



ASIA IN 20 YEARS

MAY 23, 2014 Lee Hsien Loong
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MAY 23 — I would like to wish the Nikkei Conference a very happy 20th anniversary! Nikkei started this conference in 1995, with Lee Kuan Yew and other Asian leaders. It has grown into a valuable platform to discuss developments in Asia. By promoting mutual understanding, the conference also contributes to growth and prosperity in the region. Congratulations!

This year's theme is "Rising Asia — Messages for the Next 20 Years". Everyone knows the remarkable progress Asia has made in the last 20 years. Since the end of the Cold War, Asia's strategic weight in international affairs has grown. It is home to more than half of the world's population, and its share of global GDP has risen from one-fifth to one-third. Asia is exerting greater soft power too, whether through Uniqlo fashion, Bollywood movies or K-pop.

Where will Asia be 20 years from now? We can predict some trends with confidence, but there are many unknowns, and therefore many different possible outcomes. This morning I will talk about both the clear trends and the critical uncertainties in Asia over the next 20 years. The key players will still be the US, China and Japan. (India may play a significant role too, but its focus will be in South Asia rather than East Asia.) What key questions will determine how things turn out in these countries? That will give us a basis to discuss how the regional landscape as a whole will look in 2034. I hope you find this approach useful in understanding the dynamics of a rising Asia.

Whither regional powers?

US. Let me begin with the US. Today it is the dominant global power. In the Asia-Pacific, US power and influence have underpinned regional security and stability since the Second World War, and enabled all countries to prosper. The US has been a benign and constructive power, which explains why it is still welcomed by countries in the region. The Obama administration's "rebalancing" towards Asia reflects the American strategic view, that the US has been and always will be a Pacific power.

Unfortunately, the strains of being the global policeman have taken their toll on the US. The wars in Iraq and Afghanistan have cost the US more than 50,000 soldiers killed or wounded. The American people are naturally war weary. They are reluctant to engage in new fights or take on fresh burdens, whether in Syria, Ukraine or Asia. Its adversaries sense this, and harbour hopes that the US has lost the will to advance its interests and defend its "red lines".

The US economy too has also gone through a rough patch. The Global Financial Crisis was a major setback. The crisis is past, but conditions have still not recovered to their pre-crisis levels. Politically, deep divisions between the Democrats and Republicans have undermined America's ability to tackle the financial crisis, as well as other important issues ranging from reforming immigration laws to overhauling social spending. Because of these difficulties, some say that the US is in permanent decline. I do not believe this. The US is a very resilient, dynamic and entrepreneurial society. It has been through many trials and tribulations in its history, but each time it has bounced back.

I believe that in 20 years' time, the US will remain the world's pre-eminent superpower. China's GDP will probably exceed America's in absolute terms, but not in per capita terms. The US will still be the world's most advanced economy, leading the way in innovation, technology and talent. I expect the Fortune 500 global list to include many new American companies which do not yet exist today, just as neither Google nor Facebook existed 20 years ago. Shale gas will enhance the competitiveness of US industries, and could also be an additional tool of American diplomacy. The US armed forces will still be the most formidable and technologically advanced in the world.

Whatever its preoccupations elsewhere on the globe, the US will continue to have a huge stake in Asia. The US will still have important interests, large investments, major markets and many friends here. It will have every incentive to engage the region across a broad front. There are two key uncertainties in this prediction. The first is how soon Americans get over the current mood of angst and withdrawal, and regain the confidence and will to advance American interests around the world.

The second is when the US can get its politics to work. Politicians on both sides need to come together to overcome the present gridlock and forge a consensus on the way forward, rather than be mired in partisanship and fundamental disagreement. I do not know when the US public mood or political impasse will change, but I am confident that these are not questions of whether, but when.

China. Besides the US, China will also play a vital role in the region. In fact, the biggest change for Asia in the next 20 years will be the growth of China's power and influence. Regional countries are still adjusting to this.

