

THE 1985 INTERNATIONAL MONETARY CONFERENCE OUTLOOK FOR THE
PACIFIC: THE NEED FOR OPTIMISM WITHOUT ILLUSIONS
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Mr. Chairman, Distinguished participants, Ladies and Gentlemen.

The subject of my keynote address is 'Outlook for the Pacific Region'. If I can stand here and tell you without equivocation, without any doubt, what exactly will happen in the Pacific Region particularly the Asian side, in the years ahead, I would be a truly great sage or a charlatan. Even the man who knows everything about the past cannot predict the future because history does not travel in a straight line. Even complete knowledge of the present, were it possible, can only be suggestive, for tomorrow is not another name for today. Confucius is supposed to have said: "Prediction is always difficult especially if it concerns the future". He was right. It truly is best to tell the future after it has passed into the past, when one can have the benefit of hindsight.

2. Since the future cannot be the past, the two terms being in contradiction, can the social sciences come to the aid of the poor souls who have to divine the future? From the field of politics we get the 'iron law' which states that in the affairs of men the only true constant is change. From the study of history has emerged the equally wise saying that the more things change, the more they remain the same. From the science of economics it is interesting to note that there never has been one-handed economists. Those who have had too active an interest in foretelling the future without hedging their prognostications to the point of rendering them nigh useless are a rare breed indeed. In fact the current prolonged world recession has about killed the whole lot.

3. Since politicians are the only daredevils left on this planet, I suppose it is fitting that I should be invited to stick my neck out not only to talk about the future, but also to talk about the future of the whole Pacific Region, and preferably in less than half an hour. The only thing I can do given what little I know, the great deal I do not know, and the massive amount that I cannot know, is to indulge in generalisations that often must descend to the level of caricature.

4. Let it be my central thesis that in the foreseeable future the continuities are likely to be greater than the changes, that there is justification for hope and confidence; but that the hope and the confidence can be

damaged and destroyed by threats, a few of which already constitute a clear and present danger. I believe that in approaching the question of the future of the Asia-Pacific Region there is every reason for OPTIMISM but no room whatsoever for any ILLUSIONS.

5. What are the grounds for optimism? They are clear enough. The Pacific has been where much of the action is. It is most likely to remain a dynamic centre for world economic development. In the period from the end of the Second World War to the end of the sixties the economic centre of gravity and growth for this planet was in the North Atlantic. Since then they have gravitated to the Pacific. Unless things go very wrong, the Pacific will continue to be the main engine for global economic advancement for the rest of this decade, for the rest of this century, and probably well into the twenty-first century.

6. At the very same time that one is optimistic, caution demands that our optimism must be of the sort that is stripped clean of illusions. Although for most Asia-Pacific countries the days ahead will continue to be good, they are going to be tough. For some, obviously, they will be tougher than for others. The time of wine and roses and easy growth is gone and gone probably for good.

7. There will be many dangers to test us, to test our capacity to cope, our ability to roll with the punches, our capacity to take them on the chin, to fall and to get up and fight back. There are the dangers of rampant protectionism, which is likely to get worse before it gets any better, if indeed it will get any better. There are the awesome dangers arising from the problem of foreign debts.

8. There are the dangers of a possible trade war between the two most important economies of the Pacific: Japan and the United States. Already we are arguably in the first phase of an Economic Cold War between these two very important economic colossi of the Pacific a conflict characterised not only by bluster but also by the cutting edge of bitterness, involving not only open verbal acrimony but also concrete political action growing out of substantial, deep-seated, animus.

9. There are fears with regard to the military build-up of the Soviet Union. Many also view the positive signs of development and modernisation in China with a mixture of enthusiasm and trepidation. The enthusiasm is based on hope and belief in expanding trade and investment opportunities. The trepidation is founded on the challenges and the threats economic, political, and military that China could pose should it fail or should it succeed.

