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Singapore Government

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SPEECH BY SINGAPORE PRIME MINISTER GOH CHOK TONG TO THE ASIA SOCIETY AUSTRALASIA CENTRE IN SYDNEY ON TUESDAY, 2 MARCH 1999 (9.00 PM – SYDNEY TIME)

THE UNFINISHED ASIAN CRISIS

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Thank you for giving me this opportunity to speak on a topical subject, "The Unfinished Asian Crisis." I would like to focus on its geo-political implications.

2 I last visited Australia five years ago. East Asia's growth then seemed unstoppable. Australia took the strategic decision to supplement its traditional ties with Europe and North America with closer integration into the region. But East Asia now looks quite different. Gone is the bounce of self-confidence and the immediate prospect of high growth. Would Australia's interest in Asia diminish?

3 The regional financial crisis has devastated economies and toppled governments in East Asia. All but a handful of economies slipped into recession. Worst hit was the Indonesian economy which contracted by 16 percent last year.

4 I am apprehensive about possible developments in the near future but remain optimistic about the long term. Every crisis must eventually pass. The fundamentals and infrastructure that made for three decades of growth are still there. Once the structural flaws in the region's financial and banking systems are fixed, the crisis-hit economies will bounce back, leaner and stronger.

5 Those countries that willingly swallowed bitter IMF medicine are already showing tentative signs of recovery. Markets and international investors are making crucial distinctions between countries on the basis of their response to the crisis. Those that respond best to market expectation will recover first.

6 Australia and Singapore have weathered the regional financial crisis relatively better than others thanks to our sound fundamentals, strong institutions and prudent macro-economic management. We did not have to make painful basic structural reforms. We will, nevertheless, have to reckon with several more years of slow or negative growth in the region.

7 In Singapore, we are using this period to cut costs, retrain workers, upgrade capabilities, increase competitiveness and further deregulate and open up our economy, especially the financial services sector. We are positioning ourselves to ride on the region's growth when it resumes. Australia, too, is in a good position to take advantage of the next phase of growth.

#### The Future of Regional Prosperity

8 But the economic crisis has mutated into political challenges. After years of sustained growth, the sudden and sharp drop in jobs and standard of living was politically and socially traumatic. Each of us also has to manage the political fallout from slow or negative regional economic growth. The challenges are most evident and compelling in Indonesia. The nearest of the Indonesian Archipelago, the Riau Islands, are only a short ferry-ride away from Singapore. Your Northern Territory is separated by a larger expanse of water from Indonesia, but not significantly so in geopolitical terms. Both of us cannot but wish for the best developments in our largest neighbour.

9 The economic crisis catalysed political change in Indonesia. Political change in turn has made it more difficult to deal with the economic crisis. Politics and economics are now inextricably intertwined.

10 When the crisis first erupted, former President Soeharto thought that he could ride it out as he had ridden out so many others before. But this was a different type of crisis. It was a battle against an invisible opponent – the market. The market could not be defeated by military orders and strategies. The panic in the market overwhelmed his government and resulted in his exit.

11 The political change came in circumstances which nobody predicted. The consequences were complex, far-reaching and unsettling. Ethnic and religious

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fault-lines have opened up. The seemingly impossible has happened – the Indonesian Government now seems prepared to consider independence for East Timor.

12 The genie of change is out of the bottle. But can a political system built up over 30 years be replaced overnight? If the Soviet Union offers a lesson, it is that the process of change itself can be very destructive.

13 New social and political forces have been released, making for a complicated and uncertain political equation. Fundamental issues about the role of the military, the place of the minorities and religion in the polity, and the relationship of Jakarta with the outlying provinces have emerged. The current government has to cope with these volcanic pressures. It is not easy.

14 Half the Indonesian population is living at or below the poverty line. Almost forty million Indonesians are unemployed and the number is growing. Law and order is breaking down. Crimes have increased. Ethnic and religious differences which had been kept under check have resurfaced with tragic consequences. Indonesian society has become brittle.

15 It will take time for the new dynamics to settle down. The immediate prognosis is for greater uncertainty. The general election in June, and the election of a new President in November, will be crucial milestones.

16 This year's general and Presidential elections will not in themselves resolve all the fundamental political questions that are now being debated. Even after elections, the newly-elected Indonesian leader will still have to reckon with a complex and fluid political situation. But an essential condition for stability is the population's perception of how the elections are conducted. A result that is accepted as legitimate and fair by the majority of Indonesians will lower the level of tensions and pave the way for political stability and restore investor confidence. An outcome that is considered otherwise will result in political upheaval.

