

Keynote Address by Mr Goh Chok Tong, Prime Minister of the Republic of Singapore Eighth General Meeting of the Pacific Economic Cooperation Conference Singapore, 20 May 1991

As we approach a new millennium, the prediction that the 21st century will be the Pacific century appears set to come true. Today, the Asia-Pacific is the fastest growing economic region in the world. It currently produces 48 per cent or nearly half of the world's GNP and has more than a third share of world trade. In the last decade, the Asia-Pacific economies grew at an average of five per cent a year. The average for Western Europe was only 2.5 per cent. The Asian NIEs grew even faster at eight per cent per annum. And they are being chased by other Dynamic Asian Economies. With a population of 1.9 billion, the Asia-Pacific region certainly has the potential to become an enormous market for consumer products in the next century. It is no wonder that it has almost become a cliché to say that the 21st century will be the Pacific century.

But I do not believe that the PECC brings together leading thinkers and policy-makers from the Asia-Pacific region only to indulge in self-congratulation. There have been many positive developments in our region to cheer us on. But history has also demonstrated that over-confidence can lead to downfall. I thought, therefore, that instead of merely reconfirming in your minds that the Asia-Pacific region is on the right flight path, I should try to challenge some assumptions which we may have accepted too easily.

I intend to do this in two ways. I would like to ask whether it is not possible that the 21st century could be the century of Europe rather than the Pacific century. I would like to pose several basic questions that the Asia-Pacific countries will have to answer before the 21st century can become the Pacific century.

First, let us compare the relative strengths of Asia-Pacific and Western Europe. How broadly based, for example, is the economic development of the Asia-Pacific region? How much of the region's economic strength is due only to two enormous economic giants in our midst, the US and Japan? The answer is revealing. Although the Asia-Pacific accounts for 48 per cent of the world's GNP, 40 per cent comes from the United States and Japan. Western Europe's share of the world's GNP is under 30 per cent, but it is much larger than the eight per cent for the Asia-Pacific region minus the US and Japan. Also, in terms of trade, Western Europe surpasses the entire Asia-Pacific, including the United States and Japan. It accounts for 42 per cent of global trade compared with Asia-Pacific's 38 per cent.

Western Europe is therefore a formidable economic player. More important, it has the potential of growing bigger. The EC is progressing smoothly towards the Single European Market (SEM). Paolo Cecchini in his book, *The European Challenge, 1992: The Benefits of a Single Market* estimated that

when the SEM is established, in the medium term, Europe's combined GDP could grow by an *additional* 4.5 per cent, or adding about US\$220 billion to the European Community's GDP. This increase of US\$220 billion alone is eight times the size of Singapore's GDP, three times the size of Indonesia's and about the size of the entire current GDP of the six ASEAN countries. It is a revelation, isn't it, that just by removing trade restrictions and increasing competition, the EC countries can generate an additional income which equals the total for all ASEAN countries.

The potential growth for Europe is even greater if the EC and EFTA economies are integrated, and even more so if the Eastern and Central European economies can become successful free market economies. Looking over the horizon, it is conceivable that the Soviet Union, or the sum of its parts, could also be integrated into Europe. Then with a combined population of over 700 million, Europe could well pull the centre of gravity of the world's economy towards it, away from the Pacific Basin.

The attraction of Europe is already evident from the latest flow of U.S. investments. The December 1990 U.S. Department of Commerce Survey showed that U.S. investments in Europe would increase by 11 per cent, compared with seven per cent for the Asia-Pacific. The increase in U.S. investments worldwide is estimated at six per cent. One can only conclude that U.S. corporations found Europe more attractive because of the anticipated benefits of the Single European Market.

Europe has another advantage over the Asia-Pacific region. As a result of two disastrous world wars, the populations of the European continent are war-weary, and a more stable regime of political relationships now exists. Although the rise of nationalist sentiments in Yugoslavia and the Soviet Union makes one less confident of a happy ending for Europe, few would predict the outbreak of a major international conflict on that continent.

This relative strength of Europe becomes clearer when one looks at some of the political and economic challenges faced by the Asia-Pacific region. Despite growing economic integration, Asia-Pacific lacks political cohesiveness. In Europe, several European institutions have been created to provide the glue for regional cohesiveness. They range from NATO and the Conference on Security and Cooperation in Europe to the family of EC institutions. The Asia-Pacific region, by contrast, is divided. Old disputes like Cambodia and Korea, traditional border disputes in the South China Sea and waters further north, all these provide potential ground for conflict.

There are many major challenges that we in the Asia-Pacific region will have to come to terms with before we can do better than Europe.

First of all, it is absolutely crucial that the US-Japan alliance should remain intact in the coming decades. All other alternatives would be worse for the region. But the two countries are evolving a new relationship. For over 45 years, Japan comfortably accepted the U.S. nuclear and security umbrella and American political dominance in exchange for the freedom to grow economically. Today, that relationship has grown from dependence to inter-dependence. The deficit-ridden U.S. economy needs Japanese capital infusions as much as Japan needs the U.S. market. The U.S. Government, as demonstrated by the recent Gulf War, cannot afford the financial burdens of major overseas military commitments. Japan's Treasury had to make a sizable contribution to the Gulf War. Hence, the nature of the Japan-U.S. relationship has to change. A new one has to emerge. What will this new relationship be? Will it ensure the continued prosperity of the Asia-Pacific region?

