ONE MAN'S VIEW *of the* WORLD

Now with postscript by Han Fook Kwang *The Straits Times* editor-at-large

LEE KUAN YEW

Margaret Thatcher read all his speeches while she was in office and declared he was never wrong. Richard Nixon called him “a world statesman of the first rank”.

Born in 1923, Singapore’s former Prime Minister Lee Kuan Yew spent a lifetime being intimately involved in international affairs. He met every major Chinese leader from Mao Zedong to Xi Jinping and hobnobbed with American presidents from Lyndon Johnson to Barack Obama.

In this book, the late statesman drew on that wealth of experience and depth of insight to offer his views on the world and what it might look like in 20 years. This is no dry geopolitical treatise. Nor is it a thematic account of the twists and turns in global affairs. Instead, in this broad-sweep narrative that takes in America, China, Asia and Europe, Lee parses their society, probes the psyche of the people and draws his conclusions about their chances for survival and just where they might land in the hierarchy of tomorrow’s balance of power. What makes a society tick? What do its people really believe? Can it adapt?

In spare, unflinching prose that eschews political correctness, he describes a China that remains obsessed with control from the centre on its way to an unstoppable rise; an America that will have to share its pre-eminence despite its never-say-die dynamism; and a Europe that struggles with the challenges of keeping its union intact. His candid and often startling views – on why Japan is closed to foreigners, why the Arab Spring won’t bring one man, one vote to the Middle East, and why preventing global warming is not going to be as fruitful as preparing for it – make this a fresh and gripping read. Lee completes the book by looking into the future of Singapore – his enduring concern – and by offering the reader a glimpse into his personal life and his view of death. The book is interspersed with a Q&A section in each chapter, gleaned from conversations he had with journalists from *The Straits Times*.

Like him or loathe him, Lee was always hard to ignore. In his last years, with little else left to prove and 70 years of experience, he looked ahead to offer this unvarnished, clear-eyed view of the future shape of the world.

With fresh and candid analyses of subjects ranging across the globe, *One Man's View of the World* demonstrates the acute insights that fellow leaders have sought from Lee Kuan Yew for half a century.

— Dr Henry A. Kissinger, US Secretary of State, 1973–1977

Lee Kuan Yew's penetrating insight and sharp analysis of Northeast Asia and the world has proven – once again – why he is considered the pre-eminent elder statesman of our generation. In a rapidly changing world that is full of unforeseen challenges, Lee is a steadfast voice of reason, clarity and hope.

— Lee Myung-bak, President of the Republic of Korea, 2008–2013

Lee presents a sharp and convincing analysis, highlighting the consequences of the inevitable rebalancing of global power between the United States and China. Furthermore, he distinctly reveals Europe's perspective of self-inflicted marginalisation if its politicians further fail to take the right action. With its farsightedness and political wisdom, Lee's *View of the World* provides most valuable guidance for the 21st century world's complexity.

— Helmut Schmidt, German Chancellor, 1974–1982

One Man's View of the World's insightful analysis derives from Lee Kuan Yew's long years of experience as a venerable statesman and his track record of achievements in international affairs.

— Yasuhiro Nakasone, Japanese Prime Minister, 1982–1987

Like many other leaders, I regularly sought Lee Kuan Yew's wise – and always candid – counsel, not only on events in Asia, but around the world. His ever-inquiring mind, keen analysis, and strategic vision have made Singapore a unique force in the world. *One Man's View of the World* is a book future leaders will cherish for its wisdom and insights into human nature.

— George H.W. Bush, US President, 1989–1993

The sage observations and advice offered by Lee Kuan Yew reflect the accumulated wisdom of his long and fascinating life. Especially important are the insights he offers on the future influence and role of China when it will share the top table on equal terms with America. Thoughtful readers will draw from these pages insights to enable them to see more clearly the broad shape of tomorrow's world and plan accordingly.

— James B. Bolger, New Zealand Prime Minister, 1990–1997

Lee Kuan Yew once again gives us clarity of thought, eloquence of expression, the depth of important ideas, and common sense. A must-read book!

— George P. Shultz, US Secretary of State, 1982–1989

Insightful, well thought, penetrating and visionary. Lee Kuan Yew's assessment and analysis of these countries and the future of Singapore is truly par excellence. It will be a much referenced book for those who need to understand where we are and where we will be.

— Tun Daim Zainuddin, Malaysian Finance Minister, 1984–1991 and 1999–2001

This book comes at a time of great uncertainty in the world. The big questions he discusses, the Middle East, China, America and Europe, are as difficult and challenging today as they were at anytime in his or my lifetime.

— Lord Carrington, Secretary General of NATO, 1984–1988

Lee Kuan Yew never ducks problems but meets them head-on, exposes comfortable assumptions for what they are, and mercilessly lambasts excuses for inaction. Where others hedge their views with reservations, Lee Kuan Yew is blunt and goes straight to the point. No other statesman or commentator can match him as a master of realpolitik.

— Lord Charles Powell, Private Secretary to Prime Minister Margaret Thatcher, 1983–1990

I have had the privilege of conversations with him over the years, and have always come away better informed. Even when I disagree with one or another detail, I profit enormously by paying close attention to his views. Americans, Chinese and all peoples can benefit by heeding Lee Kuan Yew's *View of the World*.

— Dr Joseph S. Nye, University Distinguished Service Professor, Harvard Kennedy School, and author of The Future of Power

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ONE MAN'S VIEW *of the* WORLD

LEE KUAN YEW

Straits Times Press

In memory of

my wife and partner Choo

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PREFACE

The world has changed in unimaginable ways in the last 100 years. When I was a child in the 1920s, it took me one hour to go two miles from Bedok on a bullock cart to my grandfather's rubber estate at Chai Chee.

Even more astonishing is the way we are able to communicate with each other today. As a student in Singapore in the 1930s, I used to wait for ships to come in on Thursdays or Fridays, sailing five or six weeks from England to bring in the boys' journals that I liked to read. Today, letters take mere hours by jet aircraft. But few bother. It is easier and speedier to send messages and receive replies by SMSes and email through the mobile phone and the Internet at the speed of light.

I could not have foreseen all these changes, let alone how Singapore has changed.

What will the world be like in the next 50 years? No one can tell except to say that the speed of change is likely to be faster than in the last 50 years.

It is more realistic to try to predict what might happen in 15 to 20 years' time, assuming certain trends prevail. Even then it is fraught with uncertainties.

This book is about my views of the world and the forces at play in the foreseeable future. Having a correct understanding of what is happening today and why they happen is a prerequisite to understanding how the future is likely to unfold. My understanding is based on my observations and interactions with various people over the course of the last 50 years in government, during which I managed Singapore's foreign policy and met many key figures who had first-hand experience dealing with the global issues of the day.

The two key countries whose actions and decisions will have the most impact globally are the United States and China. But Singapore also has to try to have as many links as possible with other countries – Europe, Japan, South Korea, the Southeast Asian countries, India and the Middle East. I

have written about the major issues confronting each of these countries and what the future might hold for them.

Singapore has to take the world as it is; it is too small to change it. But we can try to maximise the space we have to manoeuvre among the big “trees” in the region. That has been our approach and we will have to be nimble and resourceful to be able to continue doing so.

Internally, three qualities define the Singapore success story – making the country the safest place to live and work in, treating every citizen equally and ensuring continuing success for every generation of Singaporeans.

Without these three basic factors which we have established over the years, we would lose the advantage that we now enjoy. Investors, both local and foreign, must feel confident when they invest in Singapore. These three factors assure continued future returns on their investments. Without us being connected with the world this way, we risk irrelevance.

ACKNOWLEDGEMENTS

This book would not have been possible without the help of an editorial team from *The Straits Times* comprising Han Fook Kwang, Elgin Toh, Zuraidah Ibrahim, Chua Mui Hoong and Shashi Jayakumar (an Administrative Officer on secondment to the Lee Kuan Yew School of Public Policy). They provided research and editorial material, and conducted a series of interviews with me, excerpts of which are included in each chapter.

My thanks also to my Special Assistant Anthony Tan, Press Secretary Yeong Yoon Ying and staff of the various supporting agencies who made sure this book was completed smoothly and on time.

1

CHINA

A strong centre

CHINA

A STRONG CENTRE

To understand China and what it will be like in 20 years' time, you have to know what sort of people and society they are. For 5,000 years, the Chinese have believed that the country is safe only when the centre is strong. A weak centre means confusion and chaos. A strong centre leads to a peaceful and prosperous China. Every Chinese understands that. It is their cardinal principle, drawn from deep-seated historical lessons. There will not be a deviation from this principle any time soon. It is a mindset that predates communism. It has existed for centuries, for millennia.

Some in the West want to see China become a democracy in the Western tradition. That will not happen. The Americans believe that you cannot be a successful country without one-man-one-vote elections, either for the president or for the Parliament, and you change leaders every few years. It's their preconceived view of the world. The Chinese have never had such a tradition. China is a vast country of 1.3 billion people with a different culture and a different history. It will do it its way.

In the fall of 2011, unrest erupted in the fishing village of Wukan, in Guangdong province. Farmers lost their land to developers who were in cahoots with local officials. Profits from these land sales went to developers and officials. It started with a relatively small-scale protest by a few hundred aggrieved farmers in September. By December it had escalated into a full-scale revolt when one of the protesting villagers died in police custody. Within days, nearly 20,000 villagers were mobilised into action. They physically expelled officials from the village, erected roadblocks and armed themselves with simple weapons. They demanded the return of their farmland. Although there was a blackout of all Wukan-related news in the Chinese media, many Chinese were able to read about what was happening over the Internet, from foreign news outlets. In the end, the deputy party

secretary of Guangdong met with protestors and settled the matter. The authorities acknowledged that the villagers had legitimate complaints, some of the land was returned to them, and villagers arrested in earlier protests were released. Later, free elections were held by secret ballot. A chief organiser of the protests won a landslide victory and was made the new village chief. Wukan became a cause célèbre for those who hoped to see democratic reform in China.

Reports tell us that similar protests are happening in other parts of China every day. Some think these incidents are evidence of a weakening Chinese state. But the truth is that none of these incidents are allowed to escalate into national movements. The Wukan incident shows this. The Communist Party sent no less than a deputy party secretary of Guangdong to mediate and to restore order.

There are two lessons from Wukan. The first is that the Communist Party retains its hold. Order is restored with the help of the party. The second lesson is how the party can use a mix of hard and soft measures to keep peace. Before any incident escalates, the very powerful state security apparatus can come down hard on unrest to nip the problem in the bud. But it is also able to take the side of villagers against corrupt local officials. It is too simplistic to think of the Communist Party as corruption-ridden. In fact, throughout the rebellion, Wukan villagers were careful to declare on their banners that they supported the Communist Party, but were opposed to corrupt local officials.

This has been a common strategy taken by Chinese protestors for thousands of years. They know that opposing the central authority means certain annihilation. So they oppose wrongdoing by local officials while declaring loyalty to the centre. No one challenges the centre unless they are prepared to go all the way and take control of the whole country, which is most unlikely.

POLITICAL CHANGE

China's re-emergence as a major power on the international stage is one of the most dramatic events of our time. Its economic rise has been extraordinary. Growth is happening at a pace unimaginable just 40 years ago and on a scale unprecedented in the history of humankind. It looks set to continue over the next few decades, with China having the world's largest Gross Domestic Product by 2020. The transformation of its people has been no less remarkable, from a drab and monotonous populace to one with diverse interests and aspirations.

Militarily, it will make big strides and develop the technology and capabilities that will enable it to project its power. At the moment, the Americans are able to come as close as 12 miles from the Chinese coast and look in. China will eventually be able to push the Americans out of the 12-mile limit. Then it will aim to push them out of their 200-mile exclusive economic zone and prevent the Americans from spying within 200 miles of its eastern seaboard.

