

## **Goh Chok Tong: Opportunities in a New Asia – China, India and ASEAN in-between**

Speech Mr Goh Chok Tong, Senior Minister and Chairman of the Monetary Authority of Singapore, at the Institute of International Finance (IIF) Opening Dinner, Singapore, 16 September 2006.

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Let me bid you a warm welcome to Singapore. I hope that your stay here will not only be intellectually stimulating and professionally beneficial but also enjoyable and memorable.

The IMF and World Bank meetings were last held in Asia in September 1997. A few months before the meetings in Hong Kong, the Asian Financial Crisis had started to erupt. The crisis swept across the region, causing immeasurable damage. Pundits declared the end of the East Asian growth miracle.

But Asia has bounced back.

Looking at East Asia through post-Crisis lens, a 2001 World Bank report "Rethinking the East Asian Miracle" noted that Asia was still:

*"...the most exciting development experience available to us...the Crisis has tarnished that record only slightly and, if anything, together with the strong recovery in several of the countries, may have reinforced the conclusion that there is something very special about these countries."*

Indeed, there is something special about Asia. Asia had problems, and will face big challenges ahead. But never in human history has the world seen such large-scale reduction in poverty and the rise in living standards for billions in so short a time.

I am therefore confident about Asia's prospects. Over the next 20 years, Asia will continue to surge, led by the re-emergence of India and China, and a revitalised ASEAN.

Japan, will remain an important player in Asia. However, as a mature economy, Japan is not expected to grow as fast as India and China.

This evening, I will focus on India, China and ASEAN in-between.

### **India on the march**

First, India.

Prime Minister Manmohan Singh said on India's Independence Day this year that India is "certainly on the march". The Prime Minister is a modest man who is not given to exaggeration.

Today, India is attracting attention from foreign investors and world leaders alike.

Over the past 12 years, India grew by an average of 6.5% per year. Growth was even higher, at 8% per annum, over the last three years. I believe that India will continue to grow at a fast pace for two main reasons.

First, in India, old mindsets are being tossed aside in favour of pragmatic policies supporting reform and liberalisation, and integration with the global economy. India's market reforms have stayed the course despite several changes of governments and Prime Ministers. Business leaders, too, are prepared to compete against foreign companies and foreign investors in India.

Early this year, I met with the Chief Minister of West Bengal in Kolkata. The state has been under communist rule for 30 years. The Chief Minister, one of the politburo members of the Communist Party of India (Marxist), was keen on foreign investments. He told me candidly he did not look at "the colour of investment - be it yellow, red or white". This reminded me of Deng Xiaoping's famous dictum: that the colour of a cat matters less than its ability to catch mice. The Indian communists had drawn lessons from the fate of other communist regimes - the fall of the Soviet Union and the rise of China. They know they have to perform or perish.

I believe that reform in India is irreversible, even though the pace may fluctuate. No matter which party comes to power, the government of the day will have to perform or perish. The Indian voters have

seen how China, which was once just as poor, has raised the standard of living of its people. And they want their government to do the same for them.

Second, India has many strengths, not least of which is a large pool of talent, including well-educated English-speaking professionals and workers. India has 300 universities and 1,500 research institutions. It produces over 200,000 engineers and 9,000 PhDs each year. It also has a young population.

What will drive India forward is sheer hunger - not the hunger that comes from poverty but the hunger for knowledge and success. The drive and desire of young Indians to succeed is palpable - in top institutions like the Indian Institute of Management (IIM) and Indian Institute of Technology (IIT), or the Infosys campus in Bangalore. Young Members of Parliament whom I met were upbeat about India's future.

Of course, India's growth trajectory will not be a straight line. Development across states will be uneven. Unlike China, power does not rest with one political party. The intricacies of coalition politics mean that time, patience, skill and political bargaining will be needed to balance different interests, and forge a national consensus on reforms. Investors have cited inadequate infrastructure, rigid regulations and bureaucracy as some of the impediments to India's rapid growth. In addition, India cannot grow into a major economy on services alone. It will have to find ways to expand its manufacturing sector to create jobs for the large numbers of young people entering the labour market each year.

