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IMPLICATIONS AND CHALLENGES FOR SOUTHEAST ASIA**

This is an auspicious occasion for Malaysia: that an institution of higher learning is establishing a centre dedicated to study all things China. I would like to thank the University of Malaya and the Institute of China Studies (ICS), for inviting me to officiate the opening of this conference. This conference is propitious since it is the inaugural event of the ICS. I would like to congratulate the organizers for choosing to examine the significance of China to Southeast Asia as your first task. We celebrate 30 years of Malaysia-China ties this year and this conference is another step in the development of mutual understanding between our two countries.

Three decades ago in 1974, our second Prime Minister, Tun Abdul Razak, traveled to China and signed the joint communiqué which formalized the establishment of relations between the two countries. It was a period in history when Southeast Asia was in turmoil because the region was a theatre for Cold War rivalries. Malaysia's decision to embark on that important journey and take that momentous act of diplomacy to formalize relations was indeed a bold one. Quite clearly now, it was also a far sighted decision.

From the ASEAN region, Malaysia took pride in leading the way in normalizing relations with China. The example set by Malaysia was soon followed by other ASEAN countries. With the break-up of the Soviet Union, the end of Cold War dynamics and settlement of the Cambodian issue, other ASEAN members gradually accepted that wider regional co-operation beyond ASEAN was an irreversible trend in global economic development and contemporary international relations.

For our part, we had decided then that the best way to engage with China was to treat China as a friend, not as an adversary. We were very conscious in those days that it had to be a well considered, strategic decision. We know now that it was the correct decision. We were aware even then that we needed China to play a role in regional security,

stability and prosperity. Today, we see the emergence of China as a global economic giant and a key player in geopolitical affairs.

It is useful for us to be reminded of how far China has transformed itself since the Second World War. China's development since 1949 can be broadly divided into three periods. First the Maoist era: Ideologically driven, China was striving for a communist utopia while bent on exporting revolution to the world. They were wasted years. Its reliance on the Soviet model of a command economy denied China the knowledge, capital and technology which it needed for economic and social development. China's share of world GDP declined from 5.8% in 1952 to 5% in 1978 - a dismal performance considering its vast resources and the relatively low income base that it was starting from. In 1978, about 250 million Chinese lived below the international poverty line. The mass of the Chinese people wore drab dark blue or dark grey ill-fitting unisex Mao jackets. Communist slogans were shouted from loudspeakers in railway stations and public parks.

1978 marked the beginning of the second era with the launch of Deng Xiaoping's "reform and opening up policy". Deng said in 1979 that China should aim at achieving a "modestly comfortable" standard of living by the year 2000. On most counts, China has surpassed its targets. They have had a difficult transition, culminating in the Tiananmen incident of 1989. Despite many setbacks, Deng never lost sight of his broader objectives. His "southern tour" in 1992 injected fresh impetus into his policy, perhaps best demonstrated in the development of Shanghai. In 1992, Puxi was a dilapidated old town and Pudong a stretch of farmland. Today, Shanghai has been transformed with these two areas an integral part of what is clearly one of the most vibrant and dynamic cities in the world.

Deng's policies, consolidated and built upon by President Jiang Zemin and Premier Zhu Rongji, have set China on a path of phenomenal economic growth. In the 1970s, China was the 11th largest economy in the world. Today China is the 2nd largest global economy behind the United States when measured by purchasing power parity (PPP). Over the last decade, China has achieved an average growth rate of 10% per annum, and this notwithstanding the Asian financial crisis in 1997 and the recent global economic downturn.

China is now entering the third phase of its transformation. By entry into the WTO, the new Chinese leadership has signaled its determination to stay the course towards greater openness and integration with the rest of the world. This decision is a strategic one. China's WTO membership is estimated to bring a USD800 billion increase in FDI up to 2010. Barring major dislocations, Beijing's hosting of the 2008 Olympics is set to be a major coming-of-age party for China as it joins the ranks of the major economies of the 21st century.

A rising China is both a competitor and partner for the rest of East Asia. It is better that regional countries recognize China's growth as a fact and devote their attention to dealing with it. Besides exploring ways to tap into China's growth, we must also find ways to improve our own competitiveness.