I see the global power equation changing. In 20 to 30 years, China will want to sit as an equal at the top table. After all, it's not a new power – it's an old power that's reviving. And I believe it is China's intention to be the greatest power in the world.

As change sweeps across the country, China's politics must evolve too. It is not possible for any system to remain unchanged forever. One of the most astounding things I have seen in my lifetime is how the Leninist system in the Soviet Union could throw up a law graduate in Mikhail Gorbachev, who decided that the system was bad and ought to be reformed. I can't say that it will not be repeated in China. However you fine-tune the choice of leaders, you'll get a generation that says, "Look, this is stultified. Let's liberate it." Nobody can say that won't happen.

But even if it did happen, it will not result in one man, one vote. There will be a displacement of one set of leaders by another set of leaders, because culturally and historically, the belief in China is that a strong central authority leads to peace and prosperity. One man, one vote has never been in China and has never produced a prosperous China. And they're not going to try it.

No matter how many Wukans crop up, in the medium term, I do not see an uprising succeeding. Yes, the Chinese have a tradition of peasant-led rebellions, or *qi yi*. But this tends to happen when life becomes unbearable. At the moment, the lives of ordinary people are getting better. Why should they want a revolution? They know that a revolution could cost them all the progress they have achieved since Deng Xiaoping opened up the country. For their young people, economic prospects have never been better, standards of living are being enhanced daily and China is strengthening as a nation. I don't see them rocking the boat. Disenfranchised rural workers are not in the numbers and are not organised. They long to join the middle class in the cities and to better their lot. The middle class, in turn, is anxious to get to the top. After it manages to get into position and consolidate itself, it may want more transparency and a greater say on how the country is governed, but that may be some time off. In short, while the present system needs to evolve, it is not on the verge of falling apart.

Outsiders should not underestimate the will of the central government to retain power and control. It is well-informed and advanced, watching the situation closely and willing to take pre-emptive action. The advent of modern technology – the Internet, iPhones, social media – has no doubt made its work harder because it allows people to talk to one another simultaneously and small groups to collect into bigger groups. But there is no let-up on that front. The Chinese government employs an army of specialists to monitor and censor what goes on in cyberspace. It is quite amazing how much manpower resources they are willing to devote to control the flow of information. And despite the creativity of some netizens in getting around the Great Chinese Firewall, the measures generally work and the authorities have a firm grip on online activity. The censors will cut off the ability to mobilise and organise. The security forces will put down whatever manages to slip through the cracks.

With all that in mind, what sort of political reforms can we expect in China over the next 10 to 20 years?

They are likely to move very carefully towards a more participatory form of government. There are already instances of direct elections in some villages and for some of the lower level legislatures. It is not inconceivable for China to gradually allow the practice to move up the ladder. But their approach will be tentative and incremental. They will avoid free-for-all contests with unpredictable results. As long as they stay in overall control,

they can afford to experiment. There is, after all, neither strong pressure nor strong incentive for them to make bold changes.

Intra-party democracy is a concept that the Chinese Communist Party has been keen to explore. The 17th Party Congress was much more open than the 16th Party Congress. There was a wider choice of candidates for some of the top party posts. In the past, paramount leaders like Mao Zedong and Deng Xiaoping would name their successors, but Hu Jintao could not have his pick.

Intra-party democracy can be extended to other parts of the system. One way to do it would be to allow for controlled electoral contests, possibly at the provincial and municipal levels, between candidates approved by the party. They could start by having three or four dependable people vying for an important post and giving them notice that it is important for them to win public support in order to be appointed.

Of course, some things will change very slowly, if at all. I do not see them giving up comprehensive and thorough control over almost all aspects of administration. Corruption, as well as the lack of the rule of law and governance institutions, is also likely to continue to characterise the Chinese system – these are distinct weaknesses.

Corruption has been endemic from the earliest days. But after China adopted market reforms, corruption increased exponentially because the salaries of ministers and officials were paltry compared with the rest of society, which was growing rich very rapidly. Today, nothing moves in China without *guanxi*, or relationships. You develop relationships by giving gifts, gradated in accordance with the importance of the person you are cultivating. Across the board, everybody wants to develop a *guanxi* with somebody higher up, and the official higher up wants to have a *guanxi* with somebody higher up still. And if you as my superior were to give me undue pressure, and I can develop a *guanxi* with your superior. That's one way for me to resolve the conflict. The Communist Party has called its struggle with corruption a "matter of life and death" for the party.

Can it control corruption? It can try to keep hands clean at the very top levels. However, *The New York Times* on 11 November 2012 traced US$2.7bn in the hands of the Wen Jiabao family. I do not see them being able to control corruption at the local level. Corruption won't bring the system down, but it is not allowing the system to be efficiently run. When

you have relationships deciding promotions or appointments to key jobs and affecting the way policy works, you will get less than optimal growth.

Also deeply ingrained in Chinese culture is a way of doing things that pays little heed to the rule of law or governance institutions. In Singapore, we have come to accept that we have to be like the West on this – to have legislatures deciding on the wording of laws and then to have independent courts and judges deciding what those words mean. So Parliament can pass any law, but once it's passed, if a dispute arises, you don't go back to Parliament and say, "What do you mean by that?" You go to a judge, who says, "I interpret this to mean the following, according to fixed rules of interpreting documents that are based on well-established precedents."

The Chinese have not accepted this, just as they have not accepted that when you sign an agreement, it's final. For them, when you sign an agreement, it's the beginning of a long friendship, and from time to time, as friends, you have to sort out whether one of you is making too much money and may need to cough up more.

This ambiguity is also reflected in the way they view institutions. In China, the man is bigger than the office. So you can be president, but if you don't have the clout with the military, you're a different president – whereas in Singapore or Britain or Europe or the United States, if you're president or prime minister, the military heads automatically take orders from you because the institution is bigger than the man. Can China follow Singapore – never mind America – on establishing the rule of law and governance institutions? Not easy at all. It will require a very fundamental change in the mental approach of both the government and the population. And as these concepts are absent from their culture and history, one has to ask: Out of what will these arise?

Instead, I see them working out their own system and trying out all possible configurations without the rule of law and governance institutions. But because of these limitations, China will never operate at what I would call maximum capacity – the ideal state in which you grow steadily, up and up.

China will evolve its institutions and systems, but in a distinctly Chinese way. Whatever their reforms, one thing will not change: they will retain a strong centre.

Q: *The Chinese economy has been growing very rapidly, but changes have been slower on the political side.*

A: I think you must go back to Chinese culture and history. In China's history, a strong centre means a peaceful country. A weak centre means confusion and chaos. And this happened with the warlords. Everybody was a law unto himself. So you're not likely to see any change where they deviate from that principle.

Q: *Is a strong centralised China synonymous with the Communist Party of China?*

A: With the present Communist Party, yes, of course. But what is the Communist Party of China? It's no longer communist in the strict sense of the word. It's just an old label on an old bottle into which new wine has been poured.

Q: *But the political structures remain.*

A: The political structures predated communism. There's a Chinese phrase: *shan gao huang di yuan* – when the mountains are high, the emperor is far away. I am the emperor here. And that's existed for millennia.

Q: *And you believe that that will remain for some time to come despite all the changes that have taken place?*

A: Well, now the central power has the use of helicopters, the Internet, cell phones and rapid deployment of security forces. But the basic

mindset has not changed.

Q: *What about a younger generation, with their access to information, do you see them changing the balance somewhat? And the lower classes and the peasant-workers in the cities – is there a chance of an uprising when they see the disparity in income?*

A: No, I don't see any chance of any uprising succeeding. There was this clash in Wukan, Guangdong. The deputy party secretary came down and settled it. They've got a very powerful Ministry of Public Security.

Q: *Is that the secret of their longevity? Many governments have tried to keep their grip on power by force, especially in Eastern Europe and in the Soviet Union, but they failed.*

A: China is different from Eastern Europe. Eastern Europe is part of the Renaissance, part of the desire to be a liberated, free-thinking country where everybody is creative. China is China. And as I've said, the cardinal principle which every Chinese knows is that if the centre is strong, the country is safe. If the centre is weak, the country is unsafe.

Q: *This would suggest that the Arab Spring that we've been seeing in the Middle East would not take place in China in the immediate future.*

A: No I do not see the connection between the Arab Spring and China. This is the media and their fancy footwork. When I read that, I said, "These people know nothing about China." The Chinese people have a long history that determines the thinking of both the government and the people.

Q: *Might the rural workers not benefiting from endemic corruption want to change the system?*

A: They are not organised, and they want to join the middle classes in the cities. They see their future not in rebellion, which will bring them more chaos, but in joining the people in the cities.

Q: *Is there enough social mobility to give them the hope that they can one day join the ranks of the middle class?*

A: I think in China social mobility is still there. It's not a stratified society in this sense. If you take Britain, which I happen to know well, every generation produces a top of the crop and the top rises and they marry each other and they stratify at the top. And their children, because of both genes and educational opportunities, stay at the top. China will take a long time to reach that situation. Singapore is in danger of reaching that situation sooner than expected because of our rapid educational advances. So people are rising very fast, taxi drivers' children go up to university, boys marry girls, both from hawker backgrounds or taxi driver backgrounds and when they marry, they stay on top, and then the genes plus the educational opportunities that they give their children create that stratified class. It happens with every society. Then finally, there'll be enough dissatisfaction, the ground will say, "All right, let's reshuffle the pack of cards." That's how the communist revolution took place. Kuomintang got overthrown. Now a communist elite has emerged. But well, we have not reached that position yet.

Q: *Official Communist Party theorists are now saying that they should start with intra-party democracy and then move from there. How do you see this process playing out?*

A: They will allow elections but between candidates they approve. That's intra-party democracy.

Q: *What's the next step?*

A: I don't know. I don't see a free-for-all. China has never had a free-for-all. Can you imagine a Chinese saying, "My name is Jimmy Carter, I'm running for president"?

Q: *Well, it's happened in Taiwan.*

A: Taiwan is a very small place with only 23 million people.

Q: *So you don't see one man, one vote coming to China or even any necessity for it?*

A: No, I don't see it. I might see one man, one vote coming at the village level and for provincial level legislatures, but at the top, the rulers, the party secretaries and their governors – no.

Q: *What if there is a division within the people at the top? For example, Wen Jiabao, when he was premier, came across as a bit of a political reformer and he was speaking of democracy with Chinese characteristics.*

A: He's not number one, he's number three. And it sounds good to have number three to say that. There is former President Jiang Zemin, still a power in the card. I think Wen Jiabao would find himself in a minority of one or two in the collective leadership, in the Politburo. They are men who got there by careful selection. Are they likely to

say, let's throw out the system and go for the popular vote? And anybody can turn up and be elected. It goes against the grain.

Q: *Are they interested in the Singapore political system?*

A: Well, they're interested in all political systems to pick up ideas, but how does it fit into their system?

Q: *We operate a one man, one vote system.*

A: I don't see them doing that. Do you? Look at the size of their country.

Q: *So what aspects of Singapore's political system would they be interested in?*

A: They've been interested in the way we've been able to have our grassroots constantly attended to – meet-the-people sessions, residents' committees, People's Association. In other words, we know what's happening on the ground and we're attending to those problems. And that I believe they've already implemented and given orders. So whether it's carried out is another matter but they've given orders to say, keep in touch with your ground and attend to them. But when you are in collusion with the developers and you force ordinary folk to give up farmland for development, without a fair compensation, how does that square up with our system?

Q: *If the Kuomintang had stayed in power on the Mainland, would it have implemented one man, one vote? Because Sun Yat-sen believed in Western-style democracy.*

A: No, no, I don’t see that at all. They developed it in Taiwan because it was reduced to a small area and they depended on America for their survival. So they accepted one man, one vote because the Americans would not defend them running an authoritarian system.

