

THE ASIA PACIFIC NEXT CENTURY: CONFLICT OR COOPERATION?

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Politicians are notoriously not very good at taking the long view. The ends of our noses are more familiar territory than the end of the century. And in Hong Kong everyone can be forgiven for not thinking much beyond June 1997. But one of the many consequences, and possibly virtues, of the Asia Pacific Economic Cooperation (APEC) process is that it has made all of us in the Asia Pacific think about time frames stretching out to 2010 and 2020. Discussion about where we will be in fifteen and twenty-five years time, and how we should position ourselves *now* to be getting the most return *then*, has suddenly become part of the currency of debate in a way that I cannot recall happening previously. So, chancing my arm, what *is* the Asia Pacific going to look like two decades or so into the 21st century?

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Let's start with the economics. The short to medium term projections are easy enough. The conventional view of the Asia Pacific's growth prospects is that they remain very positive indeed. The World Bank's forecast over the period 1995-2004 is for real GDP growth of some 7.7 per cent annually for developing economies in East Asia, almost 21/2 times the forecast level of world growth.

This would come on top of the sustained high real growth of the past two decades, which is calculated to have been of the order of 7.5 per cent. *The Economist* recently put that growth in dramatic historical perspective: after the industrial revolution took hold in about 1780, Britain doubled its real income per head in 58 years; from 1839, the United States took 47 years to do the same; from 1885, Japan took 34 years; from 1966, South Korea managed it in 11 years; more recently still, China has done it in less than a decade.

Positive medium-term growth prospects for the Asia Pacific region are underpinned by a variety of factors, including high savings and investment rates in East Asia, stable macroeconomic policies, a nearly universal commitment to the internationalisation of domestic economic sectors, strong investment in human capital and hard-working populations.

The very breadth and diversity of the region is another factor which will strengthen its prospects. The Asia Pacific region includes a combination of three very different sub-groups: some of the most technologically advanced economies in the world, which are focusing increasingly on services and technology-intensive products; the industrialising economies of East Asia, developing as centres of manufacturing production; and resource-rich economies like Australia, which provide raw materials to fuel the region's growth and which increasingly also serve as bases for sophisticated manufactured exports and services.

Over the longer term - through to around 2020 - things necessarily get a little hazier, but the prevailing view, based again on World Bank projections, is that the East Asian 'miracle' will continue more or less unabated. Within another generation, China will overtake the United States as the world's biggest economy, and as many as seven of the top ten economies will be in the Asia Pacific - with all bar the United States found in East Asia.

Whereas the Asia Pacific economy now has a population of two billion, a 60 per cent share of world production and a 50 per cent share of world trade, by 2020 the region could account for about three quarters of both world production and trade. East Asia's energy demand will double every twelve years between now and 2020 - compared with a world average of every 28 years.

I've said all that is conventional wisdom, or the prevailing view. But it is not the *only* view around. The Stanford economist Paul Krugman has been arguing - most notoriously in his 1994 *Foreign Affairs* article, "The Myth of Asia's Miracle" - that East Asian growth to date has been driven by extraordinary growth in labour and capital inputs rather than anything at all extraordinary by way of efficiency gains. It's been a matter, he says, of 'perspiration rather than inspiration', and it simply cannot be sustained at anything like the present rate.

There are some elements of Krugman's analysis that seem reasonably plausible, although I know that our host tonight, Professor Edward Chen, is a fierce critic of the "total factor productivity" methodology employed by Krugman, arguing that it all depends on how you choose to define and measure what counts as 'labour' and 'capital', and that it is possible to read the available data in a way that attributes a much higher proportion of the growth that has occurred to efficiency. But growth rates in the original tigers - Singapore, Taiwan, the ROK and here in Hong Kong - do seem likely to slow down in the medium term, and the experience of these economies may well be a good guide to how we read the development path of the new tigers such as Thailand, Malaysia and Indonesia. And I think we can also accept, on current evidence, that it is not at all likely that the United States will become a rust belt, bequeathing the early 21st Century to East Asia: the US is continuing to improve its productivity, and continuing to lead the world in key

technologies - not least in strategically crucial information technology, where it accounts for 62 per cent of world sales and 40 per cent of world purchases (Japan, by contrast, having only 18 per cent on both sides).

