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Asian Prospects Toward the 21st Century

Former Prime Minister Khun Anand Panyarachun, Chairman of TDRI delivered the inaugural address at an international conference on "The Construction of a New Order for International Cooperation," held on November 8, 1994 at the Okura Hotel in Tokyo, Japan. The conference discussed the immense changes that are taking place in world patterns of trade and investment, as well as highlighting the continuing shift in the economic center of gravity from the Atlantic to East and Southeast Asia. Primary funding sources were the Association for the Promotion of International Cooperation and the Yomiuri Shimbun. Below we reprint Khun Anand's speech.

Excellencies, Ladies and Gentlemen:

The year 2000 will mark a rare historical occasion. It will usher in not only a new century but a new millennium. Those who take ancient prophecies literally predict that this period will be accompanied by cataclysmic upheavals.

I can see some empirical basis for the millenarians' fear. While the Cold War may be over, a wide variety of international challenges still loom large before us: nuclear proliferation; ethnic cleansings; competing claims of territorial sovereignty; and East-West differences over democracy and human rights, trade, environment and population. The world is not in danger of going up with a bang, but we must ensure that neither will it end with a whimper.

Meanwhile, the drama on the world stage is changing. If the end of the Cold War taught us anything, it was that fundamental change can be swift and unexpected. While the United States has emerged as the world's sole superpower and Japan continues to play an influential role, attention is increasingly focused on China as a new pole of power and engine for growth in the world's most economically dynamic region. Further afield is a host of other medium rank countries in Southeast and South Asia—particularly India—which are assuming an increasingly significant role in regional and global affairs. These emergent players are actively forging cooperation at the bilateral and multilateral levels with the various regional players.

The Asia Pacific region's booming economy has prompted widespread optimism about its future. Everywhere, the East Asian "model" of development is being studied and admired. Intra-regional trade has far outstripped that of other regions; economic interdependence and cooperation are at unprecedented levels.

So, what does the future hold for the Asia Pacific region?

REGIONAL ECONOMIC INSTITUTION-BUILDING

The key trend is a renewed interest in regional cooperation through institution building. This is an apt response to the Cold War's end, particularly for a region that has for too long lacked a sense of common identify. Throughout most of its history, the Asia Pacific region has been an odd cluster of different economic and political systems. For many countries in the region, colonialism has contributed to the various malefactors which have fed on historical distrust between regional players. The fact that regional countries now show a willingness to work together in forging new modes of cooperation is by far the most promising development for continued peace and prosperity in the Asia Pacific region.

The areas for such cooperation are many. So far, the spotlight has been on economic cooperation. ASEAN

is finally making good on its economic promise. This dynamic market, with 340 million people and a combined GNP (gross national product) of US$ 430 billion, is taking steps that will ensure its vibrancy well into the next century. ASEAN members have recently agreed to move forward the timetable for trade liberalization under the ASEAN Free Trade Area by five years, to the year 2003. Furthermore, they have agreed to eventually include agricultural products, which had initially been excluded from the tariff reduction scheme. The advantages of these major steps are two-fold: they will boost intra-ASEAN trade and also make investment in the region even more attractive. With the passage of the Uruguay Round these moves should help ASEAN to maintain its competitive edge and stay ahead of the game.

This trend is likely to find echoes throughout the greater Asia Pacific area. The Asia Pacific Economic Cooperation (APEC) is quickly gathering momentum, shedding its modest origins to become a potent force for free trade and open regionalism. Next week, the 18 member countries of APEC will assemble in Indonesia to define the goals of more liberalized trade and investments with proposed time frames ranging from 2010 to 2020. This will be a further complementary step in the direction toward freer and fairer trade in the wake of the conclusion of the Uruguay Round of GATT and the pending establishment of the World Trade Organization (WTO). The APEC leaders will also have occasion to discuss other areas of strengthening the APEC cooperation process, including education, human resources development, technology transfer and the participation of private enterprises in regional cooperation.