Q: *But now that Taiwan runs a democratic system, and Hong Kong is due to get universal suffrage in a few years’ time, will there be more pressure for reforms on the Mainland? Would the Chinese people start putting pressure on their own government to give them a taste of what they see their Taiwanese and Hong Kong compatriots getting?*

A: Well, they may want it but how do they put pressure on the government? Have they got the votes? Are they prepared to throw the government over by revolution? I do not see those in power giving up that power. I don’t believe the Chinese people themselves believe that with 1.3 billion people you can have one man, one vote for a president. It’s not workable.

Q: *What makes you think that?*

A: How do you get to canvass 1.3 billion people?

Q: *Just for the sake of comparison, the Indians do it.*

A: And the results have not been spectacular… for different reasons.

TAO GUANG YANG HUI

KEEP YOUR LIGHT UNDER A BUSHEL

I met Xi Jinping for the first time in the Great Hall of the People on a visit to Beijing in November 2007. I had not asked to see him first. I asked to see somebody else, but they sent me to see him, which was telling. They considered him high on the priority list. It was his first meeting with any foreign leader after being promoted to the Politburo Standing Committee of the Chinese Communist Party, a move that clearly indicated to the world that he had been slated to take over from Hu Jintao.

He struck me as a man of great breadth – what the Chinese call *da qi*, as opposed to *xiao qi*. He is not narrow-minded. He thinks through a problem deeply and he does not want to show off his knowledge. He lacks the bonhomie of Jiang Zemin and is not as formalistic as Hu Jintao. But he has gravitas. That was my first impression. Consider further the trials and tribulations that he has been through, having been rusticated as a young man, sent to Sha'anxi province in 1969, but working his way slowly back up, never complaining, never grumbling. I would put him in the Nelson Mandela class of persons.

Xi is at the core of the fifth generation of leaders in China since 1949. He leads a government with high standards of competence at every level – a virtue that dates back to the Mandarinate system. Increasingly, Chinese officials are exposed to Western education, familiar with the world, and fluent in English. They are no longer communists in the strict sense of the word, but pragmatists who are determined to forge a rich, developed and technologically advanced country. Each of the four preceding paramount leaders has left his own unique imprint. For Mao Zedong, it was perpetual revolutions. For Deng Xiaoping, it was reforming and opening up. For Jiang Zemin, it was consolidation and development. And for Hu Jintao, it

was harmonious society – in particular, reducing the gap between the rich and the poor. What legacy will Xi leave?

Since my first visit to China in 1976, I have made it a point to try to visit the country regularly – once a year if possible. I have met with each of the top leaders, from Mao to Hu, and now Xi. Mao was a great man who got China back on its feet. In 1949, after 200 years of turmoil in his country, he stood on Tiananmen and declared that the "Chinese people have stood up". As a revolutionary, Mao was second to none. He was a master of guerilla warfare and with deft military moves, defeated the Nationalists and unified the nation. But was he a moderniser of China? History records tragically that the man who liberated China nearly destroyed it through the Cultural Revolution. If he had lived on, or if Hua Guofeng – his immediate successor, who inherited his ideology – had continued to rule, China would have gone the way of the Soviet Union. I only had the opportunity to meet Mao at the end of his career, when he was not at his best. There was a lady who first had to translate what he said in his Hunanese accent to the interpreter, who then translated it to English. I saw only a shadow of the legendary man.

Fortunately for China, Deng Xiaoping reversed the course of the nation. He came to Singapore in 1978, after Bangkok and Kuala Lumpur. He wanted us to get together and block the Vietnamese from attacking Cambodia and, if they did attack Cambodia, to thwart them. I think that journey was an eye-opener for him. He must have expected to see three backward capitals. They were poor countries. Instead, he saw three capitals surpassing then any city they had in China. He spent about four days in Singapore. When his aircraft doors closed at the airport, I told my colleagues: "His briefers are going to get a shellacking because he saw a Singapore which is totally contrary to his brief." His brief must have come from communist sympathisers here and it was a slanted brief.

He had congratulated me over dinner and when I asked what for, he said: "You've got a beautiful city, a garden city." I thanked him but added: "Whatever we have done, you can do better because we are the descendants of the landless peasants of south China. You have the scholars, you have the scientists, you have the specialists. Whatever we do, you will do better." He did not answer me. He just looked at me with his piercing eyes and then he carried on and switched the subject. That was 1978.

In 1992, he went down to Guangdong in his famous southern tour to urge the leadership to carry on with the opening up and he said, “Learn from the world and, in particular, learn from Singapore and do better than them.” I told myself, “Ah, he has not forgotten what I told him.” Indeed, they can do better than us.

In Singapore, Deng saw how a small island without natural resources was able to create a good life for its people by bringing in foreign investments, management, technical skills. He returned to China persuaded that he needed to open up its economy to the world. It was a seminal moment in China’s history, a key turning point, and the country has not looked back since.

I have witnessed its dramatic transformation. The physical construction has turned decrepit, under-built cities with very poor infrastructure into cities with fast trains, high-speed roads and airports. You can visit Dalian, Shanghai, Beijing, Guangdong or Shenzhen – they now compare with Hong Kong or any other city in the world. The Chinese are great builders and great carpenters. I don’t know why they suppressed it for so long, to their own detriment.

Deng deserves most of the credit for putting China on a different trajectory. When he wanted to open up, many Old Guard leaders were opposed to it. But he was a strong-willed character. He brushed them aside and went ahead and did it. Without him, the turnaround would not have happened so fast, because he was the only one with the Long March credentials to override the doubters. A physically small man, but a giant of a leader – Deng is undoubtedly the most impressive international leader I have ever met.

Jiang Zemin was picked by Deng Xiaoping as the next leader. As party secretary of Shanghai at the time of Tiananmen in 1989, Jiang succeeded in putting down similar riots in Shanghai. He was a steady hand who saw it as his goal to complete the modernisation programme that Deng launched. I remember him as a warm and friendly man. He would burst out in the famous Italian song, *O Sole Mio*. And he would grab me by the arm and say, “What do you think the Americans make of us?” That was, of course, before they had well-established connections with the Americans. They don’t have to ask me that now.

I consider Hu Jintao to be a consolidator. Maybe one or two fundamental changes have been made during his administration. But he had more than

enough on his plate to consolidate, given the enormous challenges facing China, such as rural-urban migration and the growing income gap. He struck me as a quiet and thoughtful man. He is not flamboyant, but has an excellent memory and studies every subject that comes before him very carefully. Shortly after he took over, there were initial missteps in the handling of the Sars crisis, but when they realised that it posed a serious threat to the economy, they pulled out all the stops to deal with the problem, including the unprecedented dismissal of the Minister for Health and the Mayor of Beijing. It was a show of resolute leadership by Hu Jintao and his premier Wen Jiabao. After all, one of the reasons that Hu was brought to the centre was because he put down the Tibetan revolt. Behind the benign, avuncular appearance, I think there is iron in the man.

It is hard to predict what policies Xi Jinping will pursue and what legacy he will seek for himself over the decade that he is in charge. Chinese leaders do not broadcast their future plans before assuming office. They prefer to keep their heads below the parapet. China is at a critical period in terms of domestic challenges and he will want to focus his energies on tackling those problems. Much will also depend on what external events suddenly come upon him. Your best plans go awry when you are confronted with a serious unexpected development. But I believe he will respond in a thoughtful way, without panicking. He carries weight and I think he will carry the party with him. His military background will give him clout with the military as well.

His foreign policy will be closely watched. China's rise has become a source of consternation for many countries, whether in the West or in Asia. A strong China brings many benefits to the global community, such as growing investments by Chinese firms that go abroad. But China's neighbours are starting to sense a more assertive foreign policy stance from the sleeping giant that has woken up. The United States also is experiencing a strong challenge to its pre-eminence, if not globally, then certainly in the Asia-Pacific region.

At the heart of the matter is whether or not one believes China's repeated guarantees that it seeks nothing more than a peaceful rise and that it will never become a hegemon. There are two views. One, that the Chinese will quietly become strong and quietly increase their influence, without acting like a bully. The other, that they'll flex their muscles and try to browbeat everyone. I think they will choose the former, but grow their muscles at the

same time. Deng Xiaoping was convinced that it was wise for China to maintain a low profile as it gradually became stronger. He believed in keeping your light under your bushel, or what the Chinese call *tao guang yang hui*. The Chinese know that they need another 30 to 40 years of peace to catch up with the rest of the world. They have come to the conclusion that if they stay on course, avoid upsetting the existing powers and make friends with everybody, they can only grow stronger and stronger. It will give them the space to deal with internal problems and to continue to grow their economy.

They are also mindful of the need to avoid the paths that Japan and Germany took. The rise of Germany and Japan resulted in a competition in Europe and Asia respectively for power, influence and resources that led to two terrible wars in the 20th century, and ultimately ended their rise. If China gets involved in a war, it risks internal disturbance, clashes and disorder, and it may go down again – perhaps for a long time. So, for the Chinese, the rational calculation would be, "We've waited so long for this opportunity to catch up with the developed world. Why be in a hurry and jeopardise our gradual rise?"

That, of course, does not mean China will simply capitulate every time it gets into a dispute with another country. As the power equation changes, it will have more freedom to express likes and dislikes. And as the former Foreign Minister Yang Jiechi has said, where China's core interests are at stake, the Chinese have to assert themselves. China's closest neighbours in Asia have had a taste of this. In 2008, Vietnam awarded US oil and gas company ExxonMobil the rights to drill for oil in the contested waters of the South China Sea. The Chinese navy told ExxonMobil to move on. The Chinese government also made it clear that if the deal went ahead, ExxonMobil's businesses in China would be threatened. And so ExxonMobil moved on because the American navy was not there to assist or to insist on their rights.

More recently, in 2010, Japan detained a Chinese fishing boat captain after his trawler collided with Japanese patrol boats off the disputed Senkaku Islands, known to the Chinese as the Diaoyu Islands. The Japanese initially wanted to charge the captain under Japanese law, but eventually caved in to intense pressure from the Chinese and decided to release him. The incident shows you just how much the power equation has changed. The Japanese are now dealing with a China that is 10 times Japan's size, not

with a China that they could invade and nearly capture, as was the case in the Second World War. The submission on the part of the Japanese was simply an acceptance of reality. They understood they were dealing with an organised, disciplined China – not with warlords, but with one central authority that can act decisively.

So over the years, you see quite clearly that the Chinese are not passivists. They are active in pursuing their claims, and they will continue to do so. The Chinese know that they are the biggest boy in the neighbourhood and that as they grow in power, they can expect more respect for their rights from their neighbours. It is therefore in the interest of other Asian countries, including those in Asean, that the Americans maintain a significant presence in the Asia-Pacific region to balance China. If there is no counterbalance from the US, there will be no room to manoeuvre for smaller Asian countries. When you have two trees, instead of one, you can choose which shade to be under. Staying in the Pacific is also important for the US, because if the Americans lose primacy here, they may lose it worldwide as well.

The competition between China and the United States for pre-eminence in this region is already underway. It will continue into the latter part of the 21st century. By then, the US-China relationship will be the most important bilateral relationship in the world, not unlike the US-USSR relationship during the Cold War. For a few years after September 11, the US was distracted by wars in Iraq and Afghanistan, and China was able to quietly advance its interests in the region, deepening ties and signing a free trade agreement with Asean. When the China-Asean free trade zone was proposed by Zhu Rongji, the former Chinese premier, a decade ago, Asean governments were astounded because we thought China was hesitant to open up its economy further through bilateral and regional FTAs. It was a strategic move on the part of the Chinese to develop strong economic ties with Asean so that Asean can see China's growth as an opportunity and not as a threat. I told the US trade representative then that if there was no US-Asean FTA within 10 to 20 years, Asean's economy will increasingly integrate with the China market, and the US will become a secondary market to us.

