demand, most managements have held on to their workers, in the hope of an

early pick-up in demand. unfortunately, recovery has been elusive. If, instead of a

recovery, the recession should deepen, management will have to retrench

workers. However, there will still be employment opportunities in, for example, the construction and ship-repair sectors. Our workers will not be able to pick and choose their jobs. With the acceleration in our construction activities and the adoption of modern construction methods including prefabrication, there will be demand for workers skilled in the various construction trades such as machine operation and form-work. Our able-bodied young men should consider learning such trades which offer good employment prospects.

TABLE 2: PRODUCTIVITY INCREASES IN SINGAPORE
(*Percentage Change over Previous Year*)

Sectors	1981	1982*
OVERALL ECONOMY	5.4	0.9
Manufacturing	9.5	-5.4
Trade	-0.3	-2.8
Transport & Communication	9.4	7.6
Financial & Business Services	5.7	5.4
Construction	-0.2	4.4

*Note: * Based on employment growth derived from CPF records for the first nine months of 1982.*

Since 1979, when oil prices doubled after the revolution in Iran, the world's economy has been very troubled.

As Table 3 shows, we and our neighbours in Asean and in East Asia have done well in 1981 and 1982 compared to the industrialised countries.

TABLE 3: GDP, INFLATION AND PRODUCTIVITY
GROWTH RATE, 1981 AND 1982

Country	1981			1982		
	Real GNP/ GDP	Inflation	Productivity	Real GNP/ GDP	Inflation**	productivity
ASEAN						
Indonesia	7.6	12.2	-	4.5	15.0	-
Malaysia	6.9	9.6	3.9*	3.9	6.5	1.5*
Philippines	4.9	12.4	-	4.0	11.0	-
Thailand	7.6	12.7	4.5*	4.5	10.0	-
Singapore	9.9	8.2	5.4	6.3	4.0	0.9
NICs						
Taiwan	5.5	16.3	3.5*	3.8	5.5	1.2* (Jan-Mar)
Hong Kong	11.0	15.4	2.8*	4.0	12.0	-
South Korea	6.4	23.3	4.5*	6.0	4.2	2.7* (Jan-Jun)
SELECTED OECD COUNTRIES						
US	1.9	10.4	0.8	-1¾	6	-1
JAPAN	3.0	4.9	2.1	2½	2¾	1½
West Germany	-0.2	5.9	1.0	-1¼	5	½
France	0.3	13.4	2.7	1½	11½	2
UK	-2.2	11.9		½	8½	3½

*Note: * Productivity figures are not published by these countries but derived from GDP divided by employment. The latest employment figures for the other countries however are not available for productivity growth calculation.*

*** Private consumption defiators are used for OECD countries.*

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