But all that acknowledged, there is still no reason whatever to contest the current wisdom that the world's centre of gravity will inevitably shift west across the Pacific. This is because the really big hitters of East Asia - Japan and China - loom so large in the total equation. China and Japan dwarf the tiger - and new tiger - economies many times over. Krugman himself acknowledges that Japan has been 'different', showing in the past high rates of growth in both inputs and efficiency: even if things look rather different now, Japanese growth is still likely to be sustained over the next decade at a comfortable 2.5 per cent or so, and against the base of being the world's second biggest economy.

China, too, has shown high rates of growth in efficiency since 1978, when market forces became important, and there is no obvious reason why *it's* growth miracle should be any more mythical than Japan's has been. The give-away is in Professor Krugman's own figures. He argues that China's growth rate will not be the 10 per cent annually that most people have tended to assume, but a 'more realistic' 7 per cent, which would make its GDP by 2010 'only 82 per cent' of the United States's - 'still...a substantial shift of the world's economic center of gravity, but...far less drastic than many people now imagine'. But the point is this: if China and the US continue to grow at the same relative rates - 7 per cent and 2.5 per cent respectively - for just ten more years, then even if China's level of productivity continues to be only a fraction of that in the US, *by 2020 China would still be bigger than the US.*

And that seems like a pretty drastic shift to me - even without stopping to calculate what further impact on the economic balance will be made by economic developments in the other massive Asian population centers of India and Indonesia.

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If the global economic balance is going to inexorably tilt towards Asia - despite the denial syndrome still at work in some areas of US academe - what of the political balance, and in particular the security implications of all this?

Increased national incomes have allowed many countries in the region to modernise their armouries. While there is as yet nothing going on which can credibly be called an 'arms race' - in the usual competitive sense of that term - defence spending is booming in Asia while it is declining elsewhere. And it is happening in a part of the world which has been not only traditionally very volatile, but where you don't have to scratch too deep to find current potential flashpoints - China-Taiwan, the Korean peninsula and the South China Sea conspicuous among them.

For the time being, and for the reasonably foreseeable future, everyone in the region seems far more bent on making money than making war. The flashpoint issues all seem reasonably manageable with just a modicum of good sense; Russia has lost its bristle; Japan has no need or inclination to acquire a more aggressive military capability so long as its security relationship with the US remains basically intact, as it clearly does and will for the foreseeable future, despite Okinawa; and China has no obvious external threat to distract it from its internal economic growth preoccupations. The huffing and puffing that recently occurred across the Strait of Taiwan, although much heightened in intensity following President Lee's journey to Cornell and its aftermath, was controlled, measured and stylised throughout - never really seeming to move much beyond Beijing opera. And there is no particular reason to believe that the forthcoming resumption of trade war between China and the United States on copyright will be any more bloody than its predecessors, taking place as it does against the background of more or less uncontroversial renewal of MFN status.

But there is a fundamental question that needs to be addressed - whether changes over time in the relative standing of regional economies *will* nonetheless necessarily lead to changes in their security relationship.

Over the centuries, humanity has displayed a depressingly consistent pattern of behaviour in which economic causes have repeatedly triggered armed conflict. Economic hegemonies have tended to want to become political hegemonies too. Even when they haven't wanted to, their neighbours have sometimes feared they might, and have acted pre-emptively to stop them. Economic have-nots, or - just as often - countries feeling themselves *relatively* economically deprived, have often gone to war against the haves: they have sought living space for themselves, or raw materials for their industry, or have been motivated by an even more base desire to obtain by force what others living over the border have accumulated through hard work.

Is there any real danger, as we move into the 21st Century, of any of this repeating itself in the Asia Pacific? Or can we look forward to not only a continuation of this region's economic success, but also to a period of sustained political stability - or at least the absence of actual conflict? Given that the Asia Pacific economies are achieving their prosperity together, will they also work to achieve their security together? Has the rapidly growing interdependence of the regional economies, and their mutual confidence in policies of export orientation and macro-economic stability, led them to realise how crazily disruptive and destructive recourse to armed force - for any reason - would be? Given the way in which just about every country in the region is achieving prosperity through economic progress - at a rapid rate, in a relatively equitable fashion, and without recourse to violence - have the familiar economic sources of conflict ceased to have any application? Could the Asia Pacific be signaling the birth of a new paradigm in international affairs - whereby we can look forward to more or less permanent peaceful

cooperation rather than recurring conflict?