Militarily, the Americans are still far ahead in the game. China's defence budget, while experiencing double-digit growth every year, continues to trail the US defence budget by a factor of six to one – and this is reflected in

the superior military technology of the Americans. Eventually, the Chinese will want to become as strong a military power as the US. This will take them many decades.

But the Chinese are doing everything they can to catch up. They are trying to match the US at the high end of technology – sending a man into space and developing a GPS system that the US cannot knock down or deny them. They know that if they are dependent on the US' GPS system, they can be outmanoeuvred. And when the Chinese demonstrated that they could shoot down their own satellite in space and they could intercept their own ballistic missiles, they were sending a signal to the US: "You can't scare me. I'll shoot your missiles over the Pacific." We are talking about one needle chasing a moving needle across the skies – it is not an easy mechanical bow-and-arrow operation. It was a very significant demonstration of their capabilities.

In time, I see the Chinese striving to keep their eastern seaboard free from American spying. At the moment, Americans are able to come as close as 12 miles from the Chinese coast and look in. Now, just imagine the reverse. If the Chinese navy and airforce – its aircraft carriers – were to come that close to the American coast, the Americans would find it intolerable. They would never allow it. So you can imagine how the Chinese feel. But to be able to push the Americans further from their coast, they need to improve the technology behind their long-range missiles. When you have that, the implicit threat is that if somebody comes too close, you will fire a missile and sink his aircraft carrier or down his aircraft. At the moment, the Chinese cannot do that. The day they can do that, the aircraft will stay out of range. The Americans are not going to trust their luck. And the Chinese will say, "This is my economic zone, stay out. I'm not going to your Pacific coast, so what gives you the right to come here?" Are the Americans going to say no? In the end, might is right.

So eventually, there will be a balance – an equalling of the equation in 20 or 30 years. The first balance will be pushing the Americans out of the 12-mile limit. The second balance will be pushing them out of their 200-mile exclusive economic zone. And once they can do that, they become the most influential power in the region.

Some scholars predict, based on historical precedent, that as one great power rises and the existing superpower sees its dominance threatened, military conflict between the two is very likely, if not unavoidable. In the

case of China and the US, I do not agree with them. It is not in the interest of either power to face off on the battlefield. Both countries have nuclear arsenals, so they know there is a potential for extremely disastrous consequences. Furthermore, unlike how it was with US-Soviet relations, there is at present no bitter, irreconcilable ideological conflict between the Americans and a China that has enthusiastically embraced the free market. The Chinese need friendly relations with the US to secure continued access to its markets, investments, technology and universities. And the US simply has no need to make a long-term enemy out of China.

The biggest crisis that can arise between the two is over Taiwan. But I don't see America ever going to war with the Chinese to keep Taiwan independent. It doesn't pay. You can fight and win the first round. But are the Americans prepared to fight, and fight, and fight again? Are they eventually prepared to pay the price that China is willing to pay over Taiwan? Remember that no Chinese leader can survive if Taiwan is lost under his watch. So for the Chinese, it is a very serious matter. Even if they lose the first round, they will come back for a second round, then a third round and a fourth round – incessantly, until they win. It's not worth it for America. The Taiwanese will realise that over time, if they have not already done so. Ma Ying-jeou has more than half acknowledged it with his slogan, *Bu tong, bu du, bu wu.* No reunification, no independence, no use of force. The crucial phrase is, no independence, because there is no doubt that the moment Taiwan's independence is declared, China will resort to force to take back the island.

Reunification between Taiwan and the Mainland is a matter of time. No country can prevent it. Taiwan's international fate was, in fact, sealed a long time ago at the Cairo Conference in 1943 when Franklin D. Roosevelt and Winston Churchill agreed with Generalissimo Chiang Kai-shek on the return of Taiwan to China. When Lee Teng-hui was president, he began a process of Taiwanisation – emphasising the island's separateness from China. But that will not change the outcome of eventual reunification. All it does is make it more painful for the Taiwanese when reunification actually happens. Economics will resolve the problem. Gradual and inexorable economic integration will bring the two societies together, and China will see no need for force. Already, economic relations between the two have been growing under President Ma and will continue to grow over the next four years. And at the end of eight years under Kuomintang rule, assuming

the Democratic Progressive Party takes over and reverses policy, the Taiwanese farmers and industrialists will feel the pain, and the DPP will lose the next election or the election after that. This growing of interdependence will make it impossible for Taiwan to go for independence.

Q: *Are you surprised at how rapidly China has changed? Could you have foreseen the changes in 1976, on your first visit?*

A: No, not possible. I didn't know how long Mao would last. Deng Xiaoping came to Singapore in 1978. And he went back and switched policy – opened doors, brought in investments. That exposed them to the world. And they also travelled abroad. And now they have iPhones, although some websites are blocked. But in fact, when the Sichuan earthquake took place, a fellow with an iPhone announced it. Without the iPhone, the central government would have decided when to announce it. So technology has changed the way they work and the way the government has to handle the new situation.

Q: *You first met Xi Jinping in 2007. What is your impression of him?*

A: I would consider him a very able leader. Tough in that he'd been through troubles. His father was rusticated. So was he. He was sent to the countryside, and he worked his way up quietly, and rose in Fujian province. Then, when the party secretary of Shanghai was found to be corrupt, they moved him from Fujian to Shanghai. From Shanghai, he was recognised and brought to Beijing. So it was fortuitous, but also it showed that he had a lot of stamina in him to go through hardship.

Q: *Xi Jinping is taking over the top job in China at a time when China is at its strongest in the last two centuries or so. Is he going to be more assertive?*

A: I don't think that will make him feel elated and therefore cause him to throw his weight around. He's a thoughtful man and he knows it's not in China's interest. So my impression of him is, he will continue Deng Xiaoping's policy of keeping your light under your bushel, or *tao guang yang hui.*

Q: *In what way are these new leaders, including Xi Jinping, different from the ones you met in the 1970s and 1980s? Apart from their different personalities, are there any differences that reflect the changes that have taken place in China?*

A: Well, they have very different problems now. Then, it was dire poverty and a lack of infrastructure. Now, they have the cities in the coastal areas upgraded almost to Hong Kong standards. But that accounts for less than 50 per cent of the population. I would think about 50 to 55 per cent of the population are still in the rural backwoods.

Q: *Are they less rigid in their thinking? You wrote in your memoirs about how, in the early days, Chinese officials tended to stick to the script and were very stilted in their responses.*

A: No, no, they have loosened up. That was a period when the regime was very controlled in the centre and anybody who speaks his mind may speak it wrongly and get himself into trouble. Now they'll talk quite freely to you.

Q: *I'm sure the Chinese leaders tap your views on different issues when you meet them. So if you look at today's leaders, what are their preoccupations? What do they want to find out from you and how does this compare with the leaders of the previous generation?*

A: Well, I told Xi Jinping that in another few years, he will not be coming to Singapore to learn from us. We will be going to China to learn from them. He, of course, protested. He said, no, no, it's our systems that he's interested in. By that he meant they did not have the kind of framework which the British system provided us. We've built institutions that can support a leader, a weak leader, without it breaking down. But not for long of course.

Q: *Is there a similar preoccupation with wanting to tap your views on the region and on the US?*

A: No, my views on the US now are not required because they are dealing directly with the US. Of value to them are our views on the region, which they do not know as well, and the role they hope we will play in getting the region to be unafraid of a rising China.

Q: *Were you concerned that given the way they responded, and given the fact that they would grow in strength over the years, that you'd eventually have to deal with a China which is more difficult, more assertive and more dominant?*

A: You have to accept the fact that they're the biggest boy in the neighbourhood. They will not be the biggest in the Pacific because the US will always be there to counterbalance them. But increasingly, they would be able to keep the US away from the coastal regions. That's a development which we have to accept.

Q: *Won't that make for a more uncomfortable existence for a small country like Singapore?*

A: No more than for the other countries. And it's going to happen sooner or later. It may take five years, it may take 20 years, it may

take 30 years. But they will become the dominant power on the western seaboard of the Pacific.

Q: *This would be quite a tricky future for Singapore to navigate.*

A: No, not necessarily. It's even more tricky for Vietnam. We have no conflict of interest with China. Vietnam has competing claims over areas of the sea where they expect to find gas and oil. We have no such overlapping claims with them.

Q: *President Obama is making new commitments to the region. It was called Obama's Pacific Pivot. And we saw Hillary Clinton speaking on the back of an aircraft carrier. If this is indeed a lasting US commitment to this part of the world…*

A: No, no, no. There's no such thing as a lasting commitment. It is an expression of intent which he hopes will be lasting in nature. But it does not mean it will last indefinitely because the power equation changes. They are right across the Pacific, 8,000 to 9,000 miles away, and to project power from that distance using Japan as a base is not so easy as when you are projecting your power from your own neighbourhood across your own territorial waters and your own exclusive economic zone.

Q: *So the Chinese calculation may well be that they can try to wait it out.*

A: Yes, of course.

Q: *What is America's ability to project power contingent upon?*

A: One, the strength of the US economy and how much they spend on defence and how high the Pacific is in their priorities. Two, how quickly the Chinese grow in muscle.

Q: *So based on your assessment of those two...*

A: I think the equation will equal out in 20 to 30 years.

Q: *And when it equals out in 20 to 30 years?*

A: We have to make our own adjustments. You've got to live with them. They will be the closest neighbour with a size and the weight that can more than equal the Americans on this side of the Pacific. Americans have to project it across thousands of miles. Theirs is only a few hundred miles. There will always be the US factor. It will not disappear. The US is not going to give up its influence in this part of the Pacific, and it will have allies in Japan, South Korea, Vietnam and the Philippines. So it's a gradual but inevitable shift but not to the extent of ousting America from the region.

Q: *Watching the way the South China Sea dispute has unfolded over the last two to three years, did it tell you anything about the way China will respond?*

A: Where their core interests are involved and they believe from the dotted lines that this is their territory, the Chinese have sovereignty over these sandbanks and little islands, and they expect there to be oil and gas underneath, I expect them to take a very hard line on it. In the end, it could well be settled under the United Nations Law of the Sea, because that's one way out without any side backing down. So each island, each little sandbank would be subjected to measurements as to who has the closest claim to that sandbank. But

they will deal with it bilaterally, they've said so – not collectively against Asean as a whole.

Q: *That is Asean's preference – to deal with it collectively.*

A: Asean's preference is for the tensions to be managed collectively under the framework of the Declaration on the Conduct of Parties in the South China Sea (DOC) and through the early conclusion of the Code of Conduct on the South China Sea (COC).

Q: *But Asean will not get its way? Will it be eventually settled bilaterally or collectively?*

A: I think bilaterally. I don't see Indonesia leading the pack in locking horns, or Malaysia, or Singapore. What for?

Q: *What about the Americans?*

A: The Americans are already involved, but that's diplomatically. Whether they'll be involved militarily is a different question altogether. I doubt it. It's too far a power projection for them and they've got no interest. Why should they go to war with China for the benefit of Vietnam and the Philippines?

Q: *Is it possible that a future US administration – a more hawkish president – might decide that they should have a showdown sooner rather than later?*

A: No, you may have a hawkish president but you've got your military commanders who'd tell you just how far you can assert your rights or your power, and how much it will cost if you do want to assert

your power – how much you'll have to throw into further defence expenditure.

Q: *The other potential flashpoint between the US and China is over Taiwan. Things are going quite well there now – more economic integration, tourism. The inter-linkages are leading them to draw closer together. However, the eventual timeline for reunification seems to have been pushed off almost into the indeterminate future.*

A: It doesn't matter to the Chinese. They can wait endlessly. Time is on their side. Meanwhile Taiwan gets increasingly interdependent with China for its growth. The longer this goes on, the more painful it will be for any change in government to change or reverse policy.

