

**STATEMENT BY THE PRIME MINISTER ON
WORLD ECONOMIC SITUATION AND TRENDS
AT THE COMMONWEALTH HEADS OF STATE
CONFERENCE, IN SINGAPORE ON 15TH
JANUARY, 1971**

A great deal of spade work and much effort have already been spent in formulating development strategies for the developing countries to progress during the 1970's. There are the declaration on the Second Development Decade, the Pearson Commission Report, the Jackson Report and discussions in various forums including UNCTAD, the World Bank and IMF.

We are told that economic progress is being achieved in the developing countries as a group, albeit very slowly. According to recent World Bank data, the rate of growth for seventy four developing countries in 1969 averaged 6.7% which is an improvement on the 5.9% recorded in 1968 and the 5.1% average for the years 1961 to 1965. Similarly *per capita* income for these seventy four developing countries was estimated to have increased by 4.1 % in 1969 compared with increases of 3.3% in the previous year and 2.5% per year during 1961 to 1965.

While some comfort and confidence can be derived from these mathematical averages, one is also conscious of the significant differences in the performance of individual countries which often depend on the fortune of their export products, the stage of development of their economies and their population growth rate. At the same time one is aware of the increasing political and social problems that arise in many countries from slow and uneven economic development, from growing unemployment, especially among the young, from over rapid urbanisation, and from inappropriate educational systems and methods of government, which can only be improved slowly over time.

Each nation must find its own salvation. Each must work out its own solutions to fit its individual needs and problems. In Malaysia our drive for economic development must also take into account the need to maintain balance, not only as between sectors and

regions but also as between communities and population groups. Each nation must itself generate sufficient dedication and will to meet and overcome its problems.

There are, however, areas where international co-operation and assistance can help to make some of these national problems more manageable. It is on some of these areas of co-operation that I want to touch briefly.

Foremost and of continuing major concern to a country like Malaysia is the need to formulate a scheme that will ensure fair and stable prices for primary commodities, especially those on which a large number of developing countries are dependent on. I am of course aware of the considerable discussions that had taken place in UNCTAD and other forums. It is our belief that the degree of international co-operation shown in this important area have continued to be insufficient. Progress has been disappointingly slow. I am also surprised that in the specific case of tin, where there is an international agreement to stabilise prices, the whole burden of the exercise is still placed on the producing countries, instead of being more fairly apportioned between producing and consuming countries which also benefit from stable prices. In addition resort to the new buffer stock facility established by the IMF is still made subject to considerable limitations. One must therefore hope for greater willingness to face the commodity problems.

In regard to other trade measures, we would also urge that early steps be taken to implement the various schemes of generalised preferences. For most developing countries, it is not sufficient to depend only on their limited domestic markets. If they are to grow satisfactorily they must be given opportunities in an expanding world trade and have access to high income markets of developed countries as well, to sell their less sophisticated manufactured goods semi-processed and processed raw materials. It is only in this way that they can hope to industrialise sufficiently, and generate employment sufficient to absorb the rapidly growing number of workers in their urban centres.

A most unsettling factor on the international scene is the continuing inability of the industrial countries to curb inflation. Inflation has become a major and widespread problem to most industrial countries. The repercussions on developing countries need to be stressed.

For a primary exporting country like Malaysia, the impact on its terms of trade is obvious. While the price of Malaysian rubber exports continue to decline, the prices of her imports of manufactured goods continue to rise. This imposes a heavy strain and an unfair burden.

Continuing inflation in industrial and developed countries also affects the availability and cost of capital, which developing countries need to obtain. In the developed countries, the inflationary pressure manifests itself not only in price increases but also in balance of payments difficulties. Consequently there are apparent needs to restrict the export of capital and there are always the vocal groups who will press for cutbacks in development assistance and to insist on the tying of aid funds to exports from the countries making the funds available. In some cases it becomes difficult to distinguish assistance from export promotion. Malaysia has often been criticised for not using its available lines of credits when she can obtain the required goods more cheaply from other sources. The tying of aid has been invariably and strongly condemned, for example in the Pearson Commission's Report. It is true that some moves have been made to untie aid funds, but the progress is very slow and hesitant; and we attach considerable importance to progress in this field.

In their attempts to contain inflationary pressure, it is reasonable to say that many developed countries have placed too heavy an emphasis on monetary restraints compared to budgetary or fiscal measures. It is a reflection of the heavy emphasis placed on restrictive monetary policies that interest rates in the major capital markets have soared to unprecedented levels, and have remained at these high levels. Consequently even when there is access to these capital markets, the funds can ably be obtained at very high costs. It is a sad reflection of the current international financial situation that even the World Bank has increased its lending rate to 7 1/2% while the Asian Development Bank is now charging 7 1/2% on its loans.

The world monetary situation is characterised by very high interest rates, unsatisfactory balance of payments positions and pressure to cut back particularly official aid flows, which have remained stagnant, and therefore a declining percentage of rising income. The obvious repercussions on developing countries are to increase the cost of borrowing and their debt service burden, and

to make development planning more difficult and uncertain. This aspect of the international financial situation needs to be emphasised and reiterated, since we do not see any tangible improvement in the situation.

Finally as the Commonwealth countries meeting here today, with few exceptions, also belong to the Sterling Area. I should mention our uncertainty about the future role of sterling. It is a fact to be greatly welcomed that sterling today is very much stronger than in 1967. This improvement is of course linked to the welcome improvement in the basic British balance of payments position, and is also buttressed by the sterling guarantee agreements under which member countries undertook to maintain agreed minimum specified proportions of their reserves in sterling. These agreements are to be reviewed this year. Clarifications regarding the role of sterling in the coming years, especially if Britain is to join the EEC, would help to dispel some of the current questionings.