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AND CHINA IN THE 21ST CENTURY: PROSPERITY THROUGH COOPERATION

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It is indeed a pleasure for me to be with you this morning. The theme of this Conference "Malaysia and China in the 21st Century: Prosperity Through Cooperation" is very topical and relevant in the context of the current surge in interest in China.

2. It is high time for us to stop seeing China through the lenses of threat and to fully view China as the enormous opportunity that it is.

3. The perception that China is a threat is a popular one. Malaysia itself once nursed this view, but then those were the days when the Communist Party of Malaya drew inspiration and support from the Chinese Communist Party and when fears of a Chinese fifth column in Southeast Asia was strong.

4. To be sure, we must never be soft headed and naive. We must always be realistic and ready. But times have changed dramatically. And Malaysia is one of the countries that recognises these changes. We no longer regard China as a threat. We do not believe in feuds. We cannot allow the past to determine our future forever.

5. Nevertheless, many countries and many thinkers with strategic mindsets moulded in concrete during the Cold War continue to hold firmly and religiously to this threat. The end of the Cold War has not led to a diminution of this inclination. Instead it may have strengthened this habit. I suspect that many do not feel secure or comfortable unless they can clearly see a threat. A threatless world is a frightening prospect. And China is favourite game because of its size, its ideology, its burgeoning economic weight, its recent increases in military expenditure, its traditional public reticence on domestic matters and the prejudices built up against it by half a century of Cold War. If we are not terrified of China, who should we be terrified of?

6. In my view, to perceive China as a threat and to fashion our security order around this premise would not only be wrong policy, but it would also be a bad and dangerous one. We need to fundamentally reassess our

notions about the so-called Chinese threat.

7. Almost every day, we are told that China is a threat because it has hegemonic and territorial ambitions. The increase in its military expenditure in recent years, it is argued, is also testimony to this. Every day we are told that the reduction in U.S. presence in the region would encourage China -- and some other regional powers as well -- to dominate the region. Finally, the icing on the China threat cake among some quarters is that it will be a leading protagonist against the "West" in a clash of civilisations.

8. Nobody nowadays seriously entertains the view that China is bent on exporting its communist ideology. So we can lay to rest the threat of ideological subversion and wholesale conversion.

9. Will China eventually have hegemonic ambitions? I don't really know. Big powers cannot but cast big shadows over neighbours. How light or how dark the shadows are depends not on just the power concerned but also on those overshadowed. It is well to remember that the Malay states, all tiny by comparison to their neighbours, have survived despite numerous very large and powerful neighbours. They only succumbed when distant powers intrude.

10. Will China use military means to advance its ambitions in the region? To answer this question one must look at China's conduct in history, and its disposition to resort to military means.

11. How many times in the past has China sent its armed forces across borders to invade and occupy? On the other hand, how many times has China been attacked and parts of it been occupied? How many colonies did China establish? How many military bases does China maintain overseas to perpetuate its hegemony? And with how many countries does China have treaty alliances, for defence or otherwise?

12. Much has been made regarding the increase in China's defence expenditure. If we compute from the latest statistics set out in the authoritative SIPRI Yearbook, published by the widely recognised Swedish think tank, in constant 1985 prices and exchange rates, China's military budget has gone up from US\$5,965 million in 1985 to US\$6,387 million in 1993. This is an increase of 7.07 percent. In comparison, South Korea's military budget increased by 51.63 percent over the same period, and Japan's military expenditure rose by 29.76 percent.

13. The obsession with increases in Chinese military expenditure also obscures many other important things. For instance, it obscures the fact that Japan, despite a defence treaty with the United States, is spending more on the military than does the much larger China, which has to be completely self-reliant. Last year, Japan spent three times as much as China. Even South Korea spent more than China.

14. The latest issue of The Military Balance published in London estimates China's military expenditure, in purchasing-power-parity terms, at US\$27.4 billion. The budget allocation for the United States for the same year was ten times more -- US\$276.1 billion. If, despite their heavy military expenditures, the United States and Japan can be considered benign and not threatening, perhaps we can also be allowed to sleep well, without too many nightmares, after looking at China's own military expenditure.

15. For these and other very good reasons Malaysia refuses to see China as a military or political threat. We prefer to see China as a friend and partner in the pursuit of peace and prosperity for ourselves as well as for the region.

16. The future may change of course. But until it does, we believe that China is deeply committed to the perpetuation of a peaceful, regional security environment. It wants this for its own national political and economic interests. China believes, as we do, that peace is a pre-requisite for its own internal development. This conviction is unlikely to change in the foreseeable future.

17. So much for China as a military and political threat. How about China as an economic threat? Again, things may change. But I prefer to see China not so much as an economic threat as it is an economic opportunity.

18. If we are foolish enough as to compete with China head to head, to compete against China in those areas where China is strongest in the world, then we are surely in for a drubbing. Some countries may have no choice. They have the same comparative advantages as China but not the scale. But Malaysia has choices. We have lost the comparative advantage of low labour cost for example without being unable to compete.

19. We will have to be more capital and technology intensive. We will have to go for more value-added, less labour intensive. We will have to take fuller advantage of our resources in material, in human assets and in the vast experience accumulated in the running of the nation and other organisations, in particular the legal system and framework within which we function.

20. I do know that the theme of this conference is "Malaysia and China in the 21st Century -- Prosperity Through Cooperation". Let me merely mention, in passing, however, that we can also help each other and prosper through competition, through competing with each other.