Next, in tandem with the U.S., the rest of the Asia-Pacific region also has to come to terms with a resurgent Japan. A new dialogue has to begin with Japan. But for the dialogue to succeed, Japan must win over its neighbours, neighbours who still bear clear scars from World War II. Japan has already expressed contrition for its past behaviour in Korea, China and Southeast Asia. Such words matter. However, deeds will speak more eloquently. Japan can win over the trust of its neighbours by demonstrating to them the same magnanimity of spirit that the United States once displayed towards Japan. Japan should make major investments in the Asia-Pacific region. It should transfer technology,

skills and management to its Asia-Pacific neighbours. This will enable the region to grow, within the first half of the next century, to Japan's present level. Can Japan accept this challenge and responsibility of helping to raise the standards of living of its neighbours?

Thirdly, the failure of the Brussels Round reminded us that the two largest economic powers in the world, the United States and the EC, can hold the entire multilateral trading system to ransom when they disagree on a single issue like agriculture. Also, the impending North American Free Trade Area and the enlarged EC could settle new trading rules between them to our detriment. Hence, there is a need for the East-Asian region to have its own voice to protect its economic interests. Can this be done?

Fourthly, our region has a vital stake in the continued success of China's modernization policies. There have been hiccups in China's modernization policies. There have been hiccups in China's growth process. However, over the long-term, China's leaders realize that they have no choice but to open up China's economy. It is in the interest of all of us to keep China outward-looking and to help it succeed in its modernization efforts, however slow its rate of political liberalization. An isolated, impoverished and unstable China would be troublesome. Similarly, we also have a big interest in the continued dynamism of Hong Kong after 1997, as well as the peaceful resolution of the division across the Taiwan Straits. Can China modernize successfully and can Hong Kong and Taiwan retain their current free market dynamism whatever their political status?

The Korean problem will also have to be resolved and Indo-China will have to open a new chapter in its domestic and foreign policies. The world is still waiting for Hanoi and Phnom Penh to accept the UN peace plan. Only when that is done, will a new chapter open in Vietnam's relations with the rest of the Asia-Pacific region. Will Hanoi and Phnom Penh accept the UN peace plan? Can the Korean problem be peacefully resolved?

Lastly, the ASEAN countries must come up with bold new initiatives to consolidate themselves, and to build bridges to other Asia-Pacific countries.

The ASEAN countries have made valuable contribution towards Asia-Pacific co-operation over the past decade. Their cohesiveness has provided the vital catalyst for Asia-Pacific co-operation. It was ASEAN's initial success that encouraged diverse Asia-Pacific countries to attempt regional co-operation. Some seeds for Asia-Pacific co-operation were planted at the annual ASEAN Post-Ministerial conferences where Asia-Pacific Ministers have met year after year. The familiarity developed at these meetings also helped to lay the foundations for the successful launching of APEC.

As the continued growth and success of the Asia-Pacific region serves ASEAN's long-term interest, ASEAN should now explore how to inspire a faster rate of Asia-Pacific co-operation. It can trigger off this process by increasing economic co-operation among its members. ASEAN can learn from the experience of Europe by embarking on a new phase of competitive co-operation within a regional framework. By competitive co-operation, I mean working together to attract investments into the region and competing, through market efficiency, to have particular investments located in each country. The governments should encourage the free flow of these investments. Like the Single European Market, ASEAN countries should compete to bring down their cost of production and stimulate further economic activities. The question is: in today's competitive global environment, will ASEAN deregulate and liberalize faster and in the process add billions to its GNP, the way the Single European Market is expected to do? Can ASEAN take the lead in regional economic co-operation and slowly expand this co-operation to include the other Asia-Pacific countries?

Conclusion

As we move into the 21st century, I envisage that both Europe and the Asia-Pacific region will do well in the next century. Both face a host of political issues. Western Europe faces the challenge of

integrating Eastern Europe. The Asia-Pacific will have to resolve the political questions I have discussed. It will be the political issues, not economic rationality, that determine the degree of economic co-operation and the rate of economic growth. If the Asia-Pacific countries are prepared to grasp the political nettle, wealth in the Asia-Pacific will spread beyond the United States and Japan to the other countries in the region. Then there will be more dynamic economies and more NIEs.

I like to think that the next century will not be the European century, and that the economic epicentre of the world will not be in Europe. This does not mean I wish it to be the century of the Pacific. I hope it will be the century for both Europe and the Pacific, and because of the seismic effects of two active epicentres, that it will be a century of global prosperity.

PECC membership is expanding. I want to personally welcome Chile, Hong Kong, Mexico and Peru. The expanding membership of the PECC shows a growing desire by more nations wanting to be part of the powerful new global economic growth process. I am confident that your deliberations in Singapore will contribute to this process and I am happy to declare this Conference open.

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