

EDITED TRANSCRIPT OF COMMENTS BY PRIME MINISTER LEE HSIEN LOONG AFTER HIS LUNCH DIALOGUE WITH UNION LEADERS AT THE ISTANA ON FRIDAY:

PM Lee Hsien Loong: I usually have a sounding of a range of views during the year and particularly before Budget. But this time I'm doing more because it's a very critical moment.

Economic problems internationally are very severe. We have been affected sharply and the news over the last few months, and especially in the last few weeks, has been quite negative.

We've just had some more data today. The trade figures have been very bad because the December numbers were, I think, minus 20 per cent in terms of our non-oil domestic exports growth in December.

So it's not an ordinary Budget and I thought it would be useful if I personally had a chance to meet some of the business people, some of the unions and union leaders, different sectors, to get a direct feel from them how they see the economy from their vantage point: how their own businesses are affected, the prospects, how the Government programmes are working out. We've got the Spur - Skills Programme for Upgrading and Resilience - programme which we rolled out last year; whether it's meeting its objectives, whether it needs to be fine tuned, improved.

And, of course, what more the Government can do or needs to do, which gives us some ideas how to shape the Budget and present our next set of policies.

So I've had a couple of lunches with the business people. I've had some lunches with the unionists too. These are people who are right there on the ground.

By the time you wait for statistics to come, there's a few weeks, or one or two months have passed, (and) you're out-of-date. But they are on the spot. They can see it. They can tell you – the company, they've built up six months' worth of inventory; they manufactured their stuff, no market standing there. It can't go on.

Or that case of PSA: that they have so many cranes, but the volume of containers has gone down and the cranes are staying idle and the operators are also not fully engaged.

It gives you a very immediate sense.

And at the same time, I think it gives them a sense of what we are thinking, and the way we want to go and how we see things.

So I think it's very useful. I'm not the only one doing it. Of course, the Ministry of Trade and Industry has been doing this. Ministry of Finance, Tharman (Shanmugaratnam), because he's putting the Budget together. Ministry of National Development looking after their sector – the construction industry. Ministry of Manpower talking to employers about the conditions in the labour market.

But that's everybody doing his work. But I want to have my own feel, too.

Q: What kind of key suggestions or requests did they make during these dialogues?

PM Lee: Well, of course, they'd like to have the Spur enhanced further in terms of coverage and in terms of flexibility. I think that they are concerned about overall business cost because as unionists ... have been telling me, on the labour side we know what to

tell the workers. But at the same time there are some costs which are influenced by the Government and the Government also needs to do its part.

The employers, they are focused on business cost in a similar sort of way, but also focused on the longer term because it's a downturn. But they have been in Singapore for some time. They know us, they want to continue to do business in Singapore because they see in the long-term that there are opportunities in Asia and they think that Singapore is a good place for them to be able to take advantage of these opportunities in Asia.

So they want Singapore to be part of their story. So they would like us to work with them to position themselves to be able to quietly build up during this period so that they will be able to do that when conditions improve.

When I talked to the companies – particularly the multinationals because they have seen ups and downs before, not something as severe as this for a long time but they have seen ups and downs before – and they're determined to see through this. And they want to think how they can grow post-crisis. And we want to be in a dialogue with them talking about this and working on this, which is why for the Budget, we will have many measures to deal with the immediate issues.

But we will also have measures which will address the longer-term which will deal with growth, competitiveness, new capabilities, creating the opportunities.

Q: About the Budget...

PM Lee: I think we will have a deficit this year. I'm not making the Budget speech today, but you will find out next week.

If you look at the countries around the world, many of them have been going for fiscal stimulus packages because they see the downturn, they see unemployment rising, they see growth down and they believe that through fiscal stimulus, they can try to keep the economic activity up and try and also boost confidence and activity and see through this difficult patch.

Our situation is a bit different because we are such a small and open economy. So if you spend money to boost demand, people will spend it once, and then most of the money will leak overseas and that's the end of the warm feeling.

But we do need to help our companies stay in business. And in particular we need to help our companies to be able to continue to employ workers so that workers can stay in their jobs and continue to look after their households throughout the downturn.

So that will be the focus of the Budget. Surely we will end up with a deficit this year.

Q: Do you expect to dig deeper into the reserves this time?

PM Lee: If there's a deficit, somebody has to pay for it and it's fortunate that we have reserves. So that's something which the Finance Ministry is working on.

