

Goh Chok Tong: Riding the Asian tide

Speech Mr Goh Chok Tong, Senior Minister and Chairman of the Monetary Authority of Singapore, at the Nomura Singapore Seminar, Tokyo, 8 November 2005.

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Ladies and Gentlemen

1. Nowadays, it is popular to focus on the awesome transformation of China and its implications when discussing Asia. But doing so risks missing the dramatic changes in another key player - India. My theme is simple: the renaissance of China and India is changing Asia. Other countries in Asia, and in fact the world, will have to remake themselves to seize the opportunities generated by their rise.

2. I expect China and India to power Asia's growth over the next few decades. China's GDP today is one-seventh that of the US. But Goldman Sachs has predicted that China could overtake the US to become the world's largest economy by 2041. Goldman Sachs has also predicted that India's economy, currently about one-seventh of Japan's, could be larger than Japan's by 2032. Never before in history have we witnessed the simultaneous rise of two gigantic countries, which together make up more than one third of mankind.

3. China and India are altering global patterns of trade, investment, production and travel. Because of their sheer size, the earth shakes as the Chinese dragon and the Indian elephant move.

4. What do we do in the face of these developments? How do we adjust to the new realities and seize the opportunities therein? These are the key questions before us.

5. This fourth Nomura Singapore Seminar is therefore timely. This morning, I hope to contribute to a deeper understanding of the geopolitical forces at work and highlight some of the economic opportunities available as the global landscape is being reshaped.

An ascendant dragon

6. First, China.

7. I first went to China in 1971, when I was working for Neptune Orient Lines. We were exploring the possibility of chartering ships to China. China then was in the grip of the Cultural Revolution. Everybody wore drab blue or grey Mao jackets and cloth shoes. Men and women looked alike but for the length of their hair. Chairman Mao's portraits were everywhere. The air was filled with revolutionary songs praising him and the glory of communism - from morning till night, at the airport, on trains, in the hotel lobby and even in the toilets! There was no escape! There was no private enterprise either.

8. My next visit was in 1975. Deng Xiaoping and the Gang of Four were locked in a fierce ideological struggle. Deng was branded a 'capitalist roader'. While on a field trip, I asked a worker where he had learned his technical skills. He pointed to the pocket of his Mao jacket and said, "The Little Red Book". Admission to university depended not on academic performance but how 'red' a person's political thinking was. So too the job a person was assigned.

9. Over the years, I have returned to China many times and witnessed its remarkable transformation first-hand. How China has changed! Revolutionary songs in public have given way to pop songs in karaoke lounges. Mao jackets have been discarded in favour of Gucci, Armani and other luxury brands. I am told that many Chinese go to Hong Kong to buy branded goods, while many Hong Kongers cross over to Shenzhen to buy cheap imitations. China is today the third biggest luxury goods market worldwide.

10. The physical transformation of China is remarkable enough but the mindset change is even more impressive. When Deng Xiaoping pronounced that the colour of the cat is not important so long as it catches mice, pragmatism supplanted ideological purity. Today, there are more capitalists in China than in Japan. According to a recent Xinhua article (13th October 2005) entitled "China's Rich Get Gloriously Richer", the total wealth of China's 400 richest people grew by 40 percent in 2004 and amounted to 7 percent of GDP. The Chinese have made a strategic choice to pursue what they call

'socialism with Chinese characteristics'. But to me, it is capitalism with Chinese characteristics. China has also embraced globalisation and with its admission to the World Trade Organisation in 2001, China will have to play by international trade rules. There is no turning back. As China grows, it has a vested interest to strengthen the international system that has enabled its success.

11. I believe China should be able to sustain 8 percent annual growth over the next 20 years. China is drawing in investments, capital, technology, foreign management expertise and talent. It is investing heavily in education and human capital. Much of its growth is also internally generated and increasingly consumer-led.

12. China is forcing the pace of change throughout Asia. This is for the better. The Chinese dragon will usher in a new prosperous Asian Century. For example, as China grows, so will its appetite for imports. Credit Suisse First Boston expects China to become the second largest consumer market by 2014. That is less than 10 years away. The Chinese middle class is expected to reach 45 percent of the population by 2020, around 580 million or more than 4 times the current Japanese population.

13. However, China's growth will not be an upward-sloping straight line. The country faces very real challenges. In 2003 when I visited China, Premier Wen Jiabao explained to me the magnitude of problems facing China's development through the concept of 'division and multiplication'. China's wealth of resources became very small when divided by 1.3 billion people, while a small problem became huge when multiplied by 1.3 billion. Premier Wen also highlighted the divide between the coastal and inland regions and stressed that China's priority was on economic and social development.

14. China will also have to cope with the impact of development on the environment. Take for example the use of chopsticks. China uses 45 billion pairs of disposable chopsticks per year, which requires 25 million full-grown trees to make ([International Herald Tribune](#), 27th October 2005). This means massive deforestation and an adverse impact on the environment. Another problem is the widening income gap. Bear in mind that there are 26 million Chinese still living in abject poverty, earning less than US\$80 annually. China will also face the trickier problem of managing the demand for political change and greater political participation as it becomes a middle income country. For the first time, China recently published a White Paper on 'Building of Political Democracy in China'.