For industrialized North Asia, China will initially be more of a partner. Its low cost of production and abundant supply of cheap and skilled labour makes it an attractive base to relocate industries seeking to remain globally competitive. The relocation of manufacturing industries from Japan, South Korea and Taiwan to China today is similar to Hong Kong's light industries move into China during the 1980s and 1990s.

For Southeast Asia, China will initially be more of a competitor. Of the foreign direct investments that flow into East Asia (excluding Japan), China now receives the lion's share of 50% compared to 20% for ASEAN countries. This is a reversal of the proportions of the early 1990s. With China's emphasis on investments in human capital and technology catch-up through FDI, China has within a short span of 10 years, moved up from labour-intensive low-end products to high-end capital intensive industries such as semi-conductor foundries.

Nevertheless, as China adapts to the latest technologies, improves its R&D and learns new production techniques, we can expect a reversal of China's role in the region. As it grows, China's 1.3 billion people will be a huge potential market for unfinished goods produced in Southeast Asia. China's burgeoning middle class will translate into more tourists for ASEAN. China's outbound FDI has also been rising gradually in the past few years. By 2001, China's investment in ASEAN reached \$1.1 billion accounting for 7.7

percent of China's overseas investments. This is but a trickle compared to the flow that will come in the course of the next 20 to 30 years.

ASEAN's approach towards China has been predicated on a combination of internal and external considerations - for the most part, we focused on economic development and regional integration. Over the last 20 years, ASEAN and China have been going through a mutual engagement process not only in terms of security, but also in the political and economic arena as well. However, the trend is most pronounced in terms of strengthening economic linkages, predominantly in the areas of trade, investment, finance, and technology. Today, China has become an important trading and investment partner for ASEAN with many of our companies exploring "win-win" opportunities with Chinese counterparts.

China is also playing a central role in the on-going process of economic integration of East Asia. The recent conclusion of an ASEAN-China free trade agreement (FTA), aimed for completion within a decade, is expected to be the world's biggest free trade area covering 1.7 billion consumers with a combined GDP of US\$2 trillion. The World Bank believes that this FTA could be the core of a broader East Asian economic zone in the near future.

Currently, China is ASEAN's 4th largest trading partner. There are ample opportunities for increased trade and investment and member countries hope to establish a stronger presence for their products in the Chinese market because of its huge potential. As a result, ASEAN recognizes the need to accommodate rather than be confrontational with China on issues that were divisive in the past. More importantly, in the face of growing regionalism in the west, ASEAN is looking towards China as an ally to strengthen and enhance its own position and voice in regional affairs.

For that reason, there is a noticeable political shift towards China with its inclusion in many regional dialogues and forums by ASEAN in the last decade. China became a participant of the ASEAN Regional Forum (ARF) in 1994 and a dialogue partner of ASEAN in 1996. There has been no turning back in the relations since then. In fact, the partnership has expanded and deepened. The "China threat" has gradually given way to the "China Opportunity" and the

South-China Sea is seen less as a "flashpoint" in the region now compared with a decade ago.

While formal relations with ASEAN were established in 1996, it was not until 2001 that the relationship started to witness a substantive content with China's proposal to establish a free trade area (FTA) and to focus priority cooperation in the areas of agriculture, information technology, human resource development, mutual investments and Mekong river basin cooperation.

As an emerging world power, China is keenly interested in ASEAN as one of the world's most successful regional organizations. China understands that it cannot grow in isolation and that a shared common interest with ASEAN, in maintaining a peaceful, stable environment in the region will accelerate its own economic development. Moreover Chinese leaders acknowledge they have to encourage regional ties actively not only to secure peaceful environment to promote their own economic interests but also to secure their influence in Southeast Asia.

A number of developments are testimony to the fact that ASEAN- China relations have entered a new phase. The tangible socio-economic benefits from the alliance are becoming clear. China was among the first to rush in with an offer of US\$1 billion in standby credit to Thailand during the economic crisis in 1997. Chinese leaders were sensitive to its ASEAN neighbours when it avoided a devaluation of the Renminbi against Southeast Asian currencies that were severely affected by the 1997 Asian financial crisis.