Q: How will the Government help businesses cut cost because they requested it during the dialogues & the National Wages Council recommended that as well – Government helping businesses cut cost.

PM Lee: Yes, we have some ideas. You will see.

Q: What's your response to the unionists and companies who asked about Government's role in reducing business costs?

PM Lee: We said we are aware of that. The government has influence and through the Budget, we are able to do something. And we've been putting this Budget together very carefully. So certainly that is feedback which we will take very seriously. It's not surprising feedback, but it's valuable to get confirmation from them that they are focused on these issues.

In fact it was very heartening because when we talked to the unionists and to the employers, they are not at opposite perspectives. They have similar perspectives. They know the imperative, which is to keep the jobs there, to keep the companies viable. And let's see what we can do working together in order to achieve that.

And it's a tremendous strength for us, in a situation like this which not many other countries would be able to do. Because I had a visitor a few months ago from Latin America, and I was explaining to him how we work together – the Government and the employers and the unions – and a union leader who's the secretary-general of the National Trades Union Congress is appointed to be minister. And he sits in Cabinet and he is my minister, but he's elected by the unions to become NTUC secretary-general.

And he was astonished. And he called his minister and he told me to tell his minister that. He says it will take us a long time to be able to achieve anything like that in his country.

So I think we've got something quite unique which will see us through this downturn and stand us in very good stead.

Q: On revising growth estimates

PM Lee: As I said, the figures have been very downbeat. We had a very poor 4th quarter last year. Quarter on Quarter number was -12 on the 4th quarter.

So as a result we amended our growth estimate down to between -2 per cent and to +1 per cent.

But that was 1<sup>st</sup> January. And in the last few weeks since then, I think there's been more bad news from other countries. Their growth numbers have come down all over Asia. The trade numbers have come down very drastically all over Asia. I think the Korean (trade data) is at around 40-something per cent, the Americans are down, all our major trading partners are seeing this tremendous downturn.

I was just reading yesterday one report that containers are now being shipped from China to Europe for free because ... the capacity is there, the ship has to go, so you just pay me for the fuel cost and I will carry your container for free. It's unprecedented.

So it's a situation which is already gloomier now than it was at New Year. And we'll have to revise our growth estimates and MTI is working on it. So I think we'll have new growth estimates before the Budget next week.

Q: On specific requests for cutting business costs

PM Lee: Well, rentals is one. There's various government charges which they look at. They look at taxes, they look at property tax, for example. There are requests for corporate tax rebates. There's a wide range ... If you read the newspapers you'll find all of the requests there. Basically they'd like the assistance which will be helpful to them.

The government's job is not to do everything which is asked for but to look to see which are the items which will be most effective and then, how do I raise the money which I need in order to fund all the things which I need to do, either from the Budget revenues this year, or from the reserves which we have accumulated.

Q: This is not the first crisis Singapore is facing. Are there particular concerns this time around that didn't quite surface in the past downturns?

PM Lee: Well, the big difference between this time and previous times is that this is a worldwide problem. Previous times, we've had, in 1985, for example, we were very down but it was more the NIEs, the newly industrialised economies, at that time which were hit: Singapore, Hongkong, Taiwan, (South) Korea. And when we put ourselves right, while the world was there, we do business with the world.

Ten years ago during the Asian crisis, it was some Asian countries which were down. But the Americans, the Europeans, they were not so badly affected. And they carried on. So when Asia puts its house in order, we continue to grow with them.

In this case, the problem is worldwide. It's the American financial system but all the major economies are in a synchronised global downturn.

So to come out from this will be a lot harder. We can't say that we make some adjustments in Singapore and then we will be able to go back to business as usual. We will have to do things in Singapore but what happens after that depends on what happens around the world.

Mr (Barack) Obama is planning a very major package in America. The Europeans have been moving. You see the Germans, they have one package now. The British have made moves. The Japanese have had one bundle of policies after another.

We have to hope that given time, these policies will not only give a boost to their economies but that the problems in the financial sector will be overcome, the banks will be made sound, the confidence will be restored, and then business can resume and you will be able to operate again.

And these are things where Spore, well, we will do our part. But we play only a small role.

So that's a very big difference this time.

Q: After that, do you see inflation rising?

PM Lee: Not for some time. But at some point the enormous deficit spending is going to mean many countries are going to accumulate a lot of debt. And if they do not get the balance right and shift gears in time, then at some point it's going to lead to inflation. But that's not the immediate worry now. That's something down the road.

(ENDS)