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"CHINA - A CHALLENGE OR AN OPPORTUNITY FOR ASEAN?"

I would like to thank the Nippon Keizai Shimbun and the Nikkei Conference Organisers for the invitation to speak once again at this annual conference on Asia.

2. In 1803, almost exactly 200 years ago, Napoleon Bonaparte gave us a most prophetic quotable quote. "China is like a sleeping giant," he said. "And when she awakes, she will astonish the world." Astonish the world China truly has. Of this there can be no doubt.

3. But many questions remain. The organisers of this 8th Nikkei Conference on the Future of Asia have asked me to speak on this astonishing China, this phenomena of the awakening giant and what it portends for us in the ASEAN countries. Is it going to be what someone describes as a black hole which sucks up everything and gives back nothing or will China be the locomotive for the economic prosperity of ASEAN in the future?

4. What one has to accept is that China is there. It has been there for the past 4000 years and it cannot be wished away. The idea of containing it, a policy tried by the West in the Cold War years did not work. If China was a non-performer during those years it was not because of containment by the West but because the Chinese leaders chose to isolate China and to reject modernisation.

5. Now China has decided to join the rest of the world in espousing trade and development and like it or not we have to admit that China is doing well and blossoming into a great economic power. A country of 1.3 billion diligent and skillful people, organised and disciplined cannot but be a powerful country once it sets its mind on developing its huge potential. As an economic power it will exert much influence in the affairs of the world. China must therefore be accorded its rightful place in the constellation of powerful nations.

6. The fear is that with its enormous power it may try to expand into Southeast Asia, perhaps territorially. China's occupation of Tibet may be cited. But China has no history of expanding territorially. It may have had pretensions about being the centre of the world, the middle Kingdom, but historically China had not colonised other countries. In contrast the European countries conquered and colonised Asian countries thousands of miles away from Europe. I don't think China is about to change its ways and become a colonial power.

7. The clash involving China in the future is going to be economic and it will be between China and the other developed countries. Now we all know that when two elephants fight the grass and the animals underneath will get trampled. So the fear is not from China's black hole character but the fierceness of China's struggle for market share for its products and services worldwide.

8. For ASEAN what will be the effect of China's economic struggle? Well, we have already seen how China's attractiveness as an investment location has reduced the flow of FDI to the ASEAN nations. China's advantage at the moment is its low cost labour and the enormous size of its domestic market.

9. But we have to remember that Japan too started as a low labour-cost country. It did not remain so for long. As Japan prospered the cost of labour rose quite rapidly. Such was the increase that Japan had to invest and produce in low-labour cost countries of Southeast Asia very early on in order to remain competitive. Additionally the voluntary and involuntary transfers of technology resulted in South East Asian Countries developing their own industrial capacities. Thus Japan's industrialisation benefited the poorer ASEAN countries in a number of ways.

10. It is possible that China too will progress in the same way. Already the labour cost along the coastal areas which have developed first is higher than that inland. As industrialisation proceeds the cost in China is bound to go up. The size of China's population will make this process longer than in Japan. Still there will be some benefits to be derived as China's work-force begin to earn higher incomes. We are already seeing this in South East Asia as attested by an increasing influx of Chinese tourists. We are also beginning to see Chinese investments and increases in their imports of certain products including electronic goods and components.

11. When 1.3 billion people get even a slight increase in income the purchasing power will be

enhanced much more than happens in an ordinary-sized country. China's growing prosperity cannot but make it a great market for Southeast Asia. Trade with China has already increased manifold since the opening up of the country. The momentum is gaining and we can expect faster growth, especially after China's accession to the World Trade Organisation (WTO).

12. But perhaps I am being too optimistic. China is an economic threat for Southeast Asia. It is already a threat in terms of attracting Foreign Direct Investments and it is going to be a threat to Southeast Asia's world trade. We know that China with its cheap and highly skilled labour and the potential of its huge domestic market is capable of large-scale low cost production of anything and everything. It has been gradually putting in place the legal and policy frameworks and infrastructures for FDI and domestic investments and its products are going to be highly competitive. Just as the Japanese and the Korean products displaced European and American products, we can expect Chinese products to shoulder aside not only the Japanese and the Korean but also the products of Southeast Asia. Chinese goods will achieve world standards and already we are seeing signs of Chinese innovation resulting from their own Research and Development.

13. In the household appliances business this is already happening. Japan, Korea and Southeast Asia will lose their market share for these low-tech yet essential goods. Of course the Europeans and the Americans are not ever going to be able to stage a come back. And it is likely that China will dominate the market for other manufactured goods as well. However there will be niches where branded goods of high quality produced by some countries will continue to be in demand.

14. Besides, China cannot so impoverish other countries especially Southeast Asian countries so that they cannot buy Chinese products. It is imperative that China ensures the survival and prosperity of the countries which will be its market. And this may mean increasing Chinese investments in these countries and increasing purchases of raw materials and components produced by these countries.