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17 Even with fair and clean elections, a result that does not meet the people's aspirations will prolong political instability.

### Triangular Relationship of US, Japan, China

18 Politics will be a crucial factor even in those countries which are already beginning to recover. Indonesia is not in this respect unique. But what happens in Indonesia has a defining influence. In the 1960s, Soekarno's Indonesia unsettled the region. In the 1980s and 1990s, we all benefited from a stable and prosperous Indonesia. Indonesia's stability affects regional stability. What happens in Southeast Asia will in turn have broader effects.

19 It was fortunate that when the regional crisis broke, relations between Japan, China and the US were relatively stable. The situation would otherwise have been worse. The triangular structure defined by relations between these three major powers provided the peace for Asia's growth and prosperity. Asia's recovery will depend on this structure holding, enabling the region to focus on domestic reforms. But the equilibrium is not to be taken for granted.

20 Japanese banks and companies are highly exposed in Southeast Asia. Japan is in its worst recession since the Second World War. In recent months, Tokyo has made determined and repeated efforts to stimulate its economy, but there are still no clear signs of recovery. China's relationship with Southeast Asia is complex and was not always easy. Beijing has made a valuable contribution in not devaluing the renminbi. But it is under great pressure, trying to maintain internal stability with growth slowing and daunting structural problems.

21 Developments in Southeast Asia could easily affect China and Japan, unsettling their economies and upsetting the balance between them. This could unravel the security architecture that the US, together with Australia and its other allies, had put in place at the cost of much blood over the last fifty years. A revival of tensions in the Asia-Pacific could have global consequences.

#### International Systemic Risk

22 It is evident that what began as an Asian financial crisis now poses an international systemic risk. Asian economic turbulence has made financial markets everywhere jittery. Russia and Brazil are already tethering on the brink of an economic collapse.

23 Continued healthy growth in the US and Europe has stabilised the world economy and moderated the worst effects of the Asian economic crisis. High consumer spending is the key reason for strong US growth. But US household savings are low and the US current account deficit has increased. US consumer confidence comes largely from the bull run in Wall Street.

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24 Market confidence is notoriously fickle. Some analysts see a bubble in the US stock market. It is in the nature of bubbles to burst sooner or later, and this one has lasted longer than most. Asia-Pacific tensions, caused by a political or security crisis in Southeast Asia, could trigger another spiral of devaluation, shaking confidence and bringing the entire international financial edifice down. The risks are thus global. There is, as US economist Paul Krugman has recently pointed out, "a definite whiff of the 1930s in the air". If the worse occurs, the effects will not just be economic. History reminds us that a global economic recession has political and military consequences.

#### The Future of ASEAN

25 It is, therefore, not surprising that many countries, Australia among them,

are watching developments in Southeast Asia closely. There are anxieties about ASEAN's future, understandably so since its largest member, Indonesia, is preoccupied with serious internal problems.

26 The Asian crisis has badly dented ASEAN's reputation and taken the gloss off its image. As the internal situations of crisis-hit members worsened, bilateral relations came under stress. New tensions emerged. ASEAN's expansion with new members at different levels of economic and political development has also made decision-making clumsier and slower. With key members in an introspective mood, there have been no bold new initiatives.

27 I am, however, a strong believer of ASEAN's long-term potential.

28 To be sure, ASEAN faces many serious challenges. But we have successfully weathered stronger political storms in the past. The current level of intra-ASEAN tensions is not as high as those provoked by the Philippines' claim over Sabah or Indonesia's confrontation of Malaysia or Singapore's separation from Malaysia. Indonesia was at least as internally preoccupied in the late 1960s as it is today. ASEAN is stronger now than in the 1970s. This storm will not sink us. ASEAN will survive because, whatever our differences, all the members have an overriding interest in preserving it.

29 ASEAN's fundamental raison d'être as a means for managing diversity and differences in Southeast Asia is as valid as ever. ASEAN's critical importance as a stabilising force remains. Southeast Asia is intrinsically heterogeneous. Primordial cleavages of race, language and religion can never be entirely erased. They, therefore, have to be managed. If ASEAN did not exist, it would have to be invented to cope with today's regional problems.

30 ASEAN will not fail. Stresses and public recriminations have not forced a retreat from ASEAN's declared goals of greater regional trade liberalisation. There has even been a modest acceleration. Liberalisation is never easy even under the best of circumstances. To maintain a steady course in difficult times is no mean achievement. ASEAN is presently in a phase of consolidation. ASEAN will steam ahead again when conditions become propitious.