Q: *But on the ground, surveys in Taiwan have shown that more people support independence than reunification.*

A: That's irrelevant. If you were a Taiwanese, would you want to be independent or stay where you are or be part of China? Does that decide the future of Taiwan? The southern Taiwanese will want to join up with China under no circumstances, and that will always remain so. But will their views prevail? The future of Taiwan is not determined by the wishes of the people of Taiwan. It is determined by the reality of the power equation between Taiwan and China and whether the Americans are prepared to intervene in the situation. It's not taking a straw poll and deciding, yes, you're going to have reunification or no, the majority are against it and therefore it's off.

Q: *Has the death of Kim Jong-il changed anything in the geopolitical situation in Asia?*

A: No, I don't think so. It is not in China's interest to allow North Korea to be absorbed by South Korea. That will bring the South and

American troops up to the Yalu River, which the Chinese feel will not be in their national interest. They will do their best to make sure that it stays that way.

Q: *How much influence does China still have over North Korea?*

A: The survival of North Korea depends heavily on China. From time to time North Koreans were almost starving because of the way they run the economy, and China gave them food and succour.

Q: *Do you see this status quo prevailing even over 20, 30 years? Is there a risk of North Korea imploding?*

A: No, I don't think so. Why should it implode? It reached near starvation at one time, the Chinese provided the food, the world also helped.

Q: *Is it in the interest of China to encourage North Korea to open up its economy as Deng Xiaoping did to China?*

A: Well, they took Kim Jong-il around to Shanghai and so on to show him how he could improve his economy without losing control, but nothing came out of it. There is some speculation that the regime may carry out economic reforms under its new leadership, but it is too early to tell if young Kim will be bold enough to take that route.

Q: *You have said that the Americans will eventually have to share pre-eminence with China in the Asia-Pacific region. What are the implications for countries like Singapore when that happens?*

A: Well, we have to pay more attention to what they think, as much as, or even much more than what the Americans think. The Japanese

and the Koreans are already investing very deeply and extensively in China, while keeping their security ties with America. How long can that continue? As you become more and more engaged and involved and invested in China, how can your security ties prevent the Chinese from using economic forces, which they now control over your enterprises, to twist your arm?

Q: *It will be very different dealing with the Americans compared to dealing with the Chinese. We've had to deal with the Americans because they were the dominant force here.*

A: Well, we found the Americans more or less benign. They are not out to squeeze you. Yes, they want everybody to be a democracy but they don't try to force it down your throat. The Chinese are not interested whether you run a democracy or you're despotic. They just want you to comply with their request. It's a totally different approach. They do not believe in evangelising their form of government and have you adopt it. It's a different way they think of their role.

Q: *Would we one day host a logistics hub or some other kind of base for the Chinese navy?*

A: I cannot say that. It won't happen in my lifetime. I think the first stage would be to host logistics hubs for both navies – not for one. Do not choose between them.

Q: *For how long do you think Singapore would be able to be in this position of not having to choose between them?*

A: I cannot say. Depends on how the American economy is and how their power projection capabilities are.

Q: *When dealing with the Americans, you've had some good personal relationships with some of them – Henry Kissinger and others. When dealing with the Chinese, will Singapore ministers be able to establish personal relationships with Chinese leaders that are as good as those you enjoyed?*

A: Well, at the moment we have good personal relationships because they want to pick up ideas from us but once they are on top and they don't need us anymore, the relationship will change. But I suppose there will be some lingering sense of obligation for having taken help from us, like in the Suzhou Industrial Park. We left goodwill behind.

Q: *In 1976 you visited Beijing, you met Hua Guofeng, the premier. He tried to give you a book on the Sino-Indian war, which was a biased view, it was the Chinese view. You refused to accept this book at the risk of offending them and you explained that there were sensitivities: there were Indians living in Singapore and there was a different point of view. There is no doubt that you'd do the same thing again. But China is much more powerful now. If a young Singapore minister went up, would you recommend that he reject the book as well?*

A: Well, I don't know whether he will or not, depends on his character. But even if he does accept the book, I don't think he'd read the book with any great conviction. It's a one-sided story, and we have already got several sides of the story from multiple agency sources.

Q: *But with China so much more powerful now, would a younger minister have the gumption to risk offending the Chinese?*

A: Well, so you accept the book, but will you change your mind? In my case I had already read so much of it, I told him, "This won't make

me change my mind.” But it’s a different China today that they will be facing and the younger ministers will have to decide how they want to handle their personal inter-relations with the Chinese. They may well think that if you sour them up, you may not gain access the next time.

THE NEW CHINA

PEOPLE, SOCIETY, ECONOMY

In the fall of 1989, Qian Ning, the son of former vice-premier Qian Qichen, arrived at the University of Michigan to study on a scholarship, immediately after Tiananmen. He was in his 30s and had been working in the *People's Daily* before going to the United States. A few years later, he wrote a book, *Studying in America*, which China allowed to be published. He had an impeccable communist pedigree, but what he wrote was quite subversive.

At Ann Arbor, Michigan, he realised that life consisted also of parties, barbecues and great friendships, not this hot-house self-criticism and politicking in Beijing. In one passage, he wrote that the wives who had accompanied their husbands to the US would never be the same Chinese women when they returned to China. They had seen the possibility of a different lifestyle. In an oblique way, he was saying that he had changed his perspective of what was possible in Chinese society. This is the new China, with multiple channels of interaction with the outside world.

Slowly but surely, China's opening up is changing the face of Chinese society. China was a very closed and rigid society during my first visit in 1976. Ordinary Chinese on the streets looked very similar in blue or black outfits. Even though it wasn't a school holiday, they brought a massive group of schoolchildren out to welcome me, singing, "*Huan ying, huan ying! Re lie huan ying!*" I thought to myself: "They should be in school studying, and not wasting their time travelling from their schools to the airport and then back to the schools, losing a whole day's schoolwork." There was a certain rigidity in the system. They would greet a guest and try to impress with their show of warmth and hospitality, while at the same time trying to impress with their numbers and sheer scale and uniformity with which they can do things. I think that's gone. They know that doesn't

impress the guest anymore. Also gone are the blue and black uniforms. Now you find all colours of the rainbow on the streets. Western luxury brands are finding China a lucrative market. In 2009, China overtook the United States as the world's second largest luxury goods market, trailing only Japan. High-end watches and leather goods are in special demand, thanks to a culture of gift-giving. Mercedes-Benz and BMW have more than doubled their sales in the Chinese market in the last two years, even as their order books have stagnated in many developed countries. The Chinese middle class are going for facials, fancy dresses, a comfortable life. They have decided that the austere way of life is not one that can create a happy society.

Like Qian Ning, the young Chinese of today live in a global village. People are travelling widely: the Chinese to America and Europe, and Americans and Europeans to China. Even if they do not get the opportunity to study in Michigan, their access to the Internet and foreign films and books offers them a window to the world that their predecessors just a few decades ago could only have dreamed of. Their horizons have widened. Their view of their own position – as well as China's position – in the world will change. A new generation that was born and grew up after China's opening up will one day take over the reins of their country. They will do so without being burdened by memories of China's troubled past. The China that they know from their everyday experiences – and not their history books – is one that is stronger than it has ever been since the Opium War, and becoming stronger by the day.

What will this mean for the China of tomorrow? Might we see a much more assertive and nationalistic China in 30 years? Possibly. I see growing nationalism as the first stage of this new China, because the Chinese feel they've got muscles. But when they begin to see that there are limits to what they can do, there will be a pause and reflection. There will be a moderation of the flexing of muscles, because they see that doing so does not cause the Americans to leave the region. And they will realise that the more they impose themselves on their smaller neighbours, the closer their neighbours get to America, as an insurance, offering the Americans facilities for their aircraft carriers to come and visit.

A few years ago, a Chinese leader in his 70s asked me, "Do you believe our position on peaceful rise?" I answered, "I do – but with one caveat. Your generation has been through the anti-Japanese war, the Civil War, the

Great Leap Forward, the Cultural Revolution, the Gang of Four, and now the Open Door policy. You know there are numerous pitfalls, and that for China to go up the escalator without mishap, you need stability internally, and peace externally. But you are inculcating enormous pride and patriotism in your young in a restored China. So much so that when they started demonstrating against the Japanese, they turned violent. And when my son, the prime minister, visited Taipei in 2004, he and Singapore were attacked on China's Internet chatrooms as ingrates and traitors. It's volatile." The Chinese leader said they would make sure that their young understood.

I hope they do. Somewhere down the road, a generation may believe that they have come of age, before they have. That would be sad, and destabilising for the region. In fact, just managing China's rise will be enough to consume all their talent and passion.

Over time, I do not doubt that China will be able to move up the value chain and compete with developed countries in state-of-the-art technology and manufacturing. At the present moment they are trying to match the US at the high end – in space and military technology. Their energies are on strategic basic strength internationally. After that, they can catch up gradually in consumer products, but consumer products are at the bottom of the scale at the moment. Because you can grow wealthy but if you are dependent on the US for your GPS and for rockets and so on, you can be outmanoeuvred. Space research, GPS systems – they are not a source of economic growth but they can provide the assurance that their economic growth cannot be tampered with by military action.

There is nothing inexorable about the rise of any country. China's economic growth can continue over the next few decades if nothing happens to derail it. But there are a number of serious domestic challenges that will take the Chinese government considerable energy, time and resources to tackle. If any of these spin out of control, there could be deep economic recession or severe social unrest. Even if stability is maintained, there could be limiting factors. Why, for instance, wasn't the iPhone invented in China? Intellectual property laws and the enterprise system are not at present providing sufficient incentives to liberate all the creative power that we know clearly from history that the Chinese people possess. But I am optimistic that there is sufficient will and competence within the present Chinese leadership to deal with these domestic challenges sensibly. Over the three and a half decades of *gai ge kai fang*, or reform and opening

up, China has proven capable of reflecting on misguided policies and reining them in before they caused bigger problems.

There was a time when cities near one another were duplicating many infrastructure projects. In Shenzhen, Zhuhai, Hong Kong and Macau, there are four airports all close to each other. That was before they got a grip on the situation. Mayors were at one time judged by how much their cities had grown, regardless of whether it was sustainable. So instead of focusing on projects that added value in the long term, they simply concentrated on boosting GDP figures. As a result, they ignored the environment, ignored long-term planning. But they are correcting this too.

Moving forward, one possible source of serious tensions is the growing wealth gap between the coastal provinces and the inland provinces and, to a certain extent, within cities. The coastal cities are growing at least one-third faster than the inland cities, and starting from a much higher base. They attract more investments, create better jobs and provide a better standard of living for their residents. And the gap is widening.

Of course, some disparity in growth is bound to exist in a country as vast as China. I do not believe the western provinces can ever be as prosperous and advanced as the coastal and riverine provinces. Take the United States. The East Coast and the West Coast are more populous and prosperous than the inland, with the exception of Chicago. But Chicago has the St Lawrence River and the Great Lakes, so ships can sail in. The geographic advantages of being near the sea cannot be fully overcome. In China, furthermore, some western provinces are not just far from the sea, they also contain semi-desert areas, where the climate is hostile. Bright students who want to do well aim to go to the coast or to Beijing for their university studies. There is a vicious circle, because your best professors and teachers don't want to go inland either. President Hu Jintao has emphasised a "harmonious society" and has made it one of his objectives to balance the development between the coast and the inland. They are trying to build the infrastructure and to bring development to the western regions by offering special investment terms for businessmen. This is still a work in progress. In the end, you might be able to raise the standards in the inland provinces to, say, about 60, 70 per cent of the coastal provinces. The challenge is in ensuring that the discontent from the wealth gap does not become unmanageable. Satellite television has exacerbated this problem. People in Chengdu or Yunnan can see Beijing's developments on their television screens. They

see these Olympic stadiums – grandiose, well-designed by world-renowned architects. And they say, "What's in it for me? When is my turn?"