15. We can infer that this will happen from the Western response to the influx of cheap high quality Japanese goods. They focussed on developing brands of quality and prestige. Thus the numerous brands of European goods, motor vehicles, watches and audio equipment. As niche products the market is not big but the profit margins are enormous. The European strategy is still working and I believe Japan, Korea

and Southeast Asia will be opting for niche products of high quality and prestige.

16. Japanese mass produced products are not inferior but because of snob value, European products do find a market. Similarly when the markets of the world are flooded with Chinese products, a good number of buyers will be opting for branded goods from traditional suppliers. South East Asian products can provide the demand for variety and name. Obviously so can Japan and Korea.

17. The race is already on and Southeast Asian countries are already looking for niche products and businesses involving hi-tech and I.T. Some Southeast Asian countries do have certain advantages, including geographical location, good legal and educational system, values and practices with which the international business community is comfortable.

18. The Governments of these Southeast Asian countries are more business friendly and workers do not often resort to industrial action. The political stability and generally calm atmosphere are good selling points. Besides the local entrepreneurs and local capital have become sophisticated and knowledgeable about investments and manufacturing as well as being familiar with the world market.

19. It is well to remember that together the Asean ten have nearly half the population of China. Their average per capita is as high as China, and the domestic markets obviously have the same potential as China. Given a period of peace and stability the Asean countries can grow and develop and become an attractive market and continue to be a good location for foreign direct investments.

20. Asean is one of the most cohesive of regional groupings involving developing countries. With the Asean Free Trade Area, (AFTA) the Asean countries have become more attractive to foreign investors wishing to operate in the bigger ASEAN market. Already motorcar manufacturers are investing in Asean countries in order to take advantage of the larger market as well as taking advantage of the relatively lower cost and highly skilled labour. It is very likely that manufacturers of other products would follow. A well developed infrastructure and good supporting industries make investing in Asean countries a sound proposition.

21. Trade between the Asean countries is increasing rapidly. The AFTA will act as a stimulus to more intra-Asean trade. Obviously Asean will not be a walk over for China. Life would be tougher. FDI will diminish. The export led growth will not be easy

any longer. But the Southeast Asians will be able to find a niche for themselves. Working together they will be able to use their combined market to match that of China.

22. A symbiotic relation can be developed between China and Southeast Asia. A rich China will need quite a lot of things that China cannot produce by itself. And China's needs for everything would be enormous. Malaysian and Indonesian palm-oil should find a ready market in China. So would pulp and paper, oil and gas and chemicals which the availability of feedstock gives a competitive advantage to quite a few of the countries of Southeast Asia.

23. So far I have talked largely about the economic challenge posed by China. Although China has never attempted to conquer and colonise as Europeans were wont to do, the fact remains that there are huge Chinese minorities in all the Southeast Asian countries. In fact in Singapore, the Chinese majority is such that Singapore today is basically a Chinese state with Malay and Indian minorities. This Chinese minority invariably dominate the economy of the Southeast Asian countries.

24. The situation is such that the Chinese can become a fifth column in Southeast Asia. In fact in the immediate post Pacific War period the Chinese resistance movements against Japanese occupation converted itself into revolutionary forces bent on establishing Chinese Communist states in the countries of Southeast Asia. When China came under Communist rule a lot of sympathy and support was extended to the Chinese guerrilla forces which at first fought against the colonialist British and later the independent Governments of Southeast Asian countries.

25. The insurrections were by and large unsuccessful.

26. Today the people of Chinese origin in Southeast Asian countries are loyal citizens. Admittedly, a few still would like to make these countries into extensions of China by demanding that the Chinese as Chinese be separated from the indigenous people, by having a Chinese education system, separate and segregated Chinese schools and the preservation of all that is Chinese. But these people, few in number, do not get the support of the majority of the Chinese who wish to live in peace with the indigenous people and to do business and acquire wealth.

27. We do not believe that the Chinese in Southeast Asia have any wish to contribute towards China's

overseas territorial ambitions or adventures. In fact we think that they are not only loyal citizens but they are good bridges for the economic cooperation between China and Southeast Asia.

28. Today the relationship between China and Southeast Asian countries is good. There is of course the dispute over the islands in the South China Sea fuelled by the possibility of finding gas and oil there. But serious confrontation has been avoided.

29. The policy with regard to defence differs between the Southeast Asian countries. Some would like to have the American military shield but some would like to see a less confrontational stance. Malaysia believes that if we treat China like a future enemy it will regard us as the enemy now and respond by arming itself to the teeth. We should remember that one of the reasons for Japanese military expansion was because European fear of the Japanese led to attempts to cut off Japan from the sources of raw materials and fuel that it needed for its economic growth. To break this virtual siege the Japanese launched the Greater Southeast Asia War.

30. A policy of trying to contain China might very well lead to the Chinese boosting their military capacity in order to match those of their potential enemy. History has taught us that when the military muscles are strong there is always a desire to flex them and to test their capacity. It requires but a minor incident for a full-scale conflagration to follow.