10. I shall not dwell at length on the good news. The impressive dynamism of the Pacific the Japanese miracle, the amazing performances of the Asian NIC's, the superb evolution and growth of all the states of the ASEAN Community (with the Philippines becoming an exception only in very recent years) have all been told and extolled. Permit me only to underline several common factors which explain why the Asia-Pacific countries have done so well, if only because these factors have predictive value in any examination of the outlook for the rest of the Eighties.

11. Perhaps the most important element in their success has been the adoption of a free enterprise system and the successful development of a dynamic and aggressive private sector. In the last decade especially, economic samurais carrying the passports of many nations under their belts have played a most important role in the transformation of the many societies in which they have been given relatively free rein.

12. It may not be true to say that we have seen the end of the age of ideology. It is nearer the truth to say that we have seen the end of extreme socialist ideology, the severe loss of faith in the efficacy of rigid, over-centralised state planning with its concomitant state enterprises and monopolies; we have seen the flowering of the ideology of free enterprise even among newly independent developing countries, free enterprise which seeks to reward to each according to his effort, to his contribution and to his ingenuity. Communism remains a wonderful system whose only fault lies in the fact that it simply does not work. What works is pure dictatorship in the name of that ideology. In as far as the lesson of free enterprise has taken very deep root and has become unshakable, there is every reason for optimism with regard to the future economic dynamism of the entire Asia-Pacific Region.

13. A second factor for their success has been the fact that all the successful economies of the Pacific have put their faith in export-led growth and adopted export-oriented policies. Let there be no illusion that these strategies will escape unscathed in a world where fewer doors will remain wide open. Despite the rising tide of protectionism, this faith and these policies have been justified and therefore will continue. New doors will hopefully be opened and new markets created to sustain these export-based economies.

14. Third, all the successful economies of the Asia-Pacific have achieved high savings rates, which have facilitated high rates of investment, especially in the industrial sector. In Malaysia there are any number of 'tabungs' literally 'piggy banks' where all kinds of people, from serving

soldiers to Muslim Pilgrims, save and so provide the funds for the country's growth.

15. Fourth, most of the successful Pacific economies have been able to develop their agricultural capacity and productivity, even as they advanced on the industrial front. Indonesia with a population of 160 million now produces enough rice for its own consumption. So does Thailand, China and Japan. Malaysia's agricultural products are well known and are still the mainstay of its economy.

16. Fifth, all the successful economies have been able to develop capabilities for rapid and dynamic adjustment policies. Indeed they have not been averse to copying strategies and approaches of successful countries or of each other. Consequently, they have developed the capacity to tighten belts when the going gets tough, to weather the storms of global economic turbulence, and to take full advantage of the situation when the world bounces back.

17. All these five factors which have underpinned our economic success are likely to remain in place in the difficult days ahead. Indeed the indications are that they will be improved upon to cope with whatever changes that may take place.

18. So much for the good news. How about the dangers which I have alluded to? Of all of them, the Soviet danger has been the one that looms most ominously over everything that happens in the region. But the Soviet bogey seems overplayed.

19. No-one who looks at the military build-up of the Soviet Union should be dismissive of this reality. I shall not belabour the details. Over the last two decades, the Soviet Union has without doubt steadily and relentlessly enhanced its military capabilities. But please note the words 'steadily' and 'relentlessly'. Over the entire period, the Soviet military build-up has not been dramatic and has not been quickly responsive to any particular event, which would be the case if Moscow has any specific aggressive intent in any part of the Asia-Pacific Region. This is not to say that neighbouring small states can be complacent.

20. If this argument is correct, if it is true that the Union of Soviet Socialist Republics has no specific intention to aggress in any part of the Asia-Pacific Region, one might well ask why it is that the build-up has been so steady and so relentless. I believe that this is a most important question, which requires a most persuasive answer. I believe that to understand Moscow's actions one has to understand the seven task-oriented and

three non-task specific reasons why there has been this massive deployment of Soviet military assets in the region.