The World Bank forecasts that China will be the world's largest economy in PPP (purchasing power parity) terms by the end of this year. In 20 years, it will have grown 3-4 times larger. Its standard of living will have reached the level of what the Chinese call "小康社会", or a modestly prosperous society. Second-tier Chinese cities like Chongqing and Guangzhou will join Shanghai and Beijing among the world's leading metropolitan areas. Many more Chinese companies will be global leaders, such as ICBC, Haier and Alibaba.

The PLA will be a much more advanced and powerful fighting force, commensurate with China's economy and power. The PLA is developing and acquiring advanced military hardware and capabilities like stealth jets, aircraft carriers and cyber warfare. It will still not be anywhere near the US military in sophistication or reach, but it will be a force to be taken very seriously. China's military modernisation should not surprise anyone. National defence has always been one of China's Four Modernisations, along with agriculture, industry, and science and technology.

But China also has a serious demographic challenge. Because of the one-child policy, China will be one of the most rapidly ageing countries in the world. Already the size of China's working population has peaked, and is shrinking. In 20 years' time, China will have nearly 300 million seniors (aged 65 and above), almost the entire US population today. China is likely to grow old before it grows rich.

I see two key uncertainties in China's future path: One internal, and one external. Internally, can China transform its society to meet the new social needs and expectations of a new generation, and its politics to produce a stable, forward-looking government that acts in China's enlightened self-interests? China's economic transformation is bringing profound social changes. The new generation is urbanised, educated, Internet-savvy and vocal. Hundreds of millions are well-travelled, middle-income professionals. China needs to build social institutions and safety nets to take care of them. It also needs to adapt its political system to work in this new society, and overcome serious existing problems like corruption.

These would be major challenges for any country, much less one the size of China. China has no road map to follow as it tries to develop workable social and political models, unlike when it comes to economic strategy. There is no precedent, in any other country, for the transformation which China will go through. The Chinese will have to feel their way forward carefully, like crossing a river one stone at a time, “摸着石头过河”.

Externally, how will this major growth in China's influence and power affect its relations with other countries, big and small? How will US-Sino relations develop? Can China and its much smaller neighbours manage their relations constructively so that friendship and cooperation prosper, while its neighbours retain their independence and strategic space? Will China be welcomed and respected as a large but benign power shouldering its share of international responsibilities, the way many Asian countries have accepted the US since World War II, or will it be viewed with wariness and apprehension?

For three decades, China has prospered by following three dictums laid down by Deng Xiaoping in the 1980s: “稳定压倒一切” (stability overrides everything); “让一部分人先富起来” (let some people prosper first); and “韬光养晦” (keep a low profile internationally). On these bases, China has maintained stability domestically, transformed its economy and integrated smoothly into the global community. How will China re-interpret or modify Deng's dictums to suit the 21st century?

The challenges facing President Xi Jinping's administration are daunting, but that is no reason to conclude that China will fail. Its leaders are competent and pragmatic, and fully appreciate the magnitude of their task, unlike in the former Soviet Union. They are serious in tackling their problems, whether restructuring the SOEs despite displacing millions of workers, or curbing corruption even at the highest levels. They know that China's internal challenges remain their top priority. And there is tremendous drive, among Chinese people and officials at all levels, to learn and do better.

Japan. I will now turn to Japan. Japan has endured a very difficult two decades since the bubble economy ended. With his Three Arrows, Prime Minister Abe has boosted confidence, and launched difficult reforms to revive the economy. I am confident that in 20 years' time, Japan will remain a major power. It will still be one of the world's largest economies, with great strengths in science and technology. It will continue to contribute to regional peace and stability within the framework of the US-Japan Security Alliance.

But like China, Japan faces a very difficult demographic challenge. Its population is ageing and shrinking rapidly. In two decades, Japan's population will have shrunk by almost 10 million, or the equivalent of two Singapores. Some forecast that there will be almost as many Japanese centenarians as new-borns (aged less than a year).