31. It is far better for China to be accepted as a major economic power. It will be powerful but it will not totally dominate the world. The U.S., Europe, Japan and even Korea would provide a counter balance. It is important to remember that China too is afraid. It is afraid of its traditional enemies in Asia and of the U.S. History has taught China that when it is weak it is likely to be ridden over roughshod by foreign powers. The unequal treaties of the past are still fresh in the minds of the Chinese.

32. Southeast Asia has the most to fear from China's expansionism. Unless China is provoked that fear is misplaced. In today's world military conquest is unnecessary, costly and counter-productive. We do not think that China would indulge in military adventures. There is therefore no reason for Southeast Asia to fear China's military might. But establishing a mechanism for defusing potentially dangerous disputes is necessary. The East Asia Economic Grouping can provide this mechanism.

33. China has assured Southeast Asia that the dispute over the Spratlys can be resolved through negotiations. Southeast Asia should take China's words for this and begin serious discussion on a common stand over China's and each other's claims.

34. While military conquest or even threat is unlikely, economic domination is possible. It will not be total, but it can be sufficiently damaging for the economies of the Southeast Asian nations. But I have already pointed out that there are ways for Southeast Asia and others to counter this possibility.

35. The European Union is the product of the European Economic Community. The most significant achievement of the EEC is not so much economic as the half a century of peace that it brought to Europe. It is possible that the proposed EAEG will result in a similar peace for East Asia. And peace in East Asia can only be good for the region and for the rest of the world. Opposition to the EAEG is very difficult to understand. It cannot be that there is a wish to see East Asia remaining poor. It is very perplexing.

36. The EAEG will not become an East Asian Union as easily as the European countries, which in any case took a considerable length of time. For a long time the East Asian Group will remain a very loose grouping, confining itself to the discussion of regional affairs and common problems. Potential conflicts can be brought to meetings of the grouping at official, ministerial and Heads of Government level.

37. The proposal for an East Asia Monetary Fund as an extension of the swap arrangement can do harm to no one, within the grouping or outside it. Today's problem is likely to be financial and the fund should contribute towards earlier solutions when member countries get into financial difficulties.

38. As China will be a member of the EAEG, challenges posed by China that may be damaging to Southeast Asian countries can be discussed in the forum and mitigated. China surely realises that a prosperous and stable Southeast Asia is good for it. Poor countries are always a source of problems for rich neighbours. If the EAEG can contribute towards preventing China's challenge from damaging the economies of fellow members of the Grouping then China would surely want to listen and consider the effect of its challenge on the countries of Southeast Asia.

39. China will pose a challenge to Southeast Asian countries. But the EAEG would help resolve much of these problems. What remains would be opportunities for Southeast Asia to benefit from China's economic prosperity and stability. And these are enormous. Not only will China be a great market for the products and services of Southeast Asia but there will be a lot of Chinese investment in Southeast Asia. In addition with the passage of time the half a billion Southeast Asians will become a good market for China's products and services.

40. The only thing that the Southeast Asians need to worry is the attitude they take vis-...-vis China. If the Southeast Asians participate in trying to contain China then an atmosphere of confrontation will develop and much will be wasted on preparations for conflicts. Southeast Asia will certainly stand to lose in the ensuing tension.

41. But if Southeast Asia accepts the fact that China is there, that it cannot be wished away, that it is going to play its role in the economic development of East Asia and the world and accordingly look at China as we do Japan and Korea, then, as much as Japan and Korea have contributed towards the prosperity of Southeast Asia, China too will do the same.

42. China is both a challenge and an opportunity. This much is obvious. Whether we gain or lose because of the challenge and the opportunity offered by this new China very much depends on us the Southeast Asians. We have a need to understand the problems posed by China and we can then design an approach that will minimise the challenge and maximise the opportunity.

43. This is my view. I may be wrong. But as the great Chinese leader, Chow En Lai said, it is too early to tell.

44. Historically, China had not been a threat to Southeast Asia. The Chinese migrants who settled down in Southeast Asia tended to adopt the local language and much of the local culture. They remained Chinese however, but gradually lost touch with their relatives and clans in China. Although maintaining that Chinese anywhere were their people China had never sent gunboats to protect Chinese settlers in Southeast Asia. China never behaved like a metropolitan power nor tried to colonise Southeast Asian countries.

45. In the past, the small Southeast Asian states used to acknowledge the superior size of China by sending gold and silver flowers as gifts or tributes

to the Emperor of China. But the submission was never more than that.

46. The emergence of China as an economic powerhouse should not worry Southeast Asian countries any more than in the past. There will be challenges and there will be opportunities. Faced with these the Southeast Asian countries will have to learn to manage the challenges and seize the opportunities. The chances are that at worst a balance will be attained but with astuteness Southeast Asia will benefit more from the opening up of the ever richer Chinese markets.