Release No.: 19/MAY

02-2/94/05/19

SPEECH BY SENIOR MINISTER

MR LEE KUAN YEW AT THE ASIA SOCIETY CONFERENCE

ON 19 MAY 94

The rise of East Asia in the world economy :

Geopolitical and geo-economic implications

The economic resurgence of East Asia is palpable. From 1982 to 1992, East Asia's average annual GDP growth rate was 4.7%, for North America 2.7% and Europe 2.4%. The combined GDP of East Asian countries was only 4% of world GNP in 1960, 25% in 1992, and will be 33% by 2010. In Purchasing Power Parity (PPP) terms, East Asia GDP is already larger than that of either the US or the EU, and will be bigger than both combined in 2005.

National Archives of Singapore

2 Such major shifts in economic weight will significantly affect geo-economical and geopolitical balances. A new concert of powers for global stability must include the US, Europe, China, Japan and Russia. These five will have to exercise leadership in various multilateral forums, and not just working

amongst themselves. The challenge for America in the next two decades is to manage its transition from sole superpower to one of several in a new world order.

3 The United States remains the largest economic and military power. Since the end of World War II, the US has lived up to its vision of a global order, in which other nations were encouraged to live peacefully and to prosper in a liberal multilateral framework under IMF, World Bank and GATT. No leading nation in history has been so generous to allies and vanquished alike as the United States.

4 However, now that the US is troubled by economic problems and domestic uncertainties, this largeness of spirit is not so much in evidence. Early this year, East Asia saw a certain meanness of spirit Since 1986, the United States has pushed relentlessly for a successful conclusion to the Uruguay Round. When the European Community became a stumbling block, the US posed to them a counter force in APEC. The successful APEC Summit in Seattle was a gentle hint to the EC. that if GATT failed, the US and the Asia-Pacific could form a trading group far surpassing the EC. now known as the European Union.

National Archives of Singapore

5 But after the APEC nations played their part at the Seattle Summit, they were astonished that before signing the Marrakesh conference in April this year,

the United States supported the French attempt at the last minute to introduce new clauses on " social dumping" into the agreement. This move was strenuously resisted and now has been put on to the WTO agenda.

6 The US administration also pressured Indonesia and Malaysia on their labour policies, their low wages and their restriction on trade union activities. Asians believe the intended beneficiaries are not workers in Indonesia or Malaysia but American Trade Unions belonging to AFL CIO who fear losing jobs to low wage countries. Such American pressures have contributed to strikes and riots in Medan, Indonesia, to the detriment of Indonesia's workers.

7 Other recent moves have raised concerns over America's strategy in East Asia. Japan's new PM Hosokawa stood for political and economic reform which would have opened up Japan's economy and given Japanese consumers the benefits of the stronger yen. Hosokawa needed breathing space and encouragement.

National Archives of Singapore

Instead he was pressured when he visited Washington in February. The USTR released a report naming Japan as guilty of unfair trade practices. The US re - invoked Super 301 in order to push its demands for quantitative indicators of Japanese imports of US automotive parts. The US sought a bilateral deal, not multilateral concessions. East Asia was disappointed that the US was so ready to abandon long term benefits and high moral ground for short term gains.

8 Japanese politics is at a turning point. A non-LDP government with a younger generation has taken charge. For the first time, a Japanese Prime Minister of the younger generation, Tsutomu Hata, has declared that Japan should revise her peace constitution to allow enforcement of the right to collective security. The power behind Hata is Ichiro Ozawa who has long wanted the peace Constitution changed so that Japan will become a “normal country". It will be a setback if after becoming a "normal country", Japan eventually goes nuclear to defend itself against other nuclear powers. A basic policy of the United States since 1945 has been to have Japan an ally protected by the US umbrella. This policy is strongly supported by all East Asians. Any sign that this umbrella is not completely reliable will lead the Japanese further along this road to a total defence capability, and thus to become a separate force. This will mean a more complicated and a more dangerous world.

National Archives of Singapore

9 US policy towards China is more mystifying. Massive economic reforms have opened up China. If liberalisation is the goal of US policy, then more trade and investments are the answers. Instead, the US threatens to derail this process by cutting off MFN. The State Department draws up its report on China's human rights like a headmaster drawing up a pupil's annual report for the parents. This may make Americans feel good and Chinese look small, but East Asians are uneasy over its long term consequences.

10 The first question I ask myself is whether China's growth into a global power can be stopped. I believe it cannot. But it can be slowed if the United States imposes an economic embargo. I believe also that Japan and EU will not join in such a US policy. So it will be a costly and futile effort. It is likely that with trade , investments and technology transfers, even without US participation, China will have the per capita level of present day Taiwan in about 25 years. If the US tries to thwart China's growth, China will surely want to return the compliment when it can do so. This cannot be the future the US desires.

National Archives of Singapore

11 The alternative policy is to engage China and influence it whilst it is at an early and formative stage. Never in its history have the Chinese been more willing to learn from the world, shedding their Middle Kingdom mindset. They want to participate in the world economy, to be an active part of GATT, IMF,

World Bank, all the UN agencies and APEC, A younger generation of Chinese will learn that it is in China's long term interests to "play by the rules" rather than to get her own way by superior force. If China's brightest and best are exposed to other cultures through studying in the US, Japan and Europe, they must become less ethnocentric. They will realise that the planet Earth is very small, very interdependent and very vulnerable; that a stable world needs a strong set of rules to govern the behaviour of big and small countries and that military force is too destructive when others are nearly as powerful.

