TEXT OF SPEECH BY THE PRIME MINISTER, MR. LEE KUAN YEW, AT THE COMMONWEALTH PRIME MINISTERS' CONFERENCE, 9TH PLENARY MEETING, AT 12.35 P.M., MONDAY, 13TH JANUARY, 1969, ON WORLD ECONOMIC SITUATION AND TRENDS

Mr. Chairman, what I have to say will not cover the ground which has already been so comprehensively traversed by my colleagues. I would, however, like to compliment the Chancellor of the Exchequer, Mr. Roy Jenkins, for his clear and crisp exposition of the financial position. It indicated that we (the Sterling area) have lived dangerously in 1968. In March the Gold Market closed, and the two-tier system introduced. In November, as a result of the crisis of the Franc, the foreign exchange markets closed. However, according to OECD statistics, Britain will have a surplus of £0.25 - 0.65 billion. Whatever the state of our personal assessments of amicability of the French General, we shall all have to pray for his good health and for the strength of the Franc. For I hope there will not be a sudden summoning of an IMF Conference.

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Whilst I agree generally with my colleague, the Prime Minister of Ceylon, who had complained of the niggardly attitude of the developed countries, still, at the risk of being accused of over-stating the case, I would like to underline the inadequacies of the less developed countries. For there is no profit in our seeking alibis for our failure to develop.

Southeast Asia today, its peoples and civilizations, is the outcome of the impact of European colonial administrations on the economy and culture of these territories, and the demographic alterations through migration encouraged by the administering colonial powers. What the different political leaderships have inherited, varied with the European empires they had been part of. What they have done with their inheritance since independence varies considerably from country to country, depending on the quality of their political leaderships and the cohesiveness, educational standards, drive and stamina of their peoples.

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Economic Performance

May I take excerpts from a report of the economic performance of these various countries from a United Nations publication issued in 1967 -- "Economic Survey of Asia and the Far East, 1966".

"Part Two - Current Economic Development

Chapter 1 - Economic Growth (p. 99)

"During the period 1960-1965, not only did the economic growth of the developing ECAFE region lag behind that of Latin America and West Asia, but also its rate of growth tended to decline, as evidenced by the fact that its annual growth rate of 3.9 per cent in 1960-1965 was slightly below its annual growth rate in 1955-1960."

"1. Comparative Growth Trends (p. 99)

Moreover, in 1961 and 1962 the value of exports and the terms of trade dropped sharply from the preceding years, thereby decreasing significantly the developing ECAFE region's capacity to import."

On page 111 of the same Report, a graph contrasts the sharp difference in the higher rate of growth of Japan, Australia and New Zealand, as against the others.

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This report was compiled by international civil servants of a United Nations agency whose headquarters is in Bangkok. It tries to be truthful in a bland and inoffensive way. It reports progress in East Asia, and problems in Southeast Asia.

Reasons for Failure

What are the reasons for the failure to realise the visions that the first-generation anti-colonial nationalist leaders in Southeast Asia held out to rally their people in their quest for freedom?

Having observed this doleful subject over the years, I advance the following reasons.

First, the population explosion placed a sharply increased burden on the resources of these countries as modern medicine and improved environmental health techniques reduced both infant and adult mortality rates.

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Second, inter-ethnic peace, previously ensured by the colonial overlord, proved difficult to maintain after independence when power often passed into the hands of the ethnic majority. The European powers had created imperial boundaries of convenience. Over the decades, they brought together an

admixture of diverse ethnic and cultural groups to complement and supplement the skills required for more effective extraction and exploitation of resources.

There was a rebellion in 1957 by Sumatrans, supported by groups in the Celebes and Ambon, against a largely Javanese government in Djakarta. The rebellion failed. Then Burma has been, and is, plagued by rebel minorities of Shans, Kachins and Karens, by Red Flag and White Flag communists.

Third, power was handed over to those elite groups who had commanded popular support. When these new governments attempted to demonstrate continuing legitimacy, by holding on to their support after independence, they brought divisive forces to the surface. For political supremacy, competing leaderships could not resist the temptation to appeal to ethnic, linguistic and religious loyalties.

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The result was that the entire country suffered. It became almost impossible to preserve a complementary balance of the diverse factors and groups previously brought together into one functioning whole by an overlord. Ethnic minorities, often the shopkeepers in these circumstances, were for practical purposes the village bankers. They knew who was creditworthy, how each villager could pay in kind for the things he needed on credit, hence what to

import and store, and what to collect in return and export. When from time to time these shopkeepers were forced out of business by rioting or legislation, or both, the villagers lost their bankers. This local knowledge and expertise could be replaced neither by other villagers, nor the administrators who introduced this legislative innovation to create native entrepreneurs, or by members of the U.S. Peace Corps or V.S.O.

Fourth, the inadequate number of trained men, in the political leadership, government administration, professions, commerce and industry, retarded economic development. When political leaders, gifted more in emotionally arousing their people than in mundane matters of administration and economics, for political ends interfered with what was still working, administrative conditions deteriorated and the economy ran further down.