21. It appears apparent enough that the Soviet military build-up in the Pacific is part of the global game of military balances. It is part of the central strategic balance of power between the United States and the USSR. Is it any surprise to find the Soviet Union deploying one third of its naval assets in the CINCPAC theater if the United States deploys one half of its naval forces in the same area?

22. Second, Moscow apparently continues to feel the need to militarily counter 'The Yellow Peril'. Third, it apparently feels the need to have the military forces for the purpose of aiding Vietnam, from whom it gains both an ally and invaluable facilities. Fourth, the Soviets apparently feel the need to secure Siberia, increasingly being called 'The Treasure House of the USSR'. Fifth, the Soviet Union understandably feels the need to demonstrate military and political credibility to friend and foe alike, just as the Americans have to constantly demonstrate their own military and political credibility.

23. Sixth, and more controversial, it has been argued that Moscow feels the need to politically intimidate Japan. Seventh, it might be argued that bereft of the economic, ideological, cultural, political and diplomatic capabilities of its adversaries and faced by a steady and dramatic deterioration of the correlation of forces in its favour in the Pacific, a supremely uni-dimensional Power, which only possesses military assets, has no choice but to respond militarily to prevent a further deterioration in and to improve its position.

24. At the more generalised, less task-specific level, it has been argued that the Soviet Union has a tremendous drive to achieve the status of superpowerhood, a status which it can only seek to achieve through the deployment of the only capabilities it possesses its military forces. A superpower by definition has to be in every nook and corner of the world. The Pacific is not a nook and corner. It is fast becoming the centre-stage. To expect the Soviet Union not to have a very strong presence in the Pacific is to expect the Soviet Union to opt out of the game of superpowerhood. It is also arguable that having built up massive military forces, Moscow has to deploy them somewhere. (There should be little doubt that if the European quadrant were to experience greater tensions, many of its military assets in the Pacific would be redeployed to the European theater).

25. To cut the analysis short, it might be argued lastly that it is only natural for the Soviet Union to deploy its military forces in Asia and the Pacific because the Soviet Union is not only a European state but also an Asian and a Pacific state. Lenin said so. A series of Soviet leaders after him have said so. Three quarters of the Soviet Union is in Asia. A fast-growing twenty percent of its population are Asians. The Soviet Union has 12,000 miles of Pacific coastline. Some have argued that it should not be surprising for the world's largest Asian state, with the longest Pacific coastline of any country in the Pacific, to be militarily in Asia and in the Pacific.

Ladies and Gentlemen,

26. Let me be perfectly plain and state that it would be insane for any Pacific state to be complacent about the existence of so much Soviet firepower in the region. At the same time, it would be mad for us in the region to live in a state of continuous fear and to die of fright. It is more reasonable for us to expect the Soviet Union not to use its military capability to directly aggress against any state in the Pacific, unless it is seriously or foolishly provoked. And there are no signs that any Pacific state has any irrational desire to indulge in the medieval sport of bear-baiting.

27. I hope that you will not think that Malaysia has changed its views about the Soviet Union because of what I have just said. We still think the USSR is a bully and we condemn their actions in Afghanistan and in Eastern Europe. We certainly do not approve of their backing of Vietnamese aggression against Kampuchea. But we must make some effort to see their rationale for their actions.

28. Rather than be over-exercised by the Soviet threat, I would argue that a much greater threat to the entire Asia-Pacific Region is the emerging Economic Cold War between the United States and Japan and the serious economic conflicts between these two states, conflicts which provide cause for concern not only to the two economic giants but also to their friends in the Pacific and in the rest of the world.