It may be, in all of this, that Wilsonian idealism is at last about to have its day. There are two broad approaches to thinking about security which had been reasonably strongly defined at least since the early years of this century - although as Henry Kissinger points out, in writing most lucidly about all this, they have their roots in a much older debate about the relative roles of morality and interest in international affairs.

One approach is traditional balance of power *realpolitik*, where the focus is on building a capacity, more often than not in the form of alliances, aimed at containing, and if necessary responding to, specific perceived threats. The other is the collective - or what I would prefer to call *cooperative* - security approach, strongly articulated by Woodrow Wilson and reflected in the thinking behind the security roles of the League of Nations, the United Nations and a number of present day regional organisations: in this model, no particular threat is assumed, but structures or arrangements are created to work at conflict prevention, and to enable the mobilisation of the common interest against any threat which does arise.

The balance of power model starts with the assumption that nations are always engaged in potentially aggressive competition that must be balanced by compensatory action. Changing economic relativities upset the balances between nations, because in this model enrichment means empowerment; and empowering some at the expense of others is by definition destabilising to the overall balance. This prompts competitive strategies: in these zero sum games, losers try to close the gap by catching up with, or retarding, the winners, sometimes in defensive alliance with other losers. In this model, real or perceived gaps in economic performance thus have inevitable political and military repercussions.

In the Asia Pacific region, it is often assumed that the re-emergence of China as a major economic force will be accompanied by its emergence as a security risk. Economic growth will allow it to enhance its military, especially its maritime, capabilities. This will give it, it is assumed, greater ability to achieve its strategic goals, for example in the South China Sea; its political weight will be underpinned as never before by military might, and a willingness to use it. Those who accept this argument see it as necessary for other major powers in the region to seek to offset this emerging strength - through not only continued strategic alliances in the region, but an express policy of containment.

But it is not obviously true that economic power, of itself, will inevitably translate into political or military clout. Japan, for example, although the second largest economy in the world, has refused hitherto to translate its economic strength into major aggressive military capability, or even significant political might. It has remained modest in its exercise of both global and regional influence.

The experience of the Asia Pacific region to date, and the dynamics currently at work in it, suggest to me that the engagement, or *cooperative* security, model has a particularly productive role to play. This model starts with the assumption that nations can engage in cooperative endeavours to achieve mutually agreed goals.

Changing economic relativities do not necessarily threaten existing balances; they are instead catalysts which assist other nations achieve their own improved economic performance. Cooperative strategies are employed to enrich all players: enrichment still means empowerment, but empowerment leads to a reinforcing of the cooperative strategies which fostered the enrichment in the first place. In this model, traditional elements of *realpolitik* - exemplified by the Cold War decades of rivalry between two nuclear armed camps - are replaced by new forms and institutions of multilateral cooperative behaviour. Where prosperity is achieved by peaceful cooperative means, the '*lebensraum*', or resource access, motive for armed conflict essentially disappears. In these positive sum games, the rising tide ultimately lifts all boats.

There is plenty of concrete evidence now emerging that this kind of cooperation is possible in the post-Cold War Asia Pacific region, both economically and politically.

Last November saw the third annual summit of APEC leaders in Osaka, and the adoption of a far reaching Action Agenda to implement not only last year's Bogor commitment to achieve free and open trade and investment in the region by 2010-2020, but the 1993 Seattle commitment to major trade and investment facilitation, and a very substantial agenda of sector-based cooperative economic activity as well. APEC, inaugurated in Canberra in 1989, has without doubt come of age, and is now firmly cemented as the key regional body for enhancing the development and growth of the Asia Pacific into the next century.

I believe we in APEC have got two big issues right. First, we know where we are going. We have decided on the end-point we will reach - free and open trade and investment - and we have devised a process for getting there which is in trade negotiations entirely new: not the legalistic 'offer and acceptance' incremental bargaining of the traditional GATT round, but a new form of concerted individual movement in which peer pressure and self interest will work hand in hand to maintain progress towards a previously set end goal.