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Fifth, a number of these states are handicapped by being what Gunnar Myrdal has termed “soft societies”. With the withdrawal of the unrepresentative, and, probably for that reason, decisive rulers, and the introduction of elected governments, a softening took place in the firm framework of administration. Corruption set in, and became a way of life for all those invested with authority, from the highest to the lowest levels of bureaucratic power. Succession by military coup d’etat have tended to make things worse, not better. There is an

inability to stem corruption, to resist deficit budgeting, credit creation by their central banks, leading to an inevitably debasement of their currencies, and lack of confidence in the regimes, resulting in a drastic slowing down of investment and economic growth.

Sixth, the educated were not put to best use. Wage differentials between the highly educated, and the untrained, were narrowed as politicians sought the popular votes of the masses, and sacrificed the interests of the few, those with professional and technological competence. Worse, educational opportunities for the children of these people became markedly inferior to those available in the developed countries where they could sell their training and skills. This is often the point when the pulls of social conscience, loyalty and patriotism snap and a further brain results.

East Asia, Free Enterprise - South and Southeast

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Asia, State Planning and Planning Agencies

Lastly, attitudes towards free enterprise have made a difference in development performance. Almost concurrently with the ethnic and cultural divisions between East Asia and Southeast Asia, has been the division between

the areas where free enterprise has been allowed to flourish, and those areas where government planning and controls have stifled enterprise. This happened either because the state philosophy favoured state planning, or because the entrepreneurs were ethnically a minority and so had their activities conscribed and restricted for political reasons.

On the other hand, it was free enterprise which accounted for the progress of Thailand, Malaysia and Singapore. Though in Southeast Asia, they have considerable ethnic East Asian enterprise which has been allowed to operate and flourish. Thailand is also fortunate in never having been incorporated into a European empire. So Thais were aware that besides the removal of colonial exploitation, there were other positive factors needed, like enterprise, management know-how and technological skills, and capital, before national wealth could be increased. Many governments in the region have tended, sometimes deliberately, to overlook the fact that free enterprise, and not state planning agencies, achieved the industrialisation of the economies of Western Europe, America and Japan. And even today, in some capitals in Southeast Asia, leaders find it difficult to admit that it was almost entirely freedom of enterprise that brought off the spectacular recovery of the war-devastated economies of Japan and West Germany.

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Future Trends

Is there a brighter side to this recital of unrelieved gloom? I venture the following propositions as a hopeful presentation of the future.

Problem of Continuing Security

The main problem is that of ensuring a general climate of peace and security. Without security, constructive endeavour within each nation is difficult, and co-operation between nations impossible. Conflicts between these new countries, and interference by countries both inside and outside the region through subversion, through economic and political pressure and manipulation, make for unnecessary turbulence. They result in a frittering away of precious resources and energy. It has been an unsettled area. Yet the basic environment of security can only spring from the policies of the major world powers.

A phase in history has ended. For more than 300 years order was maintained by an exclusively European balance of forces. Now, new nation states have taken over these boundaries between European empires, but without the economic or technological wherewithal to create countervailing forces, and maintain checks and balances.

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Part of the reason for this de-colonisation was intelligent self-interest on the part of the European powers. But what part of it was the consequence of, or a counter to, Communist strategy and tactics of the then still monolithic Communist world movement? Historians will have to assess this when more data from the archives become available. But though there is no longer a monolithic Communist world, the war in Vietnam is a grim reminder that, despite the divisions and rivalries within the Communist camps, in situations like Vietnam, both Russia and China could find themselves ranged on the same side, albeit for differing purposes.

Vietnam War - Solution Crucial

The manner in which the war in Vietnam is resolved and ended will either help or hinder the development of other countries in the region. One of the objectives of the war has been to try and prevent this same kind of internecine strife from engulfing the other countries contiguous to Vietnam. And the enormous expenditure of American resources will only have been worthwhile if this is at least partially achieved, if the solution achieved in Vietnam buys time for these other countries to make the economic, social and political changes for their own survival. For in the longer term, only the modernisation of these societies through rational economic and social policies providing the political stability can ensure peace and progress. For only they will remove the latent

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internal pressures for a violent rupturing of the social and political fabric of these countries.

There are a number of hopeful signs:

Population Control

Although the problem of high birth rates with net population increases of between 3% to 4% per annum is already with these countries, and may continue with diminishing virulence for another decade, there are hopeful signs in the urban centres, and perhaps later, as communications improve, in the rural areas, for a dramatic slowing down of the population growth. By the spring of 1968, all governments in South, Southeast and East Asia were on record in a United Nations' document, supporting population control. And if the policies pronounced by the new President of the World Bank are implemented rigorously, namely, that aid will be inversely correlated to population growth, then the leaders of these countries will have a real incentive to put the brakes on. This will make their problems more manageable, slackening the pressure for more places in schools, more jobs, more homes, more medical facilities, maternity services, and so all over again. There has been a dramatic change of attitude. For, not so long ago, Dr. Soekarno's every speech used to be punctuated by the latest increase in rounded millions of the hungry and angry Indonesians he

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claimed to speak on behalf of. Fortunately, they, by which I mean the speeches, not the increase in population, are now part of the flamboyant bravura of the past.