15. China's leaders know that they will retain the mandate of heaven only if they deliver the economic goods and a better standard of living. Having tasted the fruits of market-oriented policies, the Chinese people will want more. To grow, China needs a stable external environment. This is why China's leaders have been careful to assure the world that it will pursue a 'path of peaceful development' (和平发展的道路). They are well aware that China's rapid growth is creating enormous pressures on the international system and that they need to craft a development and foreign policy strategy that will ensure the peace and stability needed for its growth.

The trundling Indian elephant

16. Let me now turn to India, which is also shaking off old mindsets and taking pragmatic steps toward reform and liberalisation.

17. I first visited India as Prime Minister in 1994. Indian leaders and businessmen wanted to convince me of India's technical expertise, management skills and huge market. They wanted Singapore investments. The late Narasimha Rao, who was then Prime Minister, had just begun to reform India's economy, working closely with his then Finance Minister, Manmohan Singh. I encouraged them. I told the Indian leaders and businessmen that protectionism was the wrong development strategy: 900 million people should not produce for only 900 million people. They would be better off producing for the whole world.

18. Many observers had doubted whether India could shake off decades of central planning. Indeed, in its reform path, India had often taken two steps forward and one step back, sometimes in a zigzag. But I knew that India, like a big elephant with constant change of mahouts, would take time to turn around.

19. Since then, India's economic reforms have been creating a buzz. The mindset change of politicians and business leaders in this new India is palpable.

20. Today, India is attracting attention from foreign media and investors. Japan has traditionally not shown much interest in India. But this may change. I am told that Japanese companies have started to

explore the new India. Recently, when Nomura Securities launched its India Stock fund in Singapore, US\$1 billion was raised in a week. I urge Japanese companies to quicken the pace of this exploration.

21. India is changing, albeit not as quickly as China. There are many serious challenges. Like China, income disparity is a major problem. Reforms will be uneven and politically complex. The Indian system, with its decentralisation of power, makes change more difficult. Navigating the bureaucracy and its regulations requires connections, skill and lots of patience. However, while the pace may fluctuate, reforms are irreversible. Whichever party is in power will have to deliver the economic goods. This, together with the desire not to be left behind by China, will ensure that India stays on the path of reform.

22. India has many strengths, not least of which is its deep source of human capital, including a large pool of well-educated English-speaking professionals and workers. India has a young population, much younger than Japan's and China's. 55 percent of Indians are under 25 years old and 40 percent under 15.

23. India has carved a niche for itself as the world's back office and a global software centre. India is also working hard to change its investment outlook. In 2004, Foreign Direct Investment (FDI) into India was US\$5.5 billion, less than 10 percent of China's US\$61 billion. Under Prime Minister Manmohan Singh, fiscal consolidation has shown progress. Customs duties have been slashed. Another significant initiative is the development of Special Economic Zones, where superior infrastructure, flexible investment laws and special incentives are designed to draw in foreign investments.

24. There is strong competition among Indian states and cities for investments and to outperform each other. Recently, the Chief Minister of West Bengal called on me. West Bengal has been ruled by the Indian communists for almost 30 years. The Chief Minister wanted to promote foreign investments into West Bengal. His aim was to capture 25 percent of India's IT outsourcing market by 2010. He said that the Indian communists had drawn lessons from the collapse of the former Soviet Union and China's economic reforms. The choice was stark and simple: either perform or perish.

25. The recent bomb attacks in New Delhi have not affected India's growth trajectory. The Indian Government has responded swiftly and with determination. I have full confidence that it will be on top of the security situation. As India grows, the International Monetary Fund (IMF) expects that by 2010, India's exports will more than double, while imports will nearly triple. The consumer market could then be worth US\$400 billion, making it one of the top five globally. To sustain an annual growth rate of 8 percent would require a huge injection of investments, both foreign and domestic, over the next decade. It is this immense demand for infrastructure, education, healthcare and consumer goods that will continue to draw foreign investors and businesses to India.

A reinvigorated ASEAN

26. Let me now move on to ASEAN.

27. Prospects for Southeast Asia have brightened considerably. Regional economies have remained stable, despite the recent Bali bombings.

28. With China and India becoming big players in the international market, Southeast Asia has no choice but to respond strategically. ASEAN is becoming increasingly integrated so that its market will be at least half as big as China's and India's. ASEAN made a fundamental strategic choice to form the ASEAN Economic Community (AEC) by 2020. It is also formulating an ASEAN Charter, a visionary document that will chart its future direction.

29. In addition, ASEAN is positioning itself to ride on the growth of China and India. ASEAN's total trade with China and India has grown significantly over the past decade, and in 2004 amounted to US\$80 billion and US\$17 billion respectively.

30. ASEAN is working hard to ensure that its Free Trade Agreements (FTAs) with China and India are completed and fully implemented by 2010 and 2011 respectively. Besides China and India, ASEAN is also negotiating FTAs with other major economies like Japan, South Korea, Australia and New Zealand.