Nevertheless, some countries are concerned about being rushed into trade liberalization. These concerns are not entirely unjustified. The reallocation of labor into more economically-productive areas, the urbanization that accompanies industrialization—these pose socio-cultural challenges that certainly need to be taken into account by each country. But they should not overlook the powerful argument for economic liberalization. As the risk of being left behind becomes apparent, governments will have little choice but to open up their economies. Therefore, the sooner each APEC member shifts away from protecting inefficient sectors and concentrates on developing its areas of comparative advantage the better.

This is, of course, more easily said than done. Inefficient producers often wield considerable political clout. Governments are concerned about social dislocations and environmental deterioration resulting from rapid shifts in economic activity. Since conditions in each country differ, each sub-region in the expansive Asia Pacific area should be encouraged to work out for itself the most appropriate pace and timeframe to adjust for the side-effects of economic liberalization, by taking into account their varying stages of preparedness and development.

REGIONAL SECURITY COOPERATION

Sustained economic development requires a stable security climate, and this is another area that will benefit from regional institution building. During the Cold War, the United States' security umbrella allowed the East Asian NIEs to prosper. At present, however, Washington's foreign policy priorities, including its security role in the region, are in flux. Domestic preoccupations, and unresolved debates over America's vital interests will tend to constrain U.S. involvement abroad. While Washington is likely to "remain engaged" in Asia, the relative scope and nature of that engagement will probably be more limited than ever before. It thus falls to the Asia Pacific countries to assume greater responsibility for regional security.

In response to this trend, the ASEAN Regional Forum (ARF) was inaugurated earlier this year in Bangkok. For the first time, all 10 countries of Southeast Asia were gathered under one roof. For the first time, ASEAN and its dialogue partners from the West and in the region resolved to engage in regular dialogue as part of a process called preventive diplomacy. To build trust and confidence over the long term, such ideas as the establishment of a regional peacekeeping center and the exchange of military information may be tabled in the future.

The proof of the pudding, of course, will be whether the ARF can contribute directly to reducing regional tensions. The three biggest potential threats to regional security today are North Korea, and the conflicts raging in Cambodia and the South China Sea. Some may wish to portray them as bilateral or domestic disputes, but their impact on the region, should conflict break out, will not be confined to the disputing

parties. Should the Korean peninsula be destabilized, Japan and China will be the first to be affected. Should the terrorist and brutal tactics of the Khmer Rouge escalate into large-scale violence, neighboring Thailand will once again bear the brunt of a massive influx of refugees. Should force be used over the Spratlys, vital sea lanes will be disrupted and regional economies will suffer. At this early stage of ARF's existence, it is understandable if it seeks to avoid controversy. But if it can play a constructive role in these disputes, initiation by fire will quickly establish its credibility.

OTHER OPPORTUNITIES FOR COOPERATION

Other areas can also benefit from similar cooperative efforts in the region. As I suggested earlier, rapid economic growth can produce adverse social and environmental side effects, and these often transcend national borders. In the early enthusiasm for free-wheeling capitalism, these side effects tend to be ignored or overlooked; but growth cannot be sustained over the long term if they are left unaddressed. The fact that the side effects have transnational consequences make them an appropriate subject for regional cooperation.

Another reason for taking a regional approach to these developmental side effects is their multi-dimensionality. For one, as industrialization in the region quickens, environmental problems are likely to exacerbate. Inadequate infrastructure and rampant pollution are already lowering the quality of life in many major Asian cities. Rural areas are no less prone to environmental damage. The conversion of farmland to industrial use, overfishing, soil erosion, flooding, and erratic rainfall patterns caused by deforestation, may turn some previously self-sufficient countries into net food importers. Indeed, unbridled population growth would further compound the problem of the already undernourished populace. Add to this global warming, which will raise sea levels and flood rich delta areas, and the environment becomes an issue we can no longer afford to keep on the back burner. The Climate Institute, in a report commissioned by the Asian Development Bank, estimates conservatively that climatic changes in the next 80 years may create over 20 million "environmental refugees" in South and Southeast Asia, as well as social and economic disruptions on an unparalleled scale. Taking steps to protect the environment now is more sensible and feasible than attempting to undo the damage later.