Borrowing Expertise

Assuming the continued good health of the world economy, it is safe to predict the continued progress of the economies of South Korea, Japan and Taiwan and Hong Kong for the next five years. It may not be easy to be equally optimistic of developments in Southeast Asia. But it is reasonable to assume that those governments which have allowed free enterprise to play its part in the development of their economies, whether the entrepreneurs be indigenous or immigrant groups, are the ones that will make the most progress. And perhaps, as a result of comparing performances between neighbours, those governments which have hitherto conscribed free enterprise may decide to enlist the drive which enterprise, whether local or imported, can put into their economies.

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The lessons of the last two decades have been privately learnt, even if not publicly admitted. True, in some cases, the damage their predecessors have inflicted on the economy and on the social fabric of their societies has been grievous. It will take considerable time, effort and resources to repair the harm done. Fresh attempts are being made to govern by giving people a better life through rational economic policies. These represent real advances. There is less of the manipulation of mass emotions, the working up of grievances, real and imaginary. There is less of the deliberate fostering of xenophobic fears and hatreds to divert attention away from domestic failures.

The unwisdom of economic policies based on national self-sufficiency has been quietly acknowledged, if not completely abandoned. There is now an acknowledgement that economic progress and improved living conditions can be better realised through economic co-operation in regional and sub-regional groupings, to create broader markets, and so to complement development, avoiding duplication of capital equipment and a waste of scarce resources.

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There are cautious beginnings. New acronyms have been coined to described these new groupings. Hitherto regional co-operation have been no more than a thinly disguised exercise in collective soliciting of aid from the wealthy nations. Now, they represent at least the desire, if not yet the fruition, of

practical co-operation for mutual benefit. The A.D.B. for Asian Development Bank, the Southeast Asian Ministerial Conference on Economic Development, ASEAN for Association of Southeast Asian Nations, and ASPAC for Asian and Pacific Council. They are the result of indigenous initiatives within the region, compared to two early efforts, the Colombo Plan and ECAFE, Economic Council for Asia and the Far East.

Major Powers, Security, Economic Progress

If these promising trends continue, then economic progress will be made. But, whatever the economic progress, none of these countries in Southeast Asia either immediately, or in the long term future, are likely to become even a medium-sized power in the modern day sense of the term. As the European powers, who knew these countries and their peoples well, withdraw from the region, the super powers, at present America and Russia, who know less about these places, have been drawn in, testing the limited of their power. Russian naval units in the Pacific are on the increase. Russia's vast expenditure in military and economic aid to Indonesia ended ironically in the massacre of several hundred thousand Indonesians, a tragedy for the Russians, and for the Indonesians since only a percentage of them were communists. It was an ironic twist to an enterprise, whose original intention was to involve the West in a collision with Indonesian nationalism over West New guinea, or West Irian as it

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is now known. It was the result, amongst other things, of a lack of understanding of the history, culture, motivations and aspirations of the people of Indonesia.

But Russia is big enough, even though not affluent enough, to write off these losses if she wants to, and as in the Middle East, re-invest and re-equip her allies all over again. And perhaps, late in the next decade, if China industrialises, the position may be further complicated.

The long term future of Southeast Asia will be determined as much by the policies of the major powers outside the region, as by the initiatives of the governments within the region. It is an area which could produce great wealth as the European powers proved during the centuries they were in control. If helped, these new national governments could learn to build that firm framework of effective administration, sound currency, orderly social conditions and work discipline, so making labour productive, enterprise profitable, and revenue more or less equal to the budgetary needs of a developing economy.

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Pessimism

There are two views one can take of the future of the region. One is a pessimistic view.

Projecting the dismal record of the last two decades into the next two, one is reluctantly forced to the view that in very few places in the region are people being welded into viable nation groups, and nowhere has freedom realised its promise. Democracy is preached, but not practised. On the other hand, old feuds have been revived, and new ones are being conjured up and pursued. Barely submerged animosities against the migrant groups, Chinese and Indians, have surfaced, and new schisms are being added to badly fragmented societies.

Optimism

The other is a cautiously optimistic view. For, although this is not a well demarcated area of contest like that between the Communist and non-Communist world in Western and Eastern Europe, nevertheless, from the lessons of Vietnam, all contending parties may recognise the dangers of wars of national liberation enlarging themselves into far more perilous conflicts. Nations may learn to sublimate their irrepressible urges to ascendancy and an expansion of their influence, by a competition on the economic and ideological planes.

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This would give time to the second-generation leaders of Southeast Asia who have learnt from the mistakes of the past -- time to put things back on a constructive track, to modernise their societies, and through regional co-operation between themselves and with the developed countries, achieve economic growth and a better quality of life for their peoples. Then there would be greater stability, making for more security, leading to higher investment flows, more economic growth, and so a climb up the face of the cliff to higher levels of civilisation.

Not unnaturally, as a practitioner, I must take the more optimistic view.

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