Disparity has led to other problems. The people living in the poorer areas want to move to the richer areas. Rural-urban migration is extensive and assessed to be at 1 per cent of the population of China every day. The Chinese have a *hukou* or household registration system. It's like the Japanese *koseki* system – you cannot transfer your residence from A to B without permission. And if you do, in the new place of residence, you will not have the right of access to health services, housing, schooling for children, and so on. It has not stopped migration. Rural workers have moved to cities all the same, doing the heavy and dirty work around the cities, without benefit of basic social services for themselves or their children. It's an untenable position. They know it. But if they allow free migration, the cities will all be swarmed. So they are trying to find solutions. They are trying to get the local authorities to accept some responsibility over the migrants, because the cities cannot grow without the labour. I'm also told that they are planning six city clusters in central China, each with populations that can go over 40 million. They are hoping to draw people from the countryside into these cities, instead of the coastal cities. But it will have to be a controlled exercise, because these cities will not offer the migrants the opportunities that the coastal cities can.

The lowest hanging fruits in the Chinese economy are also running out. Adjustments will have to be made to the overall economic strategy to ensure that growth can be sustained over the next few decades. China will continue to enjoy fast growth for some time, with its cheap manpower. The reserves of manpower in the western provinces will carry China forward at a growth rate of about 7, 8, 9 per cent for 15, 20 years. After that, increases will depend on productivity – how they educate their people to produce more in the same number of hours. In other words, how you train them and equip them with different skills and working instruments – whether in universities, polytechnics or technical institutes.

An even more pressing issue China faces is what to do with its state-owned enterprises that are less efficient. Here, China faces a fundamental problem of personal motivation. They are trying to get officials to be more like private entrepreneurs. That will not work because, unless you are holding on to 20 per cent of the shares, and you live with the fear that the stock market could crash on you, you won't wake up and do something

about it. Your salary goes on. Whether the business goes up or goes down, you just get your salary. But when you have your own wealth involved, your whole livelihood, all your stocks in a company, you worry about it 24 hours a day.

Are the Chinese prepared to move to that concept of privatisation? They have moved to the concept of asking the official to make it run commercially but what will motivate an official to act like an owner? Unless China faces a severe slowdown in the economy, which is not impossible, I am not sure they are determined to act decisively on this.

Finally, China needs to make the transition from an export-driven economy to one driven by domestic consumption, like the US economy. For this to happen, you must have a change in the mentality of your middle and lower-middle classes, who have been poor for so long they automatically stash any increase in wealth in the bank or in their pillowcase. They spend only when they feel very confident about the future. The Americans spend – and they borrow and spend – whether or not they are confident about their future. There's a basic assumption in America that things will turn out all right. That's how their economy grows – by domestic consumption. Eventually, that's the way China must go. But how do they make that transition?

Poor people still behave like poor people even when they are getting rich. You just want to accumulate more wealth and have more savings because you have been poor for so long, you're afraid you might become poor again. You will start to spend only when you become confident and believe that this prosperity is here to stay and that it's silly to be crimping your lifestyle. They must come to that stage for their economic growth to be sustainable. They do not have the luxury of time. It is a transition they have to make within one or two decades.

But wealth has to be more equitably distributed. The income gap is one factor holding back domestic consumption, because the spending power now is only in the coastal provinces and cities, and not among the larger rural population and those living inland. How do they redistribute growth or the fruits of growth? You must have all boats rising.

Q: *We've seen China's dramatic transformation since the late 1970s. Can you sketch for us what in your view are the main factors that account for this incredible transformation of China's economy?*

A: Well first, I think it's related to Deng Xiaoping changing their policies. It was a reclusive China isolated from the world. He came to Singapore, watched how without a hinterland we were prospering with external trade and investment. He opened up Special Economic Zones, they prospered, more economic zones, they prospered. And Zhu Rongji brought China into the WTO and the whole country is now part of a free investment area and as long as there are cheap, skilled labour and manpower, professional manpower, they will be a very attractive, low-cost export base. Meanwhile, they are also increasing their consumption as they get more affluent.

Q: *So, in a sense, is it a repetition of the Asia tiger story? South Korea opened up, Hong Kong opened up, Singapore opened up.*

A: No, the scale is so vast and different. The four tigers could be put into one province in China! It's a huge scale and the consequences of that economy opening up will impact the whole world's economy in 20, 30, 40 years. I mean, look, the euro is in trouble. Wen Jiabao visits Europe, Angela Merkel comes to Beijing to return the visit because Wen Jiabao has $3.2 trillion worth of reserves. That's how the economic equation has changed. I do not see them frittering away the $3.2 trillion. They might buy some euro bonds on the cheap as an investment, not as a giveaway. It's in their interest that Europe does not collapse or the exports to Europe will be hurt but it's not in their interest to give things away for free.

Q: *What sort of problems do you see emerging within China as a result of this very rapid economic transformation?*

A: I see their weaknesses in two fields. No governance institutions – the individual is stronger than the person who occupies the office. Second, they don't have the rule of law, it's the rule of the individual in charge. So every change of leader can mean a change of several echelons or levels of the people at the top. That's a destabilising factor.

Q: *Will they be able to fix these two weaknesses?*

A: Not easy. It's the culture of the country. And is it in the interest of the Communist Party to create that different system in which they may lose their ability to control the country? I don't know. I think there's no incentive to change the system.

Q: *Might anything happen to force them to change, let's say, in 15 to 20 years' time?*

A: I don't know, a crisis of sorts. But I do not see a crisis bringing about a solution like the Western concept of the rule of law on governance of institutions. I see them working out their own system of conflict resolution.

Q: *Do you see the lack of the rule of law as a possible impediment to them developing a culture of innovation, where intellectual rights are protected and respected?*

A: Well, they will take notice and do something about that only when there is enough Chinese intellectual property for them to protect. They haven't reached that stage yet. It does discourage innovation

and the registration of patents. It may slowly change as they develop enough of an entrepreneurial drive to create such new projects.

Q: *But as China becomes more embedded in the international economy and more foreign companies want to do business with it, won't there be pressure for China to adhere to certain aspects of the rule of law – contracts, intellectual property?*

A: For that they can have a series of sectors where they have arbitrations. But it will be a fenced-off segment. I don't see that permeating throughout the whole society. I don't see Wukan going to arbitration. It will be settled by force. That's my take on it. I do not see the rule of law sprouting out of nothing. It's not that they are studying Western systems and saying, how do we improve on our system? They will improve by adjusting their systems as they go along, as they meet problems.

Q: *But China has not been averse to learning from the West. After all, Marxism came from the West.*

A: No, no, no, that's a different problem altogether, and I don't think they believe in Marxism anyway. That was a period when they followed the Soviet Union. That was a theological allegiance. When they speak of democracy, for example, they don't mean what America means by democracy, what Britain means or what we mean. I mean the fundamental rule, the real test of democracy is: Can you change governments by the vote? That's all. They have studied us, how did we stay in power? We have the vote. And when we lost one segment, we have to prepare for the next round where we either lose more seats or we hold our own or regain those seats. In other words, you can change the government by votes. Harold Laski made a classic summary of the problem: you either have revolution by consent or revolution by violence. I do not see them adopting revolution by votes, or the resolution of problems by votes.

Q: *The* hukou *system has been the subject of intense debate in China for some time, with many calling for it to be abolished. Do you see the Chinese government changing their policy on* hukou, *maybe not overnight, but gradually allowing more movement, more flexibility in urban migration?*

A: They may, but that means they will impose on the cities, the city authorities, the burden of taking in these people. Unless they're given more revenue, how do they carry the cost?

Q: *A recent World Bank report warned that the Chinese economy is headed for a dramatic slowdown unless it makes fundamental changes to its economy. And it highlighted the need to privatise state-owned enterprises.*

A: It is the less efficient method. The motivation of the managers in state-owned enterprises is not the same. They get directives: Try harder, be more efficient. But whether you're efficient or not you still get your salary. The change comes about when you are the owner of the property. That's your total wealth at stake and you'll stay 24 hours out of 24 on the job. Are they prepared to do that? In Russia they privatised and the oligarchs just took over huge chunks of the economy. Some of them ran them efficiently after that because it was their property.

Q: *Do you see China doing that too?*

A: How do you privatise in a fair way? Who do you sell it to?

Q: *But given what you have said about guanxi and patronage in the Chinese system, this would fit into their model.*

A: And you just give it away like that? I think there will be real trouble, there will be this scramble at the top. There will be a power struggle immediately. In the case of the Soviet Union there was a collapse of the state. The Soviet Union collapsed, the past broke away, and they were in a daze when all these things happened.

Q: *Supposing the inefficiencies of the state-owned enterprise system caught up with them and the economy slowed down as a result, would that be sufficient reason for them to make the change?*

A: I cannot say. If the slowdown is severe, they'll have to think of a way to motivate the managers or to replace them with more commercially minded ones and give them a stake. How do they do that? Giving it to their friends and their party comrades? How does that ensure that they are people with the right attributes to run the company? If there are small and medium enterprises which they allow to grow and entrepreneurs emerge, then these small and medium enterprises could later on take over these state enterprises because they are really people who have come up on their own. They're savvy and know how to work with market forces.

Q: *So that's possible if enough of the small enterprises make it big.*

A: But the trouble is they cannot get enough funding. The funding goes to the state-owned enterprises. If they want that to develop, they ought to allow funding for the small and medium enterprises and then they can have a group of entrepreneurs emerging who can eventually take over the state-owned enterprises. I see that as one way out.

Q: *Do you see the way they are organised as an economy and the way they're organised politically inhibiting the kind of creativity or*

innovation at the higher end – that you see in an economy like the US, for example, at its best?

A: Yes, of course, that's why they don't produce the iPad or the iPhone. It's not theirs. Whereas Steve Jobs, it's his. He invented it, he had the patent, he became a multimillionaire.

Q: *So won't that be a problem for China going forward? Won't it affect its ability to compete head-on with the US?*

A: It's been a problem all this while. You look at every invention that's come up: iPhone, iPad, the Internet, why did China not do it? Not for lack of talent, but something was missing.

Q: *Is it possible, for example, that some Chinese students now studying in the top US universities, bright sparks, might come back to China and…*

A: And change the system?

Q: *At least the technological sphere.*

A: When they come back they are slotted into their proper place, which is in the middle levels, and by the time they get to the top, they've already been absorbed by the system and they will act like their superiors have done. That's their problem. I mean if they allowed middle management to go to America and come back and take over and run a different system, then I think it's possible, but that means giving up power, which I don't see them doing. It just goes against the grain. What will they do after that?

Q: *So with so much inertia, will the system be able to maintain high rates of growth or is the Chinese economy going to slow down like what the World Bank is saying?*

A: Well, I believe it will slow down. When the resources of cheap labour are exhausted, they will slow down.

Q: *Do you believe the yuan will, in 15 to 20 years' time, become a fully convertible currency?*

A: Convertibility, I see them as possibly aiming for. But convertibility does not mean a fair exchange rate. You can convert and undervalue your currency to increase your exports. They will let it go up but gradually. They will always want the advantage of lower cost exports. It's an export-driven economy and not an economy driven by domestic consumption as in the US, and the US wants them to convert to that system. I think eventually they will be forced to convert to that system but then you must have a change in the mentality of your middle and lower-middle classes. You must encourage them to consume and not simply save. I'm quite convinced that in the end domestic consumption is their only ultimate source of sustainable growth. But for that to happen, you must also redistribute growth, because those in the inland provinces don't have the spending power. You must have all boats rising.

