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KEYNOTE ADDRESS BY BG (RES) GEORGE YONG-BOON YEO, MINISTER OF STATE FOR FINANCE AND MINISTER OF STATE FOR FOREIGN AFFAIRS AT THE DBS INVESTMENT CONFERENCE 1989 AT WESTIN HOTEL ON 12 OCTOBER 1989 AT 9.00 AM

Political And Economic Changes In The Asia-Pacific Region

I feel greatly honoured to be invited to speak by my old boss and mentor Mr Howe Yoon Chong. He belongs to that extraordinary generation of pioneers who built Singapore into what it is today. By foresight, hard work and a modicum of good luck, they have put Singapore in a position which enables it to ride on the wave of development now sweeping across the world.

These are quite amazing times. Advances in science and technology have set off a surge of economic development in the world not seen since the Industrial Revolution.

The Industrial Revolution was accompanied by profound social and political changes. It was in such unsettled times that Karl Marx in the nineteenth century propounded the view that societies are made up of social and political institutions supported by and supporting underlying economic process. In fits and starts, social and political institutions around the world are adjusting to market pressures. Governments which ignore the market will be defeated by the market. That is the stark reality. We

live in an age of re-structuring, restructuring in the First World in the form of de-regulation and supply-side economics, restructuring in the Second World in the form of glasnost and perestroika, and restructuring in the Third World in the unpalatable form prescribed by the IMF and the World Bank.

Marx correctly analysed that when social and political institutions inhibit or prevent economic development, the end result must either be reform or revolution. I talk about the contemporary relevance of the ideas of Marx because we will be making a grave mistake if we think that the Communist countries of the Second World will simply throw Marx out the window. They will not do that. They will instead re-interpret and update Marx in the same way as Christianity was re-interpreted and refreshed during the Reformation and Counter-Reformation in the sixteenth century. Ideas have a way of keeping human minds in thrall. *

Whatever the theoretical or philosophical rationalization, we are witnessing before us an astonishing increase in the world's productive capacity, an increase made possible by an unprecedented global division of labour. The prospects for a better world in the next decade and the next century are good.

I make no attempt to predict how the world will progress year to year. That is not possible and, in any case, more in your province and your profession than in mine. Serving politicians are generally risk averse. I'm not sure about retired politicians. For example, no one could have foreseen the awful events of Tiananmen in June this year. That came as a complete surprise even to the leaders of China. In the same way, it is foolhardy to forecast the month to month progress of political and economic restructuring in the Soviet Union. The only safe

prediction is that it will be one long bumpy ride into the future. Gorbachev may yet fail and a period of reaction may follow, but at some point in time, good sense will prevail and progress resumed. Big countries don't just collapse and disappear.

Unlike short-term developments, long-term trends are more stable. If this were the year 1800 in Western Europe or the United States, we could be reasonably optimistic about the prospects for economic growth. We would not have anticipated Napoleon fully, or the War of 1812, or the revolutions of 1848, or the American Civil War, but we could have sensed an economic revolution underway on both sides of the Atlantic.

We are probably at another such point in world history. Many say the next century will be the century of the Pacific. That may be an oversimplification. America is not yet licked and has within its body politic enough human and natural resources to rebound. Europe too may rebound as national frontiers are torn down in the Single European Market of 1992 and as the nations of Eastern Europe, with so much slack in their economies, rejoin the European fold. That is all to the good. The whole world will be better off. Countries which do not join in will be left behind and this is now the greatest challenge confronting the countries of Africa and Latin America.

In a single world economy, international co-operation will become very important, to reduce political tensions, to protect the environment, to stabilize the world financial system and to promote trade. Indeed world trade will soar.

In the Asia-Pacific, cities like Hongkong and Singapore become major switching centres, not just for goods, services and people, but also for information and ideas.

Singapore has always been a switching centre. Singapore prospers whenever trade is buoyant. To the extent that world trade will increase in the next decade and the next century, the auspices for Singapore over the long term are favourable. In the short term one can never be sure.

Everything is therefore done to make Singapore as efficient a switching centre as possible. This is fundamental and irreducible. A British minister I met recently told me that he switched through Singapore a number of times to fly from one city to another in Australia because of the domestic airline strike down under. In other words, Sydney to Brisbane through Singapore, Brisbane to Adelaide through Singapore, Adelaide to Perth through Singapore, with no hassle or loss of baggage. The same efficiency is the basis of our port operations, our financial exchanges, our tourist industry, our manufacturing and oil trade, our telecommunications. Even in manufacturing, our advantage is our ability and willingness to chop and change quickly with no emotional attachment to any particular product.

Because we are a switching centre, Singaporeans enjoy a standard of living higher than what they can otherwise get. There is a rent premium which comes from being located at a busy intersection of world trade. This is Singapore's economic strategy, a strategy which should succeed even more in the future as trade in the world and the region increases.

We are very much tied to the economic prosperity of Southeast Asia. Americans may have mixed feelings about the Vietnam War but that containment of Communism gave ASEAN the years of peace and stability it needed to take off economically. That peace and stability is still very important for ASEAN and Singapore which is why Singapore supports continued US military presence in Southeast Asia.

A stable and prosperous Southeast Asia is good for Singapore because there will otherwise be very little trade to switch.

Farther away, Hongkong plays a similar role. The political uncertainties there are maddening but I cannot see the Chinese making an about-turn. It is not possible. The problem in China is finding the right balance between economic and political re-structuring, bearing in mind the nature of Chinese society. It cannot be a smooth development because of the stability and inertia of Chinese civilization and the sheer scale of the transformation involved, a transformation encompassing over a billion people scattered over such an immense land area. There will be twists and turns like water from the mountains finding its way to the sea. But the general flow is unalterable. I am therefore optimistic about the future of Hongkong. It will remain a switching centre for the Chinese mainland. The trick is how to calm nerves in the meantime. Of course it is one thing from a safe distance to prognosticate but quite another to be living there as 1997 approaches without a sure alternative place of abode.

Singapore offers a backstop to the outflow from Hongkong. Compared to Vancouver, Los Angeles or Sydney, we are in a different category because Hongkong people or Hongkong money which come to Singapore will remain in the region. Some will go back to Hongkong, but maybe now carrying Singapore passports or flying Singapore flags. Singapore, Hongkong and China will all benefit from this arrangement.

The result in the future may be a twinning of Hongkong and Singapore, two major switching centres, two big hubs connected to each other by a web of economic and other links, one serving the vast Chinese hinterland, the other serving the fast developing countries of Southeast Asia.

The process may already have begun. There are precedents in the past. Before the Second World War, many businesses and families straddled Singapore and the southern Chinese cities of Guangzhou, Shantou and Xiamen. Singapore's link to Madras is of a similar kind, a link which is bound to become more important as the Indian economy expands. And of course Singapore's economic and familial links to the cities and towns of Malaysia have never been severed despite political separation.

All throughout the Asia-Pacific, politics is scrambling to keep up with economics. New institutions for political and economic co-operation are needed. ASEAN as a regional organization will become more important. The key factor here is Indonesia's commitment. It is more in Jakarta's interest for ASEAN as a group to cohere and progress than for Southeast Asia to be divided and balkanized. It is also a matter of time before a new Pacific forum will come into being.

I have sketched a long-term scenario which is optimistic. It is not unrealistic. We can, however, be sure that the way to that long term will not be plain sailing. That is not in the nature of the historical process. But amidst the turbulence and the uncertainty, there is opportunity, and it is that opportunity which brings us all here today.

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