29. The pattern of the past in US-Japan economic relations has been a far from healthy one, not only economically but also politically. It might perhaps be characterised as a pattern of HUE AND CRY AND SIGH. In the first cycle, it revolved around the question of Japanese exports to the United States. In the present second cycle, the question is about imports into Japan, the issue of market access. Thus we saw a United States worried sick about excessive Japanese penetration of the American market. There was a hue and cry. The Japanese were forced to respond at

the eleventh hour with a policy of voluntary restraint. There was a welcome sigh. Now there is a hue and cry about access to Japanese markets. Mr. Nakasone has responded with a series of moves to get the Japanese not to buy Japanese. We are still some distance from being able to sigh with relief. The question now is whether he can carry his own party, whether he can carry his own bureaucracy, whether Japanese importers and wholesalers will respond and whether the Japanese people themselves will respond. The answers to these questions are by no means clear, for the full psychological "opening up" of Japan -like the opening up of China -is not merely a matter of structure and policy but also a matter of mental revolution on a massive scale.

30. Part of the danger lies in the fact that in the US-Japan economic conflict, there is some virtue on both sides, enough virtue for those who believe in "getting tough" to rationalise and justify their inflexibility. There is enough virtue on both sides so that neither can claim a monopoly on rectitude, yet both can climb on the high pedestal of self-righteousness.

31. Part of the clear and present danger is also the fact that there is insufficient realisation of the seriousness of what are euphemistically called "trade tensions" and the fact that time is fast running out. It is essential to note that the present tough situation can get very ugly unless effective actions are taken now to prevent conflict escalation, to attack the roots of the conflict and to achieve economic peace. In a sense, we have all been lucky that the latest round of conflict has taken place at the best of times, when the American economy has been quite buoyant, aided and assisted by the rest of the world. The near future for the United States economy cannot be anywhere near as good. The recent figures on the first quarter performance of the US economy makes this clear enough. US-Japan conflict in a situation of downturn and real American difficulties can be quite a different beast from the animal we have seen so far during what can only be counted as one of America's good times.

32. Those who cannot read the writing on the wall must eventually pay the price of their political illiteracy. Perhaps there is an element of poetic justice in this, although it is the kind of poetic justice that none of us want to witness. Unfortunately, there is not even a trace of poetic justice in the disastrous effects on us in the Pacific and in the rest of the world should the United States and Japan not be able to resolve their problems.

Ladies and Gentlemen,

33. We have a saying in our part of the world that when two elephants fight, it is the grass that gets trampled. We have a vital interest in ensuring

that we do not get trampled and that the two elephants who are both good friends of ours do not fight. There is a further twist to the elephants analogy, however. Not only does the grass get trampled when elephants fight, it gets squashed when the elephants sit down to make love.

34. If the US-Japan economic conflict is not satisfactorily resolved, all the states in the Pacific and much further afield will be squashed one way or another. However, if the conflict is settled on a self-centered bilateral basis without consideration for the other states, if for example Japan and the United States settle their differences at the expense of their other economic partners, the repercussions could also be very serious for us. The dangers of the United States or Japan adopting a system whereby all are "most-favoured nations" but one or two are more "most-favoured" than others requires no emphasis.

35. One of the greatest dangers of the present American-Japanese trade tension, of course, is the driving impetus it gives to the forces of protectionism. The forces of protectionism are strong enough. They need no further reinforcement to become one of the greatest threats, if not the gravest threat, to the prosperity and thus to the peace, security and stability of the entire world.

36. Please allow me to end, ladies and gentlemen, with some words on China, with which you will be directly concerned in one of your sessions. Let there be no doubt that the revolutionary turn of events in the PRC has on the whole augured well for the Pacific, for Asia, for the rest of the world, and, of course, for China itself. The Chinese leadership has no illusions about the difficulties they will encounter as they seek with determination to make up for lost time, as they struggle to modernise their country, a preoccupation which the Chinese people have grappled with since the nineteenth century.

