ADDRESS BY MR. LEE KUAN YEW, PRIME MINISTER OF SINGAPORE, AT THE PACIFIC BASIN ENERGY CONFERENCE, MONDAY, 9TH DECEMBER, 1974, SHANGRI-LA HOTEL

THE NATURE OF THE ENERGY CRISIS

Mr. Chairman, Ladies and Gentlemen,

Since the oil crisis in October last year, millions of words have been published on the subject. Innumerable conferences have been held. This one justifies itself by concentrating on the Pacific area.

I am not an oil expert. Nor am I knowledgeable about potential oil fields, on shore or off-shore, in Southeast Asia, the South China Sea and off the China coast. However, in a moment of rashness, I committed myself to a speech.

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I have not found this an easy subject to make a speech on. A coup by OPEC in converting the price from under US2 per barrel in 1972 to over US$10 per barrel from January 1974 has totally altered the outlook for the world. Unless massive new oil fields are discovered, equal to those in the Gulf, an unlikely prospect, the end of 1973 was a turning point in the history of the world.

I used "turning point" after the definition Arnold Toynbee gives it -- a decisive event affecting the course of history.

For months after it, the American Congress and Administration made growling noises about lions and gazelles. Later, the line was that with progress towards an Arab-Israeli settlement, Saudi Arabian oil would continue to flow, and prices would automatically go down. The Europeans, particularly the British, were not be sanguine. They were more concerned with the immediate need to borrow, or to use the current euphemism, to re-cycle petrodollars. Americans were not impressed. They said the private banking and financial institutions could handle these surplus petrodollars. They were concerned with getting the price of oil down.

President Ford, at the United Nations, spoke in harsh terms about the world being held to ransom. The Arabs were unmoved. So the mountain moved to Mohammed. On November 15, Dr.Kissinger spoke of creating a US$25 billion facility for industrial countries to finance their oil deficits, conditional on their cutting down oil consumption by 10%, and so gradually bring oil prices down by controlling increases in demand. This was American acknowledgment that what had been put up by political act, the Americans were unable to put down by a political act.

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Historians may one day note the irony of how a group of deeply religious and anti-communist Arab countries took up the oil weapon, prohibiting oil exports to America, to force the Americans, to force the Israelis to withdraw to their 1967 frontiers and strengthened the communists. That was October 1973. By December OPEC had delivered a coup de grace. OPEC agreed to quadrupling the price of January 1973. Thereby, the whole non-communist industrial world was weakened vis-a-vis the communist countries, both the Soviet Union and People's Republic of China. For neither communist bloc is a nett oil importer. Their economies will not suffer disruption because of this sudden increase in the oil price. In fact, for the Soviet Union, Rumania and China, their oil resources became infinitely more valuable. Now, they can trade their oil on the free world markets, for more hard currency, perhaps convertible currency is now a more appropriate description, since no currency appears hard, bobbing up and down violently in floating currency exchanges. Now, communist countries have more to pay for more Western technology.

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For 28 years, since the end of World War II , the Americans were able to demostrate that free, private enterprise, plus democratic forms of government, provided greater material well-being: plus greater individual liberties than communism. As the primary victor of the last war, America, with Britain's

support, imposed on the vanquished, Germans, Italians and Japanese, various forms of representative government. The Cold War led to the Marshall plan. The Korean War led to the rapid industrial rehabilitation of Japan. Plus GATT and ample oil supplies, seemingly limitless as new fields were being discovered the world over, the Americans were able to demonstrate through Western Europe and Japan that the free world, private enterprise plus democratic, representative government, was infinitely superior to the grey, drab, tightly controlled and planned communist societies.

One Soviet counter was to weaken the West by encouraging anti-colonialism and stoking fire in liberation movements. The Americans countered by urging their West European allies to decolonise quickly while continuing trade and investments. This tactic worked for over a decade. In fact, it worked too well. Prices of raw materials went down, as prices of manufactured goods went up.

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In the competition between democracy and communism for the hearts and minds of the Third World, the West relied heavily on their greater material well-being, more food, more cars and consumer durables, and more and better homes. It was the consumer society, fueled by cheap oil, helped by abundant cheap raw materials, and free trade flows regulated by GATT, and stable

currencies with exchange rates regulated by IMF rules. Now, all these factors are in disarray. Out of an estimated total non-communist world's GDP of US$4,000 billion per annum, 4%, or US$160 billion, will go to the oil producers. The effects of this transfer of real wealth will be several multiples of this 4%, especially since at least half of this sum cannot be spent on investments or consumption in the oil-producing countries.