12 There is a vast difference between the world view of the Chinese in Taiwan and the Chinese on the mainland. The Taiwanese have learned from America and benefited from economic cooperation with it. Many thousands go very year to study in America. Half of Taiwan's cabinet have American PhDs. The Chinese on the mainland can be more like the Chinese in Taiwan. The attitudes of the mainland Chinese will have to depend on how Americans, Japanese and Europeans interact with them and influence their views of the world.

National Archives of Singapore

13 China will change. With an economy open to foreign trade and investments, a new generation of educated people will emerge in 30 years. 60% to 70% of the people will be in towns, with access to the outside world. The people will travel and the mindset of the Middle Kingdom will dissolve. They

will recognise that China has the responsibility to cooperate with the major powers to maintain stability and growth in the world.

14 This is the fundamental choice that the United States has to make : to engage or to isolate China. You cannot have it both ways. You cannot say you will engage China on some issues and isolate her over others. You cannot mix your signals. EU and Japan have moved to a policy of engagement. They will not join the US in its annual ritual chastisement of China's human rights and democracy shortcomings. Both German Chancellor Kohl and French Premier Balladur visited China recently to promote the interests of German and French firms in China. Premier Hosakawa said recentlly in China: "It is not sensible for Western countries to impose their values of democracy in other countries." He also told Premier Li Peng that although Japan believed in human rights as a "universal" value, Japan did not intend to let China's human rights policy get in the way of bilateral relations.

National Archives of Singapore

15 Few nations have fought so bitterly in the twentieth century as Japan and China. Neither wants a revival of past enmities. Japan learned that shutting out the world led to its backwardness. So with the Meiji Restoration, it set out to learn assiduously from Germany, Britain, France and America, sending out innumerable missions. When Japan made too fast a progress, the Europeans and

Americans tried to stall it by withholding technological cooperation and restricting their markets both in Europe and in their empires. In response, Japan set out to build and later capture an empire for itself. This led to war in the Pacific in World War II, and Japan's destruction . It cost the Americans, British and Dutch dearly, Americans paid bitterly in lives as they island-hopped their way across the Pacific towards the Philippines and Japan.

16 This experience made the US use the atomic bombs on Hiroshima and Nagasaki. It deeply affected American thinking on Japan. After China became Communist in 1949, America set out to make Japan an ally and helped its re-industrialisation. This policy changed Japan and for the better. Surely it is possible to shape a policy to achieve similar change in China although the circumstances are very different. It is not impossible to make China more aware that its interdependence with other industrial countries will not cease when it has become industrialised, that it shares a major responsibility with the other great powers for world peace and stability, and that the world needs international organisations to enforce the rule of international law and convention.

National Archives of Singapore

17 No country relishes the emergence of a strong China that it is resentful and hostile to the established powers, as the Soviet Union was. The United States succeeded in converting Japan from a fearsome adversary to a peaceful ally. The US is under no obligation to accelerate China's industrialisation in the way it did for Japan. China does not have to become an ally of the US for world peace and stability but it should not be made into an adversary.

18 This new world order requires a restructuring of international decision-making institutions to reflect the power balance of the world in the world 2000 and beyond, not that of the world in 1945 when World War II ended. Europe will have to adjust to Germany's different weight and the US and Europe together have to adjust to China's and Japan's growing weight. This will mean changes in the UN, the IMF, World Bank and the forthcoming World Trade Organisation.

National Archives of Singapore

19 As a nascent power, conscious of its enormous potential, China can afford to go out of its way to reassure its neighbours in Southeast Asia that it is a friendly and non-expansionist power. It can make its intentions and capabilities more transparent. For example on the Spratly Islands, China can reduce anxieties over its intentions by being more explicit on what it means when it said that it is willing to share these resources. The extent of China's claims of sovereignty over the South China Sea can be clarified in forums like the Jakarta

workshop. Small Asian nations are too prudent to express their fears publicly. But when Western critics write about the " China threat", they mine a lode filled with apprehensions and fears. It is worth China's while to make the effort in friendly and frank dialogue to increase the level of trust and confidence between itself and its neighbours.

20 China's neighbours are unconvinced by China's ritual phrases that all countries big and small are equal or that China will never seek hegemony. China can afford to be more open and transparent. Even then, it will take many years before these smaller neighbours are fully persuaded by China's words and actions. For example, when a Chinese spokesman commented on the anti-Chinese riots in Medan in April, he revived old fears that China has not abandoned its claim to the loyalties of all ethnic Chinese wherever they are. This comment was not necessary.

National Archives of Singapore

21 China's position on issues of world security like the proliferation of arms in the region, the North Korean nuclear crisis, the flow of illegal immigrants and the outflow of drugs from the Golden Triangle, can banish scepticism of the big powers of China's long term intentions.

22 At present, ASEAN countries have two settings in which they can engage China on peace and security in the Asia-Pacific: APEC and the ASEAN Regional Forum. The latter will be formally launched in Bangkok in July this year. The United States is a key player in this transition to get a new dispensation. The US more than any other nation can help to make them effective confidence building and tension reducing institutions. The smaller countries of East Asia, including Korea, want a US which will participate in and benefit from the rapid economic growth in East Asia. This will make the US more able and willing to provide the stabilising anchor force around which the smaller countries can cluster.

23 The future of the Asia-Pacific and of the world in the next 20 years depends on whether a stable triangular balance will be established between the US, Japan and China, with Japan closer to the US. That this objective is desirable is not new. What is new is that in the last few months, US policies seem at odds with this objective.

National Archives of Singapore