37. Much will depend on what happens after China's second great revolutionary of this century, Mr. Deng Xiaoping, passes from the scene. Can the Dengist Revolution be sustained? The Chinese invented bureaucracy: will the Chinese leadership be able to win over the bureaucracy which can be expected to resist changes which threaten its role, position and power? Can the attitudes of the party functionaries whose importance in Chinese society is in process of fundamental transformation be changed to full support, and kept that way? Will the problems of tremendous labour dislocations possibly up to 160 million farmers in the countryside and tens upon tens of millions in industry be effectively tackled? Can they be tackled?

38. Unemployment, underemployment, inflation, cultural pollution of the kind that saw an utterly incredible football riot in Beijing just two weeks ago, the weakening of social control, the classical problems associated with income disparities and the explosion of rising expectations all these problems and more, justify the judgement that of all the countries in the Pacific it is probably with regard to his own country that Confucius's saying, which I quoted at the beginning of this Address, applies most of all.

39. Having said that, let me add that in my judgement, the desire of the Chinese people for progress is so overwhelming that the Dengist Revolution will succeed to more or less the extent that the Maoist Revolution did thirty-five years ago. In a sense both are heroic leaders of their time, responding to the aspirations of their people in the only way they know how.

Ladies and Gentlemen,

40. I started off with the argument that in discerning the outlook for the region it is important that we adopt an attitude of OPTIMISM WITHOUT ILLUSIONS. I end on China because it is with regard to China that many in and outside the region have the greatest number of illusions. I say the Dengist Revolution will probably succeed. But even if China does succeed, it will not justify the market illusions, the investment illusions, and the competition illusions that many now hold.

41. First the market illusion. Many believe that China is and will be a huge market for the world's exports. Not so. China's leaders will not be so naive as to encourage or allow for the free and massive importation of consumer goods, or for that matter capital goods. The country will produce its own consumer goods. China's industries will not run on the capital goods of the West. China will buy a few machines, understand them, adapt them, copy them and manufacture their own. Remember the devastating effect on the West when Japan did the same.

42. Let us look at the facts: in 1981, China imported US\$22 billion from the rest of the world; the Asean states imported US\$72 billion. Which means that in 1981 the Asean market was three and a half times the size of the China market. Lest you think the situation has changed fundamentally since then, let me say that in 1982, the Asean market was four times the size of the China market. And it may come as a surprise to many that the United States trades as much with Singapore as it does with China.

43. How about the investment illusion? Those who have successfully invested in China will have no illusion. The fears of other countries that in the future massive investment will be diverted from their countries to China are unfounded. China lacks and will continue to lag behind with regard to much of the invisible as well as the visible infrastructure and incentives which investors find attractive. A system of rule of law, a judicial system and other infrastructure to the liking of the potential investor is not yet in place in China. There are other problems.

44. There are many in the Pacific, including in my own country, who fear China as an economic competitor not only for investment but also for markets. Such apprehensions are not groundless but in their overstated form they could be a large illusion. Much of the produce of China will be consumed internally. Much of the competition will be in products in which we no longer trade. Even when we are direct-product competitors, there should be no presumption that we cannot be more efficient producers. Most assuredly, I believe that most of the countries of the Pacific will be able to meet the coming Chinese challenge if the rules of the game are fair. What we should have no illusion about is to presume that the rules will be fair, that for strategic reasons the rules of the game will not take into account in the future the dictates of the development of the United States-Japan-China strategic coalition.

45. Some of you might find it surprising that in an analysis of the future of this region a politician of this region has almost exclusively concentrated on the economic questions. I have done so because in my judgement it is the economic factors, the economic dangers, the economic threats that will determine the future. Ideologies have lost ground now. At this stage in the development of the countries of the Pacific, economics is security, economics is politics, economic forces will decide whether in the concluding decades of the twentieth century we in this part of the world enter an age of Pacific dynamism or an age of Pacific conflict and stagnation. Our justified optimism must say that it will be the former. If we have no illusions, we must admit to ourselves that the path will not be paved with roses and the journey will not be without serious and sometimes severe obstacles.

46. This, Ladies and Gentlemen, is the outlook for the Asia-Pacific.