

## **CNBC CONVERSATION WITH SINGAPORE PM LEE HSIEN LOONG**

**CNBC:** Let me start with what is on everybody's mind of course the crisis. We've seen untold billions of dollars thrown at the crisis in stimulus. We're seeing Europe starting to deteriorate now as well. What is your prognosis, how soon are we gonna start to see if not recovery let's talk about stability.

**PM LEE:** I think it will take some time. The downturn in terms of economic shrinkage has been very severe. Bernanke announced hopes of recovery next year. I think that is possible. The problem is I think several-fold. Firstly the financial system has to be fixed, which is a very difficult thing to do, normally needs a lot of money but politically very difficult and system-wise to make it whole again, to restore trust is going to take many years. So that's one very big challenge. I think getting the economies restarted and people being able to produce, consume, to have confidence to go about their business that will take some time. And even if you spend billions in stimulus packages it doesn't mean that confidence will come back and business will resume overnight, it take time. Then of course you will have to deal with the international fallout. The question of protection, nationalism, sending off foreign workers, keeping your markets open. And that has a potential to make things worse if we're not careful as countries will tend to shrink back. So I think that this is going to be a long-drawn thing. Nobody can say how quickly but I would not bet on it finishing soon.

**CNBC:** How do you feel about what observers are noting as not so much nationalism but socialism now, the way that the U-S is being forced to intervene to save banks, it verges on some people are already saying many banks are nationalized. A lot of people out here in Asia including China might be having a fairly good chuckle right now. In your mind is this capitalism gone wrong, capitalism mismanaged?

**PM LEE:** Well obviously the system has malfunctioned and the governments have now had to intervene which at normal times they would absolutely not contemplate doing. But in this in extremes and in this extraordinary circumstances they really have no choice. Because they cannot afford to let the whole financial system fail which would bring the whole economy down with catastrophic consequences. The question is how we can fix this and get the system working again, because it's a delusion to think that if only the government were cleverer and worked harder in future and did more then we will avoid such problems. I mean if that were the solution, the Soviet Union would be prospering today. But that is not the way you have to depend on the free market, you have to depend on market forces, you have to depend on the financial system which is also private sector based. And then you must have some way to regulate and supervise the system to stabilize it within limits. You cannot prevent ups and downs and fine-tune it so that it's exactly at perfectly full employment and nothing more or less every year. But at least to head off wild fluctuations and invest in disaster building-up if there's a bubble coming up and it's getting big to be able to recognize it in time and to do something about it. There's no 100% solution but we have to find a balance which will engage market forces, engage a profit motive at the same time have a view towards the overall social good.

**CNBC:** Okay let's talk about Singapore's response. The economy is probably in its worst shape in many many years,

**PM LEE:** I would say the sharpest shrinkage I wouldn't say the worst shape

**CNBC:** Alright sharpest shrinkage and we've just had fourth quarter GDP out annualized down 16.4% over the third quarter. How much worse do you anticipate things could get?

**PM LEE:** Well we've projected minus 2 to minus 5% for this year for GDP growth for the year as a whole. It's the worst that we've had since independence. I think it is a realistic estimate because if you look at the trade figures all the countries in Asia now are having dramatic reductions in their trade. Japan just went down by 45-percent plus yesterday, Taiwanese have also gone down by 40-something percent, Korea is 30-something, we went down by one-third in January, so if the trade is not flowing if the international economy is down we're going to be down. People have asked me can it be worse than minus 5? Yes it is possible, because it depends on the global situation. You just do a quick calculation. Manufacturing is one quarter of our economy. If our exports go down by one-third that means manufacturing by itself will go down by about one-third because we export nearly everything we make. And that means GDP will go down by one-twelfth which is about 8% unless you can make up and grow some other part, construction for example. So I think we brace ourselves for a tough year ahead.

**CNBC:** As far as the people of Singapore go, the last unemployment number that is publicly available is about 2.7%. Outside private economists though think we could see as high as 5 is that within your reckoning, or is that too extreme?

**PM LEE:** Yes it's possible, it's possible. We see the retrenchment figures going up in the first quarter already, I don't know what the latest numbers are. But the last one which was, which the unions mentioned was nearly five thousand in the first quarter. So the retrenchment numbers will go up, the unemployment numbers will go up. What we are hoping to do in this downturn is 2 things. One through the jobs credit, to reduce the cost to employers of employing workers and therefore try and keep the companies viable and keep the workers in jobs which is most important. And secondly to make a very big push towards encouraging companies and workers to go for training, or retraining. Skills upgrade, we have the courses we have the grants, we have the incentives we have the schemes to help them. And we believe that this is a slack time, it's a good opportunity to upgrade their skills and able to prepare for new jobs or in case they lose their jobs to be able to get back into employment again.

**CNBC:** Government here in Singapore of course has thrown a significant amount of stimulus at the economy already. What else is the government prepared to do? It has dipped into reserves for the first time that I can recall. How deep is it willing to dig?