Japan's role and response

31. In the past decades, Japan has led the growth of China, South Korea and many other countries in the region in a 'flying geese' formation. Japan has been an important source of investments, capital and technology, and a major export market for many Asian countries. After a decade of stagnation, Japan is firmly back on the path of healthy sustained growth. Prime Minister Junichiro Koizumi's leadership and overwhelming victory in the recent election give cause for hope that his reforms will be sustained. As the second largest economy in the world, Japan will remain an important global player.

32. Japan, together with the US and China, form the strategic triangle that undergirds regional stability. With India's rise, a new strategic triangle of US-China-India will, in time, be superimposed upon it. Stable relations amongst the key players will be critical for regional peace and development.

33. Recent tensions in Sino-Japanese relations are of concern. Such strains are part of the deep ambivalence with which Beijing and Tokyo view each other. Both China and Japan have their respective positions on the history issue. China's attitude towards Japan is coloured by Japan's reluctance to come to terms with its World War II history, while Japan's attitude towards China is shaped by its anxiety over how China's rise will alter the regional balance and affect Japan's interests. Domestic politics and rising nationalism in both countries are complicating factors.

34. Fortunately, both countries want to avoid a collision. There are strong incentives for China and Japan to deepen ties. China needs investments, technology and know-how from Japan, while Japan needs the markets and production base in China.

35. The tensions in Sino-Japanese relations are understandable because there has never been a period in history when China and Japan are simultaneously strong powers. Today, both countries find that they must treat each other as equals. Naturally, the search for a new modus vivendi will be fraught with anxiety. While not forgetting the past, both sides must find a way to close the history issue and write a new chapter of cooperative relations. Working towards a mutually-beneficial future together is the best way to prevent history from repeating itself.

36. Japan's relations with India are less problematic. Prime Minister Koizumi's visit to India in April 2005 signalled a desire to establish a new basis for relations. But there is an undercurrent of cultural unease that needs to be transcended so as to realise the full potential of Japan-India cooperation.

37. ASEAN, as a group and individually, has much to offer Japan. ASEAN can be a strategic partner for Japan to tap into the growing economies of China and India. ASEAN can also offer Japan a competitive production base, supplies of natural resources including oil and gas, and additional markets for Japanese products.

38. Japan is already the top investor in Indonesia. Under President Susilo Bambang Yudhoyono's leadership, Indonesia has begun to develop its economy, attract investments and play an active regional role. President Yudhoyono is also pressing ahead with difficult reforms to get the country moving on the fast track.

39. Vietnam is a relatively new partner for Japan. So it should not surprise you to learn that Japan is the third largest foreign investor there, while Singapore is second. Vietnam's bid to join the WTO has catalysed FDI flows totalling US\$2.6 billion in the first nine months of 2005, about double the amount in the same period in 2004. Not surprisingly, Japanese companies are increasing their presence there.

Remaking Singapore

40. Singapore has been remaking itself to enhance our competitiveness and seize the opportunities in the region.

41. Reinventing ourselves to stay relevant is in our DNA. In the 1960s and 70s, when it was fashionable to be anti-MNC, Singapore welcomed MNCs. Over the past 40 years, we have grown in partnership with MNCs in manufacturing. This strategy will continue. The manufacturing sector will remain a key driver of our economy.

42. But we have started to build a second platform to drive an innovation- and knowledge-based economy. New areas of focus include Research and Development, biomedical sciences and the creative industry. We have also undertaken extensive measures aimed at strategically positioning Singapore as a leading international financial centre.

43. Singapore is also prepared to break old moulds and be flexible and practical in a changing world. For instance, we overturned our longstanding policy of disallowing casino gambling. To remake itself into a city with buzz, Singapore is developing Integrated Resorts, with casinos, convention facilities and world-class entertainment.

Japan-Singapore partnership for the future

44. I see great potential in closer collaboration between Singapore and Japan. The landmark Japan-Singapore Economic Agreement for a New Age Partnership (JSEPA) provides an excellent framework. Japanese companies can use Singapore as a hub with radiating spokes to tap global opportunities. From Singapore, companies can service a combined population of 3 billion. That is why 7,000 MNCs choose to hub in Singapore. Of these, 4,000 manage global and regional responsibilities. Recognising this strategic value-add, many Japanese companies have further expanded their operations in Singapore.

45. Japanese companies can also take advantage of Singapore as a hub for knowledge and market intelligence. Over the years, we have developed a network of institutions that have a deep reservoir of knowledge on China, India and Southeast Asia. Our businessmen are also familiar with these countries. We are now building up links with the Middle East.

46. Japanese companies based in Singapore can enjoy not only benefits from the JSEPA, but also 10 other FTAs that Singapore has concluded with major economies like the US, South Korea and Australia. I would like to highlight the Comprehensive Economic Cooperation Agreement (CECA) between Singapore and India as it is the first comprehensive FTA that India has signed with any country.

Conclusion

47. The rise of China and India will shift the global economic centre of gravity from West to East. Remaking our economies cannot be an occasional exercise. Governments must respond boldly and continuously to the imperatives of our changing times. Likewise for companies. This is the only way to ride the rising Asian tide.

48. Thank you. I will be happy to take your questions.