21. We in this country have adopted the strategy of earning our living from the rest of the world. In order to do this, to use the international marketplace, we have to be able to match and if possible beat all comers. Our fiercest competitors are our best allies for they force us to be

better and better.

22. Imagine a race in which we have to run against the weak and the flabby. Instead of becoming the best that we can be, we would in due course become almost as weak and as flabby as the others.

23. It is in this sense that fierce Chinese competition serves our purpose and is in our interest. And we must be able to respond to this fiercest of all economic challenges.

24. Fortunately, although a huge country like China has to be very good and competitive at a large number of athletic events, a small country like Malaysia need only be good at very few in order to prosper. China cannot be a niche player. A niche player is all we have to be. We must find, discover and constantly re-discover our niches.

25. I have already intimated that Malaysia and China can be regional partners in the making of cooperative peace in East Asia. Just as we in Asean have created a zone of peace in the Asean community and are in the process of expanding this to the rest of Southeast Asia, China along with the rest of us in East Asia should proceed to build a zone of cooperative peace amongst ourselves.

26. Cooperative peace starts with one's own back-yard. Ensuring peace and tranquility within one's own boundaries is one of the greatest gifts that one can make to one's neighbours and one's region. It is a fundamental form of "cooperation".

27. Ensuring the best of friendly bilateral relations between us and our regional neighbours and helping to strengthen the patchwork of productive bilateral ties is also fundamental. This too constitutes "cooperation". Building processes of peace and structures of confidence and comfort at the multilateral regional level too can be a fundamental contribution.

28. Malaysia and China can and should cooperate at all these three levels.

29. I believe that equally important as the building of a region of cooperative peace is the building of a region of cooperative prosperity in East Asia.

30. Again, cooperative prosperity starts at home. We must all ensure domestic economic dynamism and sustainable growth.

31. At the bilateral level much can and must also be done.

32. Because it is a relatively new idea, let me once again reiterate the importance of adopting "prosper thy neighbour" policies.

33. Two months ago, at an international meeting in Penang, I expressed fears that "beggar thy neighbour" policies were for some of the biggest economies more popular now than at any time since the 1930s. I argued most vigorously for the adoption of "prosper thy neighbour" policies. We in East Asia have been adopting this basic stance, with the most productive results for ourselves. Incidentally, it is also very much in our interest to see Europe prosper, to see North America, indeed the whole world prosper.

34. With regard to the Malaysia-China nexus, I am tempted to say that the limits are only imposed by our creativity and our resources. Both, I am glad to say, are more abundant than we presume.

35. You will hear over the next two days the enormous opportunities in China. There will be enough incredible statistics and facts to boggle the mind and to challenge the imagination.

36. Please allow me to make some remarks on the regional level.

37. Today, in purchasing power parity terms, and despite rates of sustained growth in East Asia unprecedented in the annals of mankind, the United States is still by far the largest economy in the world. Japan, the second largest and China, the third largest economy, added together amount to 80 percent the size of the U.S. India is, after Germany and France, the sixth largest economy. Indonesia is number 12 and South Korea is number 15.

38. The World Bank now forecasts that by the year 2020, which is only a quarter century away, China will be 40 percent bigger than the United States. Number three will be Japan, number four will be India, number five will be Indonesia.

39. According to what is forecast, six of the world's biggest economies will be in East Asia.

40. In my view, by the laws of reality, this will not be allowed to happen. It can only come to pass if we join hands, if we work together, if we synergise our strength and concert our power -- without ill will towards anyone. It can only come to pass if -- without confrontation and antagonism -- we cooperate together for our common prosperity. In this process, the EAEC will have a role to play. And in the context of the EAEC, let me again for the record register my appreciation for China's statesmanship, support and leadership.

41. As you all know, Malaysia has launched a generational plan called Vision 2020. Starting from 1991, our intent is to double our Gross Domestic Product every 10 years so that by the year 2020, our GDP will be eight times bigger and our standard of living will be four times higher. If our

thirty-year plan succeeds, our standard of living will match almost exactly the present standard of living found in the United States although, hopefully with an even better distribution of income than is found in American society today.

42. So far, we are ahead of schedule. At the rates of growth we have achieved since the launching of Vision 2020, we will get to 2020, substantially before 2020. I am tempted to say that obviously we cannot sustain better than eight percent a year, year after year over an entire generation. Except that history has shown what other East Asian economies have been able to do.

43. And through an accident of history, we are blessed with the means by which we can have an easy and deep access into the economic heart of Indonesia, predicted to become the fifth largest economy in the world by 2020.

44. We are blessed with the means of reaching into the economic heart of India, predicted to become the fourth largest economy in the world by 2020.

45. We are, through sheer will and effort, well placed to reach into the economic heart of Japan, the third largest economy in the world by 2020.

46. We are through traditional ties and experience well placed to reach the four corners of the great American economy, which will be the second largest economy in the world of 2020.

47. We are also extremely well positioned, supremely poised, to take every advantage afforded to us by what will be by far the biggest economy in the world by 2020: China.

48. We must not lose judgement. There is the need always to retain sobriety. To retain a proper balance. To be mature. At the same time, let me issue a call to all Malaysians to take full advantage of the excellent relations that have been established between Malaysia and China. Let me issue a call to all Malaysians to take full advantage of the great China Opportunity.