**PM LEE:** Depends on the situation, we will have to see. We don't want to spend all our reserves. Neither is this the situation where you spend money you will solve your problem. This is a global problem we have to go through it. What we can do is to minimize the damage to our economy during this downturn. And that's what we have done with this budget. We've had a very big budget I think the package which we called

the resilience package is 20.5 billion Sing dollars of which about 5 billion will be funded out of past reserves, the protected money. And if we need to do more we will do more. We have the resources we can do it. But it is not a problem where spending the money will cure you.

**CNBC:** What about the Singapore dollar, does it need to weaken?

**PM LEE:** M-A-S decides that. Their policy presently is on a stable trade-weighted exchange rate. They review that every 6 months we'll wait and see what their next conclusion is. They operate independently.

**CNBC:** Let's shift over now and talk about the other big change not so much the crisis but something a bit more hopeful, that is the Obama administration in the U-S. Very unique in a way, he's promising much more openness, more engagement, he'll play more nicely with the multilateral institutions. But with such domestic problems at home, how much really can they be more open, more involved more engaged with the world?

**PM LEE:** I think they have very very busy and weightier agenda. Obama has taken over at a time when there are many balls in the air and he has to deal with all of them. The economy in America certainly, the global economy, but also international issues for them - Iraq, Afghanistan, the Middle East and their relations in Asia too. So I think they have to be able to juggle many balls at once. And I think they understand that they have to keep America open and connected with the world because you cannot ignore the world, it is not possible to go back and think of fortress America.

**CNBC:** There is a perception that Asian countries are more comfortable with republican U-S administrations. Is that fair?

**PM LEE:** Whoever is the administration in America, we do business with them.

**CNBC:** Pragmatic then?

**PM LEE:** Yes, and I think whoever is the administration in America whether republican or democrat they have come to the conclusion that Asia is a significant partner and they have to do business with Asia. Which is why Hillary Clinton as Secretary of State made her first overseas visit to Asia, visited China, Korea, Japan and Indonesia, which is a good sign.

**CNBC:** For the u-s a lot of people view Washington's relation with Beijing, the U-S China relationship as crucial really. Obama is coming in at a time when not just there's a crisis globally but china itself is slowing extremely rapidly. How do you see these 2 powers engaging at a time like this? A liberal democratic administration in the U-S where we've heard a lot of rhetoric that sounds protectionist - china you're a currency manipulator etcetera. You would probably expect a democratic administration to push China harder on human rights as well. How is this going to play out?

**PM LEE:** There will be trade frictions, there will be values issues like human rights. And there will be the usual settling in when you have a new U.S. administration finding its feet and trying to distinguish itself from its predecessor. I think what is encouraging is that the U.S. administration this time has hit the ground running in a way because they know that China is an important part of the global issue and that China's co-operation is necessary in order to tackle major global issues. And they're not starting off in an antagonistic stance with China. And Hillary Clinton on her visit to China has made that very clear. I mean it's not just cycling Chinese proverbs Hong Jo Kong Zhi and so on. But also the clear signal that they want to co-operate economically that they want China to help to be part of the solution to this global crisis. They want China to continue to invest in U.S. treasury bonds for example. That's a very significant statement. And that while the U.S. continues to maintain its position on human rights and other religious freedom they will not let this overshadow the entire U.S. China relationship. So I think that's a very good sign. I would say in America the pressures for protection will be there, the pressures on the exchange rate with China will also be there. I'm not sure how to read the statement by treasury secretary that China is a currency manipulator because he took a very careful position before he became treasury secretary in the New York Fed and he has taken a very, the administration has taken a very careful position since then. I mean they have not pressed that line, they've backed away from that rhetoric to say that they expect to work constructively with China. But the ground pressures are there. They will be in Congress. The protectionist sentiments will be there. If we look at the stimulus package - their Buy America clauses got watered down and they said well consistent with America's treaty obligations.

**CNBC:** Does that worry you the Buy America clause?

**PM LEE:** I think the signal worries us. I mean the clause itself maybe watered down, but the signal that represents that countries want to think of themselves first and to exclude the outside world from whatever measures they do, I think that if not carefully managed will lead to more trouble. And the pressures will continue to be there because American unemployment is already 7-plus percent it can go to 11 maybe 12 and then you have people unemployed. Whatever the economic logic of it, the emotions and therefore the political pressures will be very strong.

**CNBC:** China itself is struggling with its own unemployment problems and there are I guess worries that if it increases past a certain point it could affect stability. But even before that though the policy response we've seen - they are throwing huge amounts of money at their economy as well. But with the private sector now, the last I saw accounting for 70% of china's economy, how much really can the government do in china?

**PM LEE:** Well they've had a 4 trillion Yuan, Renmimbi package which is quite significant. They can stimulate consumption because I think they have various vouchers and encouragement to consumers to buy electronic goods and so on, cars even. They can stimulate investments because they need more infrastructure. I think they're looking for ways to mitigate their downside when people get unemployed and sent home and have no work. So they have some instruments to play with. But what they can do is to buffer the slowdown in the Chinese economy. They're not big enough to give a stimulus to the

world and to make up for the reduction in demand in the United States. That's not realistic.