Still, it is not immediately clear how best to balance the region's developmental and environmental needs. Since global warming affects everyone, East and West alike have an interest in preserving the last remaining strands of tropical rainforest in the world. But the argument that developing countries should slow their development to preserve the environment is not convincing. The comparative advantage of many Asian countries lies in non- or semi-renewable natural resources, such as timber, and to restrain them from exploiting these resources would be patently unfair. Any attempt to link trade and environmental protection, particularly if it is seen as an attempt to set up non-tariff barriers, is likely to be staunchly resisted by the developing countries.

The growth-versus-environment dilemma might be usefully taken up within an institutional setting, such as APEC, for here is an issue directly related to economic development. Furthermore, it involves allocative choices between more and less developed countries in the region. The answer may lie in some form of compensation, for example, a "debt-for-nature swap," whereby a developing country's debt is effectively reduced in exchange for its commitment to protect its rainforests. Such swaps have already been negotiated in several countries, including Costa Rica, Ecuador and the Philippines. While this sort of arrangement may provide only a partial solution, its main advantage is that it creates no losers, only winners. A region-wide dialogue would help identify the key issues and suggest solutions satisfactory to all.

CULTURE: CLASH OR CONVERGENCE?

A challenge that lends itself less easily to institutional solutions is the simmering debate over Western versus Eastern values. I am pleased that the organizers of this event have included, besides the usual politics and economics, the issue of culture. Disagreements between East and West over democracy, human rights, labor rights, reproductive rights and—dare I say it?—even caning rights already appear to validate Professor Huntington's prediction of an impending "clash of civilizations."

I believe the clash will eventually be avoided. The reason that its possibility looms so large now is a function of our continuing search for a post-Cold War order. With communism all but dead, the United States, the only superpower left, is returning to "core American values" to guide its foreign policy. This may be no more than an effort to establish some measure of predictability in an increasingly chaotic world. Despite its good intentions, however, Washington is still groping for ways to win friends and influence governments without alienating them. I believe the learning curve will be overcome before too long. Washington may appear aggressive and abrasive in promoting its democracy and human rights agenda, but the limits of a heavy-handed approach are already becoming apparent.

Even as the United States begins to appreciate the advantages of friendly persuasion, Asia will come around on its own. As we have seen in South Korea, Taiwan, and Thailand, prosperity creates a demand for democracy and at a certain juncture in the national development process, citizens will long for greater political freedom and civil liberties. Moreover, the free flow of information so necessary to a vibrant economy is also the harbinger of new ideas. Satellite dishes and other communications technology are already helping spread the gospel of Western-style consumerism. There is no reason to suppose that the idea of free choice in politics will not make similar inroads in Asian societies, the efforts of governments to prevent it notwithstanding.

The final point that I wish to add regarding the so-called "clash of civilizations," or the clash between Western and Eastern values is that, in fact, throughout history we have witnessed the conflicts of ideas and values arising out of conflicts between forces of extremism on both ends. Coming from a country like Thailand that adheres to the tenets of Buddhism, which espouses moderation and the middle way, I earnestly hope that the forces of moderation will succeed in overcoming those who profess extremism of all kinds. It may be that both Western and Eastern civilizations are flexible enough to accommodate one another. I like to think that, rather than a clash of civilizations, what will eventually come about will be a convergence of cultures instead.

ROLE OF THE REGIONAL POWERS

For all these region-wide trends, the future of the Asia Pacific area will still be tied to the fortunes of key regional powers. The greatest uncertainty surrounds the future of China. Even a change in the Chinese leadership is unlikely to affect the direction of economic policy. However, China's double-digit growth has been accompanied by corruption, inflation, loss of job security and a widening income gap between urban and rural areas. A large "floating population" of unemployed peasants, drug addicts, prostitutes and criminals is also one of the social side effects of rapid economic reform. As in any other country, how the leadership deals with such issues will determine the extent to which growth translates into development.

The problem that is particular to China, meanwhile, will be the eventual passing of the torch to a new generation of leaders. When the last of the so-called "immortals"—such as the octogenarian Deng Xiaoping—are gone, the new Communist Party leadership will find it difficult to command the same deference as the Long March veterans. The Party's tight political control will be increasingly challenged by the children of Tiananmen and a rising middle class. Dissent will become increasingly hard to suppress. China is not the closed society it was during the Cultural Revolution or the Great Leap Forward. Its economy is intimately linked to the outside world, and any significant political or social unrest will damage that link. Maintaining social order and instituting market reform while making an orderly political transition will, therefore, pose a tremendous challenge to the country's leadership.