The signing of the Free Trade Agreement with ASEAN signifies a long term economic commitment from China. Peace and security in the region received a boost with China's signing of the Declaration on the Conduct (DOC) of Parties in the South China Sea in November 2002 and its accession to the Treaty of Amity and Cooperation in Southeast Asia in 2003. Both the events signaled the mutual desire to promote trust and confidence and to secure the peace and stability of the region.

ASEAN-China relations were raised to a new level with the signing of the Joint Declaration on the Strategic Partnership for Peace and Prosperity in 2003, paving the way for a more intensive and substantive interaction

between ASEAN and China. A plan of action to implement the strategic partnership is being drawn up.

Development cooperation, which acts as a gel to further cement the relationship, has deepened and widened with agreements concluded in agriculture, non-traditional security issues and information and communications technology. More are being planned. Close to 40 projects have been implemented and China continues to assist ASEAN in narrowing the development gaps through the Initiative for ASEAN Integration (IAI).

All these initiatives are important milestones and signals that ASEAN and China are becoming ever closer. China has shown that it is a responsible player and a constructive partner in fostering goodwill with Southeast Asia.

Just as China is important to ASEAN, this new emerging global powerhouse is also equally if not more important to Malaysia. The economic reasons are obvious. Malaysia is China's largest trading partner among ASEAN members. Last year, we were China's 7th largest export market, and China was Malaysia's 4th. Our bilateral trade is expanding rapidly, reaching USD 14.1 billion in 2003 and expected to exceed USD 50 billion by 2010. Malaysian companies are the 15th largest foreign investors in China.

The strong and steady growth of China has a profound impact on the future of East Asia, and indeed the world. To engage China meaningfully, we need a deep understanding of the country, its people, its 5,000 year history and culture. Chinese dialectics is embedded in her philosophy and thoughts - the most important influence being Confucianism. These teachings affect and influence the entire Chinese psyche and way of life. Making inroads into China will require a deep appreciation of the Chinese people. Mastery of Mandarin and cultural immersion will be necessary first steps to truly understanding the intricacies and complexities of China.

But there are also more profound reasons for Malaysians to take note of China. Historically, the coming of Chinese from China to Malaysia can be traced back 600 years. The merchants and sailors from China then traveled to Peninsular Malaya and other parts of Southeast Asia. When they crossed the Straits of Malacca, they stopped by Malacca and eventually settled down. The intermarriage between Chinese

traders and the locals brought about the unique community of Baba and Nyonya, becoming an important legacy and part of our cultural heritage until this day.

The Emperor of the Ming Dynasty (1368-1644) sent a delegation led by Admiral Cheng Ho (1371-1435), to pay tribute to the Sultans of Malacca. This act marked the peak of diplomatic, commercial and cultural links between China and Malacca and wider Southeast Asia. It is also a historical fact that Cheng Ho was a Muslim envoy of China and thus a very symbolic indication of the deep Islamic roots that bind our two countries.

Given the importance of China to Southeast Asia and to Malaysia in particular, I would like to congratulate the University of Malaya and its new Institute of China Studies for your efforts to contribute to our understanding of this important country. Given UM's traditional strengths and intellectual capacity, I would urge you through the Institute of China Studies to harness your expertise in all fields - in Economics, Finance, Trade, Education, Law, Languages, Culture, History, as well as Strategic Studies - to conduct research, organise modules and seminars that will achieve two important aims: firstly, to deepen our capacity for objective research and analysis on China and secondly, to act as a bridge in bringing closer the peoples and institutions of our two countries. In this regard, it is my hope that the ICS will become an important conduit for greater cooperation with renowned Chinese Universities and academics, as well as enhance the exchange of students from both countries.

Let me end on the importance of peace and friendship. The future for ASEAN-China relations is bright. We are on the right path. I am confident that with initiatives such as this conference today, we are laying a firmer foundation for growth and stability in Southeast Asia for decades to come. I hope that today's conference will explore new ideas for cooperation so that the camaraderie between ASEAN and China will continue to grow ever stronger.

I wish you every success in your deliberations.

Office of the Deputy Prime Minister of Malaysia