There are two possible ways to mitigate the impact of this demographic problem. One is immigration, which seems politically impossible. The other is to revive the economy through structural reforms which will improve productivity and encourage more women to work. Prime Minister Abe's Third Arrow is aimed at the right target, but structural reforms will take a long time to show results, often over several election terms. The key question is: Will Abe and his successors be able to muster the political consensus to support reforms over many years, through the pain and displacement they will cause, in order to eventually reap the dividends?

The success of Japan's reforms depends also on Japan's external environment. If Japan enjoys good relations with its neighbours, economic cooperation will thrive, and this will give the reforms the most favourable chance to show results. If not, regional frictions will sap confidence, and discourage trade and investments.

In 20 years it will be a century after the Sino-Japanese War and the Pacific War. So another key question is whether Japan and its neighbours, especially China and Korea, can come to terms with this history, and work together on win-win outcomes for the future? Of course this is not just a question for Japan, but also depends on the attitudes and actions of its neighbours, for reconciliation and cooperation cannot be achieved by one party alone.

Scenarios for Asia. These trends in the US, China and Japan will interact with one another to produce the new strategic landscape in Asia. What can this new landscape look like?

A peaceful and integrated Asia. One scenario is that Asia remains at peace, with countries working together to advance shared interests, while competing peacefully with one another. The US maintains the rebalance towards Asia through successive administrations, and engages the region across a broad front — not just in security matters, but trade, investments, education and people-to-people exchanges too.

A more powerful China establishes itself as a status quo power, and adheres to international law and norms. It maintains constructive relations with other powers while giving smaller countries space to thrive. The US and China find a new *modus vivendi*, competing for influence but with a sufficiently strong overall relationship to accommodate each other on many issues.

Japan revitalises its economy and recovers its confidence. It works with its neighbours to put the history of the war definitively behind it, and establishes trust so that all sides can move forward on a win-win basis. That will depend in particular on the US-Japan Security Alliance, because America's active involvement will exert a moderating influence on all sides.

A stable strategic environment will help foster regional economic cooperation. We are unlikely to see any breakthroughs at the WTO, but the Trans-Pacific Partnership (TPP) and the Regional Comprehensive Economic Partnership (RCEP) should have developed and perhaps linked up, to bring us closer towards the goal of a Free Trade Area of the Asia-Pacific. Greater economic interdependence will raise standards of living for all, and contribute to a peaceful region in a virtuous cycle.

In this good scenario, Asean members are able to deepen their cooperation and integration. A cohesive Asean continues to play a central role in the regional architecture, as an effective neutral platform for major powers to engage one another. Asean will also remain attractive as an investment destination and trade partner, holding its own against other regional economies.

A riven and fractious Asia. We hope this good scenario happens. But if things do not work out right, we will be contemplating another, less benign scenario. The tremendous growth in China's size and power prove too much for the regional order to accommodate. US-China relations are fraught with tensions, pushed by a zero-sum view of the world, and a lack of mutual trust. China's influence, instead of being welcomed, is merely tolerated by other smaller countries in the region. Territorial and maritime disputes in the East and South China Seas continue to fester, overshadowing efforts to build goodwill and win-win cooperation between China and its neighbours.

There are tensions in Asia between other countries too, arising from unresolved historical issues, territorial disputes, and nationalist populism. Nationalism is a growing force in many Asian countries, as we have recently witnessed in the anti-China protests in Vietnam. In some countries, politicians try to win votes by hitting back against exploitative foreign investors, playing up historic grievances against neighbours, or stirring up animosity against foreigners. In Japan and Korea, the history of the war continues to drive public sentiments towards each other. And in China, pride in the country's astonishing progress has roused strong nationalistic feelings and a desire to claim China's rightful place in the sun, after more than a century of humiliation.