**CNBC:** If we could now talk about the region - Asean summit the 14th. The big news is of course there is now the charter, the grouping has a legal basis and can proceed as a more rules-based organization. I'm just wondering with this crisis, there is this plan to create European style economic bloc by 2015. But we were talking about this few minutes ago the crisis is making countries go like this - to think of themselves first. Is there any potential the crisis could throw the AEC plan as its known, off track?

**PM LEE:** Yes I think there is a potential. We're not aiming for European-style bloc that's too ambitious. The Europeans took decades to get to where they are and we're a long way away from that. But we want to work for a what we've called an ASEAN economic community by 2015. There's a clear roadmap which has been set out, all the things which we need to do to get there. And if we do even 3-quarters of the things which are on the roadmap I think we will be in a very good shape, much better off than where we are today. The challenges for countries to focus on ASEAN regional co-operation at a time when they are very pre-occupied with their domestic economies individually, several of the countries are pre-occupied also with political issues, consuming domestic political issues, political succession in some cases. And then against this background to pay attention to ASEAN co-operation and to push it forward, that's tough. But it's important for ASEAN to do that because in this global environment if we give the impression that ASEAN is not fully open for business I think we will be the losers when the new landscape emerges.

**CNBC:** The idea I get from the AEC is that common economic bloc, zero trade barriers or tariffs and basically linked production platform I would assume for exports. But this whole export driven model that Asia has grown and developed on for decades now, is the crisis revealing that maybe there are flaws or vulnerabilities in that and the domestic economy and consumption needs more attention?

**PM LEE:** There will have to be a global rebalancing because we cannot expect the Americans to be consumers of things made all over the world. And the rest of the world as savers lending money to the U.S. to buy things from you. That's not possible. So there has to be a rebalancing. It probably means there has to be more consumption or investments in Asia to say, take up the slack. How to do that would be very difficult because the scale of the shift would have to be very large and we're talking about structural issues. I mean we can't just tell households go and spend more money because they have their needs now, their needs in the future. When they grow old they need to save they need to save for their retirement, what to save it in. And these are structural and life-cycle matters which have to be taken into account. **12:02:57** Also for small economies like Singapore there's no way you can say we'll go for domestic consumption and domestic resilience and we don't go for exports. Because we are part of the world economy, we make chips, we make pharmaceuticals, we make petrochemicals. We consume maybe 1% of what we make in these things. Probably less.

**CNBC:** Does there need to be a rebalancing there?

**PM LEE:** It's not possible, we are making for the world. We buy from the world we make from the world, for the world. I mean we buy many things, we buy cars, we buy aeroplanes, we buy computers. We make things here and we sell to the whole world. We're part of the world economy. That's how we prosper, that's how the global economy prospers. And that's how ASEAN has to prosper amongst ourselves and with our trading partners too with whom we have various free trade agreements or arrangements. And it has to continue like this.

**CNBC:** Let's talk in the immediate term. The AEC of course is 2015 is the target. More immediately though co-operation regionally to fight the crisis. Finance ministers met in Phuket and agreed to enlarge as well as change the size and the nature of the swap agreement fund 120 billion dollars now. Does this whole exercise reveal that ASEAN with 10 members now 5 quite poor and 5 richer maybe even very rich it's hard to come to sort of a co-operative agreement on this. 120 billion dollars 80 from the plus-3 China Japan South Korea the balance from the ASEAN 10. Of the 10 though 5 if I'm not mistaken are not gonna be actually paying into the fund, is that right?

**PM LEE:** I'm not quite sure what their formula, exact formula is which is being worked out. But basically ASEAN has to participate and pay up, contribute 20% of this fund. It's a contingency fund it's there on call we don't pay up until something happens. But ASEAN is 10 members I think we have to work with our 10 members. Of course if we have fewer members it's simpler to co-ordinate. But if you're talking about regional scheme like this you have to involve all the regional countries and in this case China, Korea, Japan the plus-3 countries are very important because they are 80% of this scheme. So you have to see this scheme as a regional scheme complimenting a global arrangement with the IMF and the World Bank. Not a regional scheme so complicated, if we had fewer of us it's easier for us to co-operate. In fact we already have various bilateral schemes under the ChiangMai initiative so that one-on-one we can help one another, if you have a problem I help you, if I have a problem you help me. But what is going to be new in this new arrangement is that not just that it's more money but it's multi-lateralized in other words we all get together and if one member, one country has a need all the other countries can be called upon to help through a centralized scheme and I think that's significant. It's not going to replace the IMF and the World Bank but is going to complement them and it will demonstrate that this is a region which is able to do some things to help ourselves.

**CNBC:** Is the region also now almost necessarily much more china inclusive now? I mean there's already the plus-3.

**PM LEE:** Well of course because China is a very dynamic and large economy in the region and they are part of all the regional co-operation discussions whether its ASEAN plus-3 whether it's East Asia Summit whether it's APEC. They are important economic partner. But we also talk to India we also talk to Japan. And we want a region in which our co-operation is open and inclusive.