Some British writers doubt whether democratic forms of government can survive under these conditions, lower GNP and reduced living standards. One man one vote had worked in Germany and Japan since World War II because economic recovery was rapid, and economic growth was equal to rising expectations. Political parties could promise and deliver more each year. Now, conditions have changed. Despite borrowing of surplus petrodollars, there have been smaller GDP or minus growth rates for 1974 for most OECD countries, including America and Japan. Even if the OECD estimate of 1% growth for 1975 is fulfilled, it is still 3% short of the capital transfer of 4% that must be made, assuming that there are no further increases in the price of oil. If oil prices are adjusted for inflation, then the position will be worse. A British political economist, affected by the grim, almost despondent, mood over Britain, doubts if democracy, as it is known in the West, can survive other than in the United States. Only the Americans will have enough for their own needs -- over 70% of

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energy and over 80% of essential mineral resources, to survive the consequences of the vastly altered terms of trade.

Even before this oil crisis, democracy did not provide Italy with stable governments. Now, Italy's credit-worthiness is in doubt. Italian gold reserves had to be transferred to Frankfurt as collateral for a US$2 billion credit in Deutsche Marks. Britain and France have their own share of political and industrial problems. Only Germany's economy is still sound, with a 2-3% growth expected for 1974 and only 7% inflation. The Japanese have had a political spasm caused by a 25% inflation rate and a 4-5% drop in GDP in 1974.

If this crisis can be expected to have such ill-effects on the political democracies of the industrialised world, how much more adverse must it be on the less-developed world? Even during periods of high economic growth, from 1950 to mid-1973, many new developing countries, with no broad economic infrastructure, nor traditions of democratic government, had passed, from the more or less representative governments set up by Britain, France and Belgium to take over independence, into army rule. Sri Lanka had to invoke martial law to counter a Che Guevarist uprising. In the Philippines, after 27 years of independence based on a constitution modelled on the American original,

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lawlessness, corruption and insurgency appeared so intractable that martial law had to be proclaimed.

With Western Europe and Japan less prosperous, now that they have to face staggering balance of payments deficits, the western democracies will appear less superior to the communist system -- either that of the Soviet Union, or Eastern Europe, or that of China and North Korea.

These views I advance are more to stimulate thought and discussion than as a prophesy of inevitable decline. The Third World countries, which found one-man-one-vote difficult to operate, even under the best of economic circumstances before the oil and financial crisis, may increasingly experiment with new forms of government and other systems of organising society. Most do not want the communist system. Indeed, nearly all have neither the capacity nor the desire for the rigorous discipline that communism requires.

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However, communist countries, both the Soviet Union and China, have not given up proselytising. They still believe that history is on their respective sides. And to help the inevitability of the collapse of the capitalist system of the West, in Bucharest, during the UN World Population Conference, both the Soviet Union and China opposed the need for population control. They, the godless, teamed up with the Pope, and his god-fearing disciples in Latin America, in

urging the wealthy countries to be less selfish and to help feed even bigger populations of the poorer world. More mouths to feed, less resources to go round, the greater is the likelihood of social breakdown, and revolutions headed by Marxist-Leninist groups.

But it is not only in these poor countries that Marxist-Leninist groups may succeed. Even in the Middle East, Marxist-Leninist groups among the Palestinians, may well gain ascendancy. And as the Arab oil states spend their increased wealth on faster and greater industrialisation, they will have need for more Palestinian technicians and engineers, amongst whom there will be quite a few Marxist-Leninist. The structure and nature of their traditional societies will transformed by this and by universal education. It will open them to influences from the West and the Soviet and Maoist ideologies. It may be that many thinking men in the governments of these Arab oil producers are aware of these dangers and preparing to counter them. So they may not use their present overwhelming cartel strength to break the free-world economic system of which they form a part. But some western historians, specialists in Arabic studies, doubt if this will be their response.

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In short, no one knows how the world will be altered in 10 years or less. However, everyone knows the world is going through anxious, troubled and

confused period. All of a sudden, many of our fixed terms of reference have disappeared or become less relevant. And it is extremely difficult to get used to the consequences of the new dispensations of the wealth, though not yet of power, in the world.

All I can take comfort in is that Southeast Asia is less stricken than other parts of the developing world. Indonesia exports more than 1.5 million barrels of oil a day and expects US$ 6 billion in foreign exchange, guaranteeing an ample balance of payments surplus. Malaysia, self-sufficient in oil, with a diversity of products from palm oil and tin, is doing well, with rubber prices recovering, and timber awaiting a revival of demand in America and Japan. Thailand is sound in a world of high rice and food prices. The Philippines is doing splendidly with teeming Japanese tourists, high sugar prices, and, who knows, may be offshore oil. Singapore is bearing up. Growth rates will be less than half those of last year's. How we shall do next year depends on whether the West Europeans and the Japanese succeed in persuading the Americans that recession is more dangerous than inflation. But strong and decisive leadership, crucial in a crisis-ridden world, is not self-evident in America, nor so evident either in Western Europe or Japan.

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