Such a strategic climate inevitably sets back economic integration. There are more trade disputes and currency wars and tit-for-tat protectionism. The result is less shared interest in one another's success, more frictions and disputes, and fewer restraints on countries when things go wrong. With the big powers at odds, Asean countries are forced to choose sides, and South-east Asia again becomes a proxy battleground, as it was in the 1960s and 1970s. Everyone loses in such a scenario.

Critical factors. Both scenarios are imaginable. Which comes to pass depends on two key factors. The first is US-China relations. This is the most important bilateral relationship in the world, for the US and China, and for other countries too. As President Obama and

President Xi Jinping acknowledged recently, both countries have many shared interests despite their frictions and disputes. China relies on US markets and know-how, while many US companies see China as a key export market and manufacturing base. Both recognise the need to work together on global issues, whether it is managing the situation in the Korean peninsula, or tackling climate change.

Nevertheless, China's rise will be an enormous challenge to US-China relations. History has shown that the rise of new powers often leads to conflict with the incumbent powers. On both sides, there are those who doubt and distrust the other's intentions. It will require great restraint and wisdom to overcome this distrust and reach a workable and peaceful accommodation.

The other key factor influencing the region's path is how nationalism develops. Will it be a source of national pride and confidence, promoting peaceful and beneficial competition between countries, similar to the competition between companies like Sony, Samsung and Lenovo? Or will it become a virulent nationalism, fuelling defensiveness and insecurity, causing enmity and tensions, and passing on the burden of history from one generation to the next?

Potential flashpoints. Both these scenarios assume that there will not be war in the next 20 years, otherwise all bets are off. No country wants war, and every country will try to avoid it. But that does not make war in Asia impossible. There will be tensions and frictions, incidents can escalate, and miscalculations can lead to unintended conflicts. One flashpoint is the territorial and maritime disputes in Asia over the Senkakus/Diaoyu Islands, and the South China Sea. These disputes have heated up in the past two years, with incidents at sea, battles using water cannons, and collisions between ships.

These are deeply worrying developments. Already the tensions have soured bilateral ties between the contending states, and affected tranquillity and confidence in the whole region. But if in one of the incidents at sea a ship is sunk or people are killed, the situation can easily spiral out of control. The EP-3 incident between China and the US in 2001 was a close call.

Another hot spot is the Korean peninsula. No one can say what will happen in the next 20 years. Quite possibly the status quo will prevail, with repeated brinkmanship and occasional tensions, but hopefully no war. But worse outcomes are easily imaginable. A regime may suddenly collapse, as happened in East Germany in 1989. Alternatively, brinkmanship and miscalculation could escalate into an armed conflict.

But even in the absence of war, failure to denuclearise the Korean peninsula poses a continuing risk. North Korea will continue to develop its nuclear capabilities. At some point this will cause other countries in the region, including Japan, to seriously reconsider their nuclear stance. If another country decides to go nuclear, it would destabilise the entire region, with unpredictable and dangerous outcomes.

Conclusion. I have described these uncertainties and scenarios vividly, to help us visualise how things could turn out. I am not predicting what will happen, but describing what may happen. Over the past 20 years, Asia has done well despite the Asian Financial Crisis in 1997, the SARS outbreak in 2003 and the Global Financial Crisis in 2008. Each time, we emerged stronger. For Asia, the next 20 years will be an historic opportunity.

The risks are not insignificant and the journey will not be easy. But on balance I believe that we will achieve a large part of the good outcomes, and avoid most of the bad scenario. This is because I am confident that the US will not relinquish its decades-long position as an Asia-Pacific power, and I am hopeful that, as China's power grows, it will find ways to continue integrating smoothly into the international system.

Whatever the forces driving the politics and policies of each country, ultimately, we share a common interest in peace and prosperity in Asia. All stakeholders big and small have a responsibility to make this vision come true. Let us all work together to seize the opportunities ahead, and create a brighter future for us and our children. — Today

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