Japan, meanwhile, is free from the prospect of any such major upheaval. If present trends continue, it should become an increasingly important player in world politics. A permanent seat on the United Nations Security Council is within sight. Its repeated expressions of remorse for its World War II role, as well as its categorical rejection of deploying combat forces, provide assurances that Japan poses a threat to neither Asia nor the world. But these are all passive actions. Japan needs to demonstrate its readiness to engage itself more actively and objectively in the deliberations and decision-making process of the world organization.

The only question will be how Japan can best fulfill its new responsibilities—for this will be a Japan no longer dependent on the United States, but a regional and world power in its own right. As such it will be expected to play a leading role in ensuring that the region's economic development stays on the right track. Japan has to come to a harder political decision and by opening up its market, it will play a vital role in the promotion of free trade and economic development in the region. The yen is likely to continue rising and this will motivate Japanese industries to relocate to Southeast Asia—and elsewhere—in ever greater numbers, facilitating transfers of technology and managerial skills. In terms of government policy, while official development assistance will continue to play a major role in the region's development, liberalization of trade and investment rules is no less important and should be given greater emphasis.

Apart from the United States and Japan, the traditional Asia Pacific key players and emergent China, the second-tier NIEs in ASEAN will join the first-tier, and a new second-tier will follow in turn. Among them will probably be Vietnam, which will face a dilemma similar to China's. Despite trying to balance political control and economic freedom, Vietnam should still manage to grow rapidly, thanks to its bountiful natural resources and industrious workforce. In addition, Australia and New Zealand will inevitably identify themselves more closely with the East Asian scene.

Some countries from outside the region are also likely to play a bigger role. India, for example, has of late demonstrated interest in forging closer ties with the rest of the Asia Pacific region. Given its sheer size and the success of its ongoing economic reforms, India may well become a formidable economic power in the first decade of the 21st century.

CONCLUSIONS

I have tried to outline the major trends that I think will affect the future of our region: economic and political institution building, environmental changes, cultural convergence, and developments in key regional countries. But assuming that all goes well and there are no major interruptions in the economic and political development of East Asia, what scenario can we then anticipate in the first decades of the 21st century?

- East Asia, including Japan, China, Korea, Taiwan, Hong Kong and the ASEAN countries, will have together an economy larger than that of either NAFTA or the European Union;
- East Asia is set to occupy the central role in the world economy. According to a survey of the global economy in a recent issue of *The Economist,* by the year 2020 there will be seven Asian countries—China, Japan, India, Indonesia, South Korea, Thailand and Taiwan among the world's 10 largest economies;
- By 2030, China may account for half of East Asia's GDP (gross domestic product), roughly equal to the GDP of North America;
- The center of gravity of the world economy will by then have shifted to East Asia, but America will continue to retain its lead in basic scientific research, advanced technologies, software and sophisticated financial services;
- East Asian countries will be more interdependent as their economies forge stronger linkages in trade and investments between themselves and become closely integrated with the global economy, thus providing incentives for the maintenance of peace and prosperity; and
- China, the United States of America and Japan will continue to have dominant roles in the organization of peace and stability in East Asia, including solving the North Korean issue. Pragmatic diplomacy must replace self-righteousness; dialogue and negotiation must prevail over confrontation. A strategic partnership of these three powers working in tandem with the rest of East Asia would bode well for the long-term future.

Given the pace of change in today's world, I would not vouch for the accuracy of my assessments with the confidence of a Nostradamus devotee. As we slip into an uncertain future, though, we carry with us a faith no less strongly held than that of the millenarians. But it is a different kind of faith. This faith, which allows us hope rather than despair, is faith in humanity. While other parts of the world are torn by strife, we in the Asia Pacific region have begun to build faith in one another. With a little luck, the coming millennium

may yet prove to be everything we hope and strive for.

Thank you.