India has decided to use Special Economic Zones (SEZs) to spearhead the growth of its manufacturing and export sectors. SEZs will create pockets of growth and prosperity. They will have a powerful demonstration effect on the rest of the economy. Foreign investors will find it easier and more attractive to locate their factories in an SEZ. Singapore and India have agreed to set up an SEZ in India and both sides are now working to implement it.

## **China on the rise**

Let me now turn to China.

I first visited China in 1971 to do business with them. It was during the height of the Cultural Revolution. I saw young Red Guards holding their study sessions in the open. I visited a commune and listened to an old woman singing praises of Chairman Mao and the Liberation. I have visited China regularly since then. I have seen China's transformation through the decades - not just the physical transformation but also the change in mindset and values of the people. Pop songs have replaced revolutionary songs. Gucci, Armani and other luxury brands are worn instead of Mao jackets. The communes have given way to industrial parks, like the Suzhou Industrial Park, an integrated township which Singapore helped build. And golf has become popular in China.

Most analysts project China to continue to grow by 8% per year over the next 10 years. I share this optimism.

However, we should not underestimate the immense challenges before China. The Chinese leaders certainly do not. Premier Wen Jiabao once explained to me the magnitude of China's problems through the concept of "division and multiplication". He said that China's resources become very small when divided by 1.3 billion people, while a small problem becomes huge when multiplied by 1.3 billion.

Despite the tremendous changes, China is still underdeveloped and suffers from great imbalances in its development.

Beijing's top priority now is to spread the fruits of development more widely. The government recognises the risks for the country if growth in the coastal provinces is not spread to the inland provinces.

I believe that Chinese leaders have the capability and the will to do what is necessary to sustain China's growth and ensure political and social stability. Chinese leaders and officials, both in Beijing and the provinces, are pragmatic and in touch with the people. They understand the problems. They are prepared to learn from others, and they learn fast. One of Singapore's former Chief Planners, now working in the private sector, told me this. He had imparted Singapore's experience on town planning to some Chinese officials, while doing a planning project for the Chengdu government. Chengdu is the capital of Sichuan province, which has a population bigger than Germany's. Recently, these officials invited him back to do a critique of their strategic plan for an area many times bigger than Singapore.

He was astonished by the quality of their work - the depth of their research and the strength of their reasoning power. Those who have been to Shanghai or Beijing in the 80's and today will understand the point I am making. The speed with which the Chinese are learning and catching up is awesome.

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. Nevertheless, I believe that the cohesiveness of Chinese society and the social contract between the government and people would remain in the foreseeable future. Communism may have failed worldwide but in China, the Communist Party of China (CPC) has succeeded in providing the people with security, stability and prospects for a better life. What the Chinese people fear most is chaos and a slide back to poverty.

### **A revitalised ASEAN**

Third, ASEAN. Southeast Asia is strategically positioned between India and China.

ASEAN does not regard the re-emergence of India and China as a threat. Instead, it is responding in a positive and strategic manner. ASEAN is positioning itself to borrow the strengths of these two giants to boost its growth. Some of you may have watched martial arts movies starring Jackie Chan or Jet Li. There is a movement in Tai Chi called to 'use four taels to deflect a thousand pounds' (四两拨千斤). Using this movement, a smaller-built Tai Chi Master borrows the strength of his bigger sparring partners to achieve victory.

ASEAN's total trade with China and India has grown significantly over the past decade, and in 2005 amounted to US\$130 billion and US\$22 billion respectively. ASEAN is working hard to ensure that Free Trade Agreements (FTAs) with China and India are completed by 2010 and 2011 respectively.

At the same time, ASEAN is also enhancing its links with other economic centres. ASEAN is negotiating FTAs with Japan, South Korea, Australia and New Zealand. To strengthen their longstanding economic ties, ASEAN and the US signed a Trade and Investment Framework Agreement (TIFA) in August.