31 The continued confidence of ASEAN's dialogue partners in ASEAN's future is crucial. You can help us succeed by believing that we will overcome our present problems. Australia's strong commitment to ASEAN will be appreciated long after the present storm subsides. Australia's contributions to IMF assistance packages, in bilateral aid and humanitarian assistance and through your support for and role in regional institutions such as APEC, the ARF and the FPDA, will pay handsome dividends. They have underscored Australia's long-term commitment to political, strategic and economic engagement with Southeast Asia.

32 Like Singapore, Australia has always been globally engaged. Like Singapore, Australia is also committed to Asia. Australia's economic and strategic future is firmly tied to the prosperity and stability of Asia. More than half of your exports are to ASEAN, Japan, South Korea, China and Hong Kong. The total volume of your

trade with these Asian economies is twice that of your trade with the US combined with the UK and Germany, your two largest European trading partners.

33 Australia's inescapable Asian destiny does not diminish the reality of your deep historical links with North America and Europe. Herein lies the opportunity for Australia to make a unique contribution to the resolution of the Asian crisis.

#### The Future of Free Markets

34 Global prosperity since the Second World War has been built on the foundation of a free and open world economy. But globalisation is now being questioned in some quarters. Free markets create unprecedented prosperity. But there is also no respite from their relentless pressures.

35 Announcing capital controls last September, Prime Minister Mahathir of Malaysia explained that "people can no longer stay with the so-called free market system". Others have observed that the price of implementing IMF structural reforms is half the Indonesian population going into poverty. They asked whether this was not too high a price. Given Indonesia's current state, the question is not rhetorical.

36 These opinions have struck a chord in many emerging economies.

37 When the free market works well, everyone wins. But in the short term, it can sometimes go berserk. Existing international mechanisms like the IMF were never meant to cope with a world in which capital sweeps across political boundaries at electronic speeds. With prosperity have also come new traumas, such as widening income gaps, middle-class job insecurity in the US and endemically high rates of unemployment in Europe. These are but manifestations of the same phenomenon that many have now come to believe lies at the root of the Asian crisis.

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38 Disillusionment with the market is not just an Asian aberration. Respected western economists are also debating the downside of the global market and examining alternatives to deal with it. Advocates of a retreat from free markets and other simplistic solutions were prominent in the last two US Presidential elections. They still represent powerful currents of opinion in the US and Europe. A shelf of recent books questioning the global market could be collected. They have obviously been published in response to a felt demand. Australia too has not been immune from similar temptations.

39 The Asian crisis has given a sharper edge to such intellectual and political currents. Clearly, if the real problems of global markets are not addressed, it is only natural that countries everywhere will, sooner or later, experiment with alternatives. It is precisely because Asian economies were so successful for so long that if their loss of faith in the market is not contained early, it will have a powerful contagion effect.

40 Global markets create both winners and losers. But there may only be losers if there is a fundamental shift of the intellectual and political paradigm in which economic solutions are sought.

41 The Clinton Administration has recognised the need for leadership to deal with the challenges posed by the new global capital markets and the global economy. It has taken a number of initiatives ultimately designed to create a new international financial architecture. The fledging G22 process, supported by Australia and Singapore, is one such innovation. But American efforts are hampered because there is no clear consensus in the US on either the problem or its solution. Nor has the US been able to persuade the other G7 economies, particularly those in Europe, to take urgent concerted action.

42 Behind European and American hesitations lies one smug but unspoken assumption: that the recent failure of many brands of Asian capitalism has proved that there are no alternatives to western models of capitalism anywhere in the world. Yet, ideologically driven approaches to the problems that fail to appreciate the nuances and diversities of Asia will be counterproductive.

#### Conclusion

43 With its dual Asian and western identity, Australia is uniquely placed to act as an interface. Building on your efforts to persuade the IMF to take a less rigid approach to Indonesia, Australia should take the lead to convince the US and Europe of the need for finesse, tolerance for diversity and of urgency of action. Simultaneously by engaging itself ever more deeply in the region, Australia can persuade the badly hit Southeast Asian countries that there is no alternative but real reform.

44 This is a delicate task that will require patience, sensitivity and the support of a sophisticated public understanding of the issues and stakes. But it is worth trying. If Australia can help bring about constructive solutions, you will have channelled the unfinished Asian crisis into a productive path with huge economic payoffs. Most importantly, Australia will have made a vital contribution to the peace and prosperity of Asia.

Thank you.

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