The second thing we have right is the regular involvement of leaders. Their meetings give the process an authority and drive - 'horsepower', as my former leader Paul Keating puts it - which could never be matched by ministers alone, and which keeps APEC moving forward. That allows APEC to play a powerful role as the principal catalyst for global trade liberalisation. The "downpayments" made at Osaka on future liberalisation, notably by Japan, China and Indonesia, showed a degree of resolve and leadership that the G7

members certainly could not achieve at their summit in Halifax. What APEC demonstrates overall is that economic competition is not a zero-sum game - but rather one in which everyone can benefit through a cooperative approach.

The other major institutional dimension of cooperative activity in the region has been specifically in the security area, with the creation of the ASEAN Regional Forum (ARF). The inaugural Bangkok meeting in 1994 brought together all eighteen major security players in the region for the first time. We discussed matters like multilateral dialogue, trust and confidence building, preventive diplomacy and non-proliferation. Some active intersessional dialogue since then, and a second ministerial meeting in Brunei in August last year, have served to demonstrate the ARF's viability and its suitability as a vehicle for addressing regional security questions. The Brunei meeting demonstrated that no issue, including the South China Sea, was too sensitive to be included on the ministerial agenda. It set up, moreover, a practical and substantial program of work that has continued throughout the last year and will feed into the next ministerial meeting in Indonesia in July.

It is important not to have unrealistic expectations of what the ARF can do. Its progress is bound to be evolutionary rather than dramatic in character. But the evidence to date is that it can and will make a difference. I think it did last year, in helping to defuse the South China Sea problem. Another significant straw in the wind was China's announcement late last year that it will henceforth publish information about its national defence policies, which is exactly what we and others have been arguing for in the ARF as a means of increasing trust in the region. China has already made a start in this direction with the publication of a useful paper on arms control and disarmament.

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I have been arguing for some time that there really is something going on in the Asia Pacific which justifies us as being thought of and spoken of as a 'community' - not in the capital-C European sense, but implying nonetheless a strong sense of mutual familiarity, geographic linkage and common cause: something caught by the flavour of the usual Chinese characters for "community", which mean literally, as I understand it, "big family".

Underlying all the cross currents of economic and political activity, and the self conscious development of 'community' institutions like APEC and ARF, is the phenomenon of technological and cultural convergence - whereby countries of very different backgrounds are developing, under the particular impact of modern communications technology, information bases, practices, institutions, tastes and outlooks that are ever more similar. We have come to do things more alike, see things more alike and develop institutions and processes that are more alike, in how we conduct business, administer governments, absorb information and enjoy our leisure. This is a world wide phenomenon, but it is nowhere more evident than in the Asia Pacific.

In particular, new communications and information networks are exposing us all to each other in a way that has never happened before. In the global village, they make us all witnesses - sometimes whether we like it or not - to the behaviour of our neighbours in our regional streets. They transmit our respective cultures to those who may not be especially inclined to embrace them, or even to seek to understand them. All of this can be uncomfortable at times. But at the very least, we can say we are no longer strangers to each other. The sense of foreignness, or alien-ness, and the scope for uninformed prejudice which have been repeatedly causes of armed conflict over the millennia, are evaporating. Bridges are being built in the airwaves. Of course civil wars do occur, and they are nastier than most when they do, but by and large people find it easier to hate, and easier to fight, those who are totally alien to them.

I am realist enough to recognise that it is never very wise in international relations to put all one's eggs in one basket, and that it may well be wise to hedge our cooperative security bets with some continued investment at the same time in a little balance of power *realpolitik*. Whether they say so publicly or not, I am not aware of any country in the region that presently thinks it would be a good idea for the United States to relinquish its present strong commitment to East Asia - which Dick Cheney describes as its 'balancing wheel' role. I certainly don't advocate any renunciation of traditional alliances, like that recently reaffirmed between the US and Japan. Nor would I argue against new forms of defence cooperation of a kind that may have some traditional *realpolitik* resonances, but can equally comfortably live within the cooperative security model.

What I do strongly believe is that in security, as in economics, we should deal with each other with a mindset that says 'engage' but not 'contain', and 'compete' but not 'confront'. There is every sign of this kind of mindset developing in the Asia Pacific region now, and if we can sustain it into those first few decades of the next century, as I believe we can, we will be an example indeed for the rest of the world.

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