ASEAN is moving ahead with closer political, economic and security integration. ASEAN has set itself the goal of establishing an ASEAN Economic Community that will form a single production zone, with free flow of goods, services and investment. The original target date of 2020 was advanced to 2015 this year.

Obviously, there are practical difficulties of integration given the diversity in the region and the different levels of development. ASEAN leaders have tasked an Eminent Persons Group to come up with an ASEAN Charter to guide ASEAN's future development. This will mark a new phase of deeper ASEAN integration.

### **Geo-strategic shifts**

The re-emergence of India and China, and the revitalisation of ASEAN are taking place within a broader geo-strategic context. Let me now examine some of the larger trends.

At one level, Asia is slowly but surely coalescing. The entire region is being sewn together by changing patterns of trade, investment and production chains. Increasing economic integration is reflected by the rapid expansion of intra-Asia trade. From 34% in 1980, intra-Asian trade as a share of the region's total trade has grown to more than 50% in 2005.

The transformations taking place in Asia are of a depth and scope historically unprecedented. The combined population of Northeast Asia, Southeast Asia and India is well over 3 billion, about half the world's population. Changes of the scale that are currently underway could be profoundly unsettling to international order. Strong growth will give Beijing and New Delhi the resources to pursue wider strategic interests across Asia and beyond. Strategic stability is not to be taken for granted, particularly in Asia where there are many territorial and other unresolved issues left over from historically complicated relationships. Great power competition and rivalry are facts of life. However, Asia has learnt from Europe that competition need not lead to conflict, and that conflict will destroy its dreams of a rising, prosperous region. The main challenge is to integrate all the key players within the evolving regional architecture.

The US, with its economic and strategic preponderance, will continue to provide the overarching stability and balance in Asia. Most countries in Asia, including China and India, welcome a continued US presence.

The key relationships that underpin the region's stability are fundamentally sound. In the post-Cold War era, US-China-Japan ties underpin the East Asian landscape. Today, while this strategic triangle remains valid, India's re-emergence has added a new dimension.

Relations between the US and China are the most important, and basically sound. So long as there is no miscalculation over Taiwan, occasional tensions over trade, democracy and human rights can be managed.

US and Japan are steady allies. The US' Security Alliance with Japan will continue to anchor its presence in East Asia and the Pacific.

Relations between Beijing and Tokyo have been historically uneasy. There has never been a period in history when both China and Japan were simultaneously strong powers. As geographically close neighbours, they will have to learn to accommodate each other.

US-India relations are nascent but on an upswing. Japan has also started to actively woo India.

Relations between China and India have continued to improve. Many current discussions of Sino-Indian relations are based on a presumption of geopolitical rivalry. This premise is false. There is certainly an element of rivalry between China and India but India is not going to allow itself to be used to check and contain China. Both Chinese and Indian leaders want their two countries to have good relations. They believe that the world is large enough to accommodate the aspirations of both, plus of course, the US, Europe, ASEAN and other countries.

ASEAN with more than 500 million people is large but it is not a country. It is an organisation of 10 countries. It does not threaten the interests of the major powers. That is why ASEAN has been able to provide a neutral venue to bring larger powers together.

Placing ASEAN at the centre of the Asian construct helps to reconcile and assuage the tensions between major players and their competing interests. It is also the reason why ASEAN must remain in the driver's seat and the political underpinning for the multitude of dialogues and fora that ASEAN has spawned such as the ASEAN +3, ASEAN Regional Forum and the East Asia Summit (EAS). The inaugural 16-member EAS was held last December. Major powers outside the grouping need not be worried that the EAS would work against their interests. It is in ASEAN's interest that the EAS remains open and inclusive.

## **Conclusion**

Let me conclude.

A rising new Asia will usher in a new era of opportunities for the world. It is therefore appropriate for the Institute of International Finance (IIF) to hold this meeting in Singapore, a gateway to access Asia. I hope that the next few days will provide all of you with fresh insights into Asia and Singapore.

Thank you.