Q: *So given this scenario that you paint, surely the state governments would then have to make quite significant changes to their social system – in terms of access to education, training, so that, as you put it, all boats will rise. So would the economic imperative drive social change?*

A: Well, you can put it that way. But the way they will see it is, if they don't do it, their economy will stall. So they will do it because they

don’t want their economy to stall.

2

AMERICA

Troubled but still on top

AMERICA

The balance of power is shifting. On the Asian side of the Pacific, America will, over time, find it ever harder to exert its influence. It will not be business as usual. Proximity is the key in this case. China has the advantage of being in the region and will be able to project power much more easily in Asia. For America to do so from 8,000 miles away is a completely different proposition. The disparity in effort, in logistical complexity and in costs is quite considerable. The sheer size of the Chinese population – 1.3 billion, compared to 314 million Americans – will add to the enormity of America's challenge. But the power shift will not happen quickly because of superior American technology. The Chinese can make an aircraft carrier, but they may not be able to catch up so quickly with the technology of the American aircraft carrier, with 5,000 troops and a nuclear powered engine on board. But eventually the disadvantage the Americans face over distance will be decisive. The US will have to make adjustments to its posture and its policies in this region.

The Obama administration announced in 2011 that America intended to approach the Asia-Pacific region with renewed emphasis. They called it the Pacific Pivot. Writing in *Foreign Policy*, President Barack Obama's Secretary of State Hillary Clinton revealed the thinking behind this new policy: "Open markets in Asia provide the United States with unprecedented opportunities for investment, trade, and access to cutting-edge technology… Strategically, maintaining peace and security across the Asia-Pacific is increasingly crucial to global progress, whether through defending freedom of navigation in the South China Sea, countering the proliferation efforts of North Korea, or ensuring transparency in the military activities of the region's key players." In April 2012, the first deployment of

200 US Marines arrived in Darwin, Australia as part of an increased American presence in the region.

Many Asian countries welcomed this reaffirmed commitment from the Americans. For years, America's presence has been an important stabilising factor for the region. Continued presence would help maintain that stability and security. China's size means that, ultimately, only the US – in partnership with Japan and South Korea, and in cooperation with the Asean countries – can balance it.

It remains to be seen, however, if the Americans can translate intent into real commitment over the long term. Intentions are one thing; capabilities and capacity, quite another. The US now has troops in Australia, Japan, South Korea and Guam. (The Filipinos were unwise to have asked the Americans to leave Subic Bay in 1992, forgetting the long-term consequences of their departure. Now, they are saying: "Please come back.") The Americans believe they have a military arrangement in the region that enables them to balance the Chinese navy. Furthermore, because the region's waters are relatively shallow, the Americans are able to track the movements of Chinese vessels – including that of submarines. But how long does that advantage last? A hundred years? No. Fifty years? Improbable. Twenty years? Maybe. Finally, the balance that obtains is a function of what happens to the American economy over the next few decades. You need a strong economy to project power – to fund the building of warships, aircraft and military bases.

As the battle for Pacific pre-eminence between the US and China plays out, Asian nations – lesser powers – will have to adapt accordingly. Thucydides famously wrote that "the strong do what they can and the weak suffer what they must". Smaller nations in Asia may not be resigned to such an unpleasant fate, but any realistic view of declining American influence in the Asia-Pacific will prompt countries to make changes to their external strategy. More attention will have to be paid to the likes and dislikes of the Chinese, who are growing in economic and military might. But just as important is making sure that one does not become completely dominated by the Chinese. In the end, I do not see the Chinese being able to squeeze the Americans out of the Western Pacific.

Vietnam, for instance, is one of the unhappiest nations when it comes to the expansion of Chinese power. Deng Xiaoping attacked North Vietnam in 1979 in retaliation for them making a move on Cambodia. He destroyed a

few towns and villages and withdrew, just to send a stern reminder to the Vietnamese: “I can go right into Hanoi and take you over.” It is not a lesson the Vietnamese will forget. One strategy probably already being discussed within the Vietnamese government is how they can begin cultivating long-term security ties with the Americans.

I, too, feel some sense of regret at this shifting power balance because I see the US as basically a benign power. They have not been aggressive and they are not interested in capturing new territories. They fought in Vietnam not because they wanted to capture Vietnam. They fought in Korea not because they wanted to capture North and South Korea. They were fighting wars for a cause, and the cause then was anti-communism. They wanted to prevent the world from becoming more communist. If they had not intervened and held out for so long in Vietnam, the will to resist communism in the other Southeast Asian countries would have dissipated, and Southeast Asia might have fallen like dominoes in the face of a red tide. Nixon bought time for South Vietnam to build up and fight on its own. The South Vietnamese did not succeed, but the extra time bought enabled Southeast Asia to get its act together and to lay the foundations for the growth of the Association of Southeast Asian Nations, or Asean.

Singapore is quite comfortable with the Americans being present. We do not know how brash or assertive China will become. When I said in 2009 that we must balance China, they translated the word in Chinese into “conscribe”, and there was a big uproar among their netizens, who asked how dare I say that when I am a Chinese. They are hypersensitive. And even after I pointed out to them that I never said “conscribe”, they were not placated. It is a young, raw power coming to the fore

In this changing environment, Singapore’s overall strategy is to make sure that even as we latch on to the remarkable Chinese growth engine, we do not cut our lines to the rest of the world, including – and especially – to America. Singapore remains important to the Americans. We are in a strategic position at the centre of an archipelago, a region that America cannot possibly ignore if it wants to keep up its influence in the Asia-Pacific. And even as we grow our ties with the Chinese, they will not be able to stop us from maintaining strong economic, social, cultural and security ties with America. The Chinese know that the more they press down on Southeast Asian nations, the closer they will get to America. If the Chinese would like to make Singapore a port of call for its warships, as the

Americans are doing, we will welcome them. But we will not choose sides by playing host to one and spurning the other. This is a stance we can continue to take for a very long time.

Another way we keep our linkages with the rest of the world is through language. We were lucky to have been governed by the British because they left behind the English language. Supposing we had been governed by the French, like the Vietnamese, we would have to unlearn our French before learning English to connect to the world. It would surely have been a painful and difficult conversion. When Singapore became independent in 1965, a group from the Chinese Chamber of Commerce came to me to lobby for Chinese to be chosen as the national language. I told them: “You would have to fight me first.” Nearly five decades have elapsed and history has shown that the ability to speak English and to communicate with the world has turned out to be one of the most important factors in Singapore’s growth story. English is the language of the international community. The British Empire spread the English language throughout the world, so when the Americans took over, it was a relatively seamless transition to American English. It was a tremendous advantage to the Americans that, globally, so many people could speak and understand their language.

As China’s rise continues, Singapore might ramp up Chinese standards in our schools to give our students an advantage, should they choose to work or do business in China. But Chinese will remain the second language, because even if China’s GDP surpasses that of America, they will not be able to give us the standard of living that we enjoy today. Their contribution to our GDP is less than 20 per cent. It is the rest of the world that will sustain Singapore and provide us with prosperity – not just Americans, but also the British, the Germans, the French, the Dutch, the Australians and so on. These countries do business in English, not Chinese. It would be foolish for us to consider making Chinese our working language at any point in the future, when even the Chinese are furiously learning English from the time they are in kindergartens to the time they attend universities.

America is not on the decline. Its reputation has suffered a setback as a result of the long and messy military occupations in Iraq and Afghanistan as well as a severe financial crisis. But perceptive historians will point out that a seemingly weakened and weary America has bounced back from far worse situations. It has faced great trials and challenges within living memory: the Great Depression, the Vietnam War, the rapid post-war rise of industrial powerhouses Japan and Germany. Each time, it found the will and energy to recover its position at the front of the pack. America has prevailed. It will do so again.

The success of America lies in its dynamic economy, sustained by an uncanny ability not just to produce the same with less, but to constantly innovate – that is, to invent completely new goods and services that the rest of the world soon finds to be useful and desirable. The iPhone, iPad, Microsoft, the Internet – these were created in America, not elsewhere. The Chinese have many talented individuals compared to the Americans, but why have they not been able to come up with similar inventions? Clearly, they lack a spark that America possesses. And that spark means that the Americans can be expected to throw up game-changing innovations from time to time that will again put them in the forefront.

Even if the declinists are right, and America is in fact on a downhill path, one needs to remember that this is a big country that would take a long time to decline. If Singapore were a big country, I would not be so worried if we adopted the wrong policies, because they would be slow in showing results. But we are a small country and a wrong course of action brings catastrophic consequences within a short space of time. America, on the other hand, is like a huge tanker. They will not simply turn around like a skiff does. But I believe that the declinists are wrong. America is not likely to go down. Relative to China, it may become less powerful. Its power projection in the Western Pacific may be affected and it may not be able to equal the Chinese in numbers and in total GDP, but the Americans' key advantage – their dynamism – will not disappear. America is, by far, the more creative society. And the fact that the Americans are having an internal debate about whether or not they are declining is a healthy sign. It means they have not become complacent.

Why do I believe in the long-term success of the US?

Firstly, the US is a more attractive society than China can ever be. Every year, thousands of bright and restless immigrants are allowed into America, settle and become successful in various fields. These immigrants are innovative and usually more adventurous, or they would not have left their own countries. They provide a constant source of new ideas and bring about a certain ferment within American society, a buzz that you will not find in China. America would be far less successful without them. For centuries, America drew top talent from Europe. Today, it is drawing them from Asia – Indians, Chinese, Koreans, Japanese, and even Southeast Asians. Because the US is able to embrace these immigrants, help them integrate and offer them an equal chance of realising the American dream, there is a continuous inflow of talent that contributes, in turn, to the creation of new technology, new products and new methods of doing business.

China and other nations will eventually have to adopt parts of the American model of attracting talent to fit their circumstances. They will have to go looking around for talented people to build up their enterprises. That is the final contest. This is an age in which you will no longer have military contests between great nations because the nations know that they will destroy each other if they do that. But there will be economic and technological contests, and talent is the key ingredient in those contests.

America is a society that attracts people and retains them. They have been taking in the best talent from Asia. Look at the number of Indians in their banks and universities – Vikram Pandit, for instance, the former CEO of Citibank. Some Singaporeans are choosing to stay in the US after studying there. That is why I am in favour of sending students on scholarships to Britain instead, because I am sure they will come back. In the UK, you do not stay behind because you are not welcome. And because the economy is less dynamic, there are fewer jobs for you.

One reason why China will always be a less effective magnet for talent is language. Chinese is a much harder language to learn than English. The spoken language is very difficult unless you learn it from a very young age. It is monosyllabic and every word has four or five tones. And when you do not know the language, you are unable to communicate. It becomes an enormous barrier. I speak from experience. I have struggled for 50 years and today, although I speak the Chinese language and can write it in romanised form, the *pinyin*, I still have not grasped idiomatic Chinese. And

that is not for want of trying. China becoming dominant in the future will not change the basic fact that Chinese is an extremely difficult language to learn. How many people have gone to China, stayed there, and done business there other than Chinese and the Europeans or Americans who become China specialists? The Chinese have tried to popularise their language among foreigners through the establishment of Confucius Institutes worldwide, but the results have been patchy at best. People still go to the British Council and to the American outfits. The American government does not even have to try. At one time, they had the United States Information Service, but even that was closed down because there was no need for it. There is already a plethora of publications, television shows and movies that performs that function. So in soft power, the Chinese will not win.

Another source of American competitiveness are the many competing centres of excellence throughout the country. In the East Coast, you go to Boston, New York, Washington; in the West Coast, you go to Berkeley, San Francisco; in Middle America, you go to Chicago and Texas. You will find diversity and each centre challenging the other centres, not willing to toe the line. When the Texans found that they were oil-rich, James Baker, a former Secretary of State and a Texan, tried to create in Houston a centre that would rival Boston or New York. Jon Huntsman, the former US ambassador to Singapore and China, and a personal friend of mine, is another example of this. His family had prostate cancer problems. So when he inherited his father’s fortune, he brought the best scientists doing research on prostate cancer to his home state of Utah to study this problem.

Every centre believes it is as good as any other, and all it needs are money and talent, which can be sourced. Nobody feels compelled to obey Washington or New York. If you have money, you start another centre. Because of this, there is a certain diversity in society, a competitive spirit that throws up new ideas and new products that survive the test of time. China, of course, takes a completely different approach. The Chinese believe that when the centre is strong, China prospers. There is a certain de rigueur attitude, a demand that everybody conforms to a single centre. Everyone is expected to march to the same drummer. Even Britain and France cannot match the Americans on this. In France, everyone who is bright ends up in the grandes écoles. In Britain, it is Oxbridge. These countries are relatively small, compact and therefore more uniform.

From the late 1970s to the 1980s, America lost its industrial lead to reviving economic powers Japan and Germany. They got overtaken in electronics, steel, petrochemicals and the auto industry. These were important manufacturing sectors that employed many workers, including blue-collar ones who were represented by trade unions. In some European countries, trade unions resisted labour reforms by threatening industrial action that would inflict severe short-term losses. But in America, the opposite happened. Corporations could make hard but necessary changes. They downsized, retrenched workers, and improved productivity through the use of technology, including IT. The American economy came roaring back. New businesses were formed to help companies optimise their IT systems, including Microsoft, Cisco and Oracle. After a period of painful adjustments, companies were able to create new and better-paying jobs. They were not interested in hanging on to old-type jobs which can be done by China, India and Eastern Europe. They saw their future in a world where wealth was generated not by making widgets or cars, but by brain power, imagination, artistry, knowledge and intellectual property. America was back in the game. It regained its status as the world's fastest-growing developed economy. I came to appreciate fully the dynamism of the entrepreneurial American.

You continue to see it today. Americans run a leaner, more competitive system. They file more patents. They are always striving to make something new or do something better. Of course, this has to come at a price. American unemployment fluctuates like a yoyo. In times of bust, 8–10 per cent unemployment is par for the course. An underclass has developed as a result. Amid the opulence, the razzle-dazzle, the beautiful shops of New York, you can easily find homeless Americans lying on the pavements, with nothing but the clothes on their backs and cardboards for sleeping mats. Some, including the Nobel Prize-winning economist Paul Krugman, have decried the huge wealth disparity found in American society.

Is this an acceptable state of affairs? That is not for me to say. There are religious and charity groups that try to help. Some set up soup kitchens for the unemployed and so on. But you cannot have your cake and eat it. If you want the competitiveness that America currently has, you cannot avoid creating a considerable gap between the top and the bottom, and the development of an underclass. If you choose instead the welfare state, as

Europe did after the Second World War, you naturally become less dynamic.

Finally, America has a culture that celebrates those who strike out on their own. When they succeed, they are admired as talented entrepreneurs and accorded the social status and recognition they rightly deserve. When they fail, it is accepted as a natural intermediate stage, necessary for eventual success, so they pick themselves up and start afresh. This culture distinguishes it from Britain, a more static society where everyone knows his proper place. Britain is far more European in this respect. The British used to make great discoveries – steam engines, textile machines and electric motors. They won many Nobel Prizes for science. But very few of their discoveries were developed into commercially successful ventures. Why is that so? Long years of empire over two centuries shaped a society in which old wealth and landed gentry were held in high esteem. The nouveau riche was regarded with disdain. Bright young students aspired to become lawyers, doctors and professionals – people who would be admired for their intellect and the use of brains rather than hard work and the use of hands. The US, on the other hand, is a frontier society that did not have class barriers. Everybody celebrated getting rich – and wanted to get rich. There is a great urge to start new enterprises and create wealth. Even within American companies, the young tend to have a bigger say at meetings, and the tremendous effervescence they have is channelled to help the companies become more inventive.

THE DEBT PROBLEM

America has a debt and deficit problem that looks relatively mild compared to some countries in the eurozone. It is in a more comfortable position partly because the US dollar is the world's reserve currency, which means the US enjoys much lower borrowing costs than other countries. But there is little room for complacency because spending is going in the wrong direction. Social Security and Medicare costs will become unbearable within 30 years if nothing is done to reform the current regime. This threatens to squeeze out any form of discretionary government spending. If American leaders choose to sit on their hands indefinitely, confidence in the US dollar will eventually collapse. The political gridlock over the debt ceiling and deficit reduction in 2011 looked very alarming to many watching from around the world. America was in denial mode, with Congress and the president unable to come to consensus about the need for prompt and bitter medicine. Each side had their eyes on the next election, instead of the long-term outcome for America.

The problem is worrying, but I do not see it as intractable. Both sides know that the nation will be hobbled without a solution, and may even go into decline. At some point, therefore, there will be a breakthrough. American voters are rational enough to understand that and to demand at the polls that their leaders pay due attention to important questions about the country's fiscal sustainability. The president – whether the current one or another one in the future – will take the lead and Congress will come to some agreement as to the future of America, instead of scoring political points. Perhaps this will come when a president is serving his second term and no longer has to worry about re-election. Either way, the present phase can be seen as a passing one. When it comes to the crunch, when national interests and security are at stake, the Democrats and the Republicans will rally around the flag and solve the problem. Therefore, I do not pay too much attention to the present political quarrels. They are not of long-term consequence.

America does, however, have other grave problems of long-term consequence that may not be attracting the political debate they deserve. One of their biggest challenges is education. Thousands of students flock to the US every year to enrol in the country's tertiary institutions because they

are the very best. To go to Harvard or Stanford or Princeton has become the dream of millions of young students and parents from all corners of the world. But America needs to be nurturing not just top scientists, academics, professionals and businessmen. It also needs a constant flow from the bottom because the middle talent will form the bulk of workers in any economy. Having elite universities is well and good, but you cannot be concurrently churning out illiterate or near-illiterate students from your elementary and high schools. It is this group that America might be failing through a neglect of basic and technical education. In some public schools, government funding, already low, was slashed further during the financial crisis and has not been restored since. Some say the tight fiscal situation means it may never be fully restored. The effects of these cuts will not show up within the next electoral cycle or two, but they will have a long-term impact on American competitiveness. Part of the problem has to do with education being a state responsibility, not a federal responsibility. So you have to persuade 50 different state governments to buck up. You cannot direct them from Washington. I understand the historical reasons for Americans being suspicious of local matters being dictated by the centre. But on education, it has turned out to be a big flaw of the system.

Other problems that plague the US: the need for a nationwide infrastructural upgrade, a growing class divide, persistent discrimination according to race, and an electoral process that is too dependent on money and which is so gruelling that it puts off good men and women who may otherwise consider serving the nation. But at the same time, it is useful to remember that just as Americans tend to exaggerate their own virtues, they sometimes exaggerate their problems too. It makes for good television. Newspapers use it to attract more readers. It is also a carefully honed skill in political debate, as you attack the other side by blowing certain faults out of proportion. Uninitiated foreign observers may find this unsettling at first, but soon enough, they learn to separate rhetoric from reality.

Rhetoric aside, Americans fundamentally believe that tomorrow will be a sunny day. That explains their propensity to spend, borrow, and spend some more. The Chinese and the Japanese, on the other hand, always believe there may be an earthquake or some other disaster around the corner, so they feel the need to put something by. I admire the optimism in American society: their can-do approach to life, their belief that every problem can be solved if resources are brought to bear on it and that everything can be

broken up, analysed and redefined. But I probably would not want to live in America permanently. If I had to be a refugee, like the former South Vietnamese prime minister, Cao Ky, who went to California, I would probably choose Britain, which I consider a less stressful society.

I first visited America in 1962. It was not long after the Second World War. Europe's economy was in a semi-collapsed state, Britain was a declining power and China was not nearly emerging. The Americans became pre-eminent. The Americans I met at the time were self-confident. The British had handed over the mantle of world power to them. They were both English-speaking nations, so there was no great quarrel, no great breach. The British knew they were no longer a match. They were saved from the Germans by the Americans at a price, and that price was the loss of their empire and land lease – all the assets and land in America were handed over or sold to pay for second-hand ships, which they needed to guard the Atlantic Ocean for their supplies. So they were conscious of the fact that they had declined and they did not challenge the supremacy of the Americans.

The difference this time is that the Americans will not accept so easily the supremacy of the Chinese as a given fact. But the Americans can see in the rise of China a potential adversary that will be very difficult to contain. China will have a GDP bigger than theirs by 2035 and will have a military force to prevent them from dominating the Western Pacific. It will be a very significant change. When the Germans challenged the world order by waging war in Europe, the British, along with the Americans, stopped them in their tracks. Can the Americans pull off something similar with the Chinese this time, perhaps with the help of the Japanese? I doubt it. The Japanese will not want to engage China and make it a mortal enemy for the rest of history. If I were a Japanese, and I see 130 million of my people living next to 1.3 billion Chinese, I would ask myself: "Why should I make an enemy of it?" Furthermore, the Chinese have welcomed Japanese and Korean businessmen to invest massively in China, drawing them in economically with their cheap factors of production and huge market. The Americans may yet have to compromise and to live and let live. But the Japanese and Koreans will want to keep their security relationships with America, even if they are economically tied to China. The US-China relationship will be the most important bilateral relationship of the 21st century. Peace and cooperation between the two giants will bring stability to Asia. A clash is most unlikely because both are nuclear powers. Once

you start at whatever level, conflict will likely escalate and the losing side will eventually have to use nuclear weapons in a bid to limit the damage. That will be the beginning of the end. Both sides therefore have to do everything they can to avoid even minor conflicts. The US, while not letting up on improving its military technology, should instead try to encourage and help China integrate itself into the world community and play a part in shaping the international order. Then China will find it worthwhile to accept its obligations as a global citizen.

In the early years of their dominance, the Americans had a tendency of acting in a brusque, even arrogant way. The British ran an empire for over 200 years, and had developed, as a result, an experienced, polished style of dominance. An Indian civil servant who had worked under the British once marvelled to me that 200 British officers could control 200 million Indians. That was the height of empire. The US became pre-eminent after the Second World War. They had not had that long period of dominance and so they were still brash in defending their newly won position.

The evangelising spirit that continues to permeate American foreign policy is, in some ways, a legacy of that brashness. Unwisely, they went into Afghanistan after September 11 and tried to build a nation, ignoring the fact that it had not been a nation for the last 30 to 40 years. Afghanistan has been an intractable set of warring tribes, with no peace since the last king, Mohammed Zahir Shah, was overthrown in 1973. How do you go about putting these little bits together? It is not possible. Going back further, more than 100 years ago, Rudyard Kipling wrote in his poem *The Young British Soldier*: “When you’re wounded and left on Afghanistan’s plains/ And the women come out to cut up what remains/ Jest roll to your rifle and blow up your brains/ An’ go to your Gawd like a soldier”. I shared this poem with Hillary Clinton and pointed out in a gentle way that if you look at the Afghanistan of today, nothing fundamental has changed from the time of Kipling. Even given the horrors of September 11, sending troops to Afghanistan was a mistake by the Americans. If I had been in their position, I would bomb the daylights out of Afghanistan so it can no longer be a sanctuary for terrorists. But to send boots on the ground – how do you then get them out without loss of lives and prestige? President Obama is now planning to pull his troops out of Afghanistan by the end of 2014. He should do so as quickly as possible, because they can never hope to put Afghanistan right.

President George W. Bush went into Iraq with the best of intentions. Saddam Hussein was an irrational dictator whose actions destabilised the region and the world. A strong case could be made for taking him down. But when the Americans announced their aspiration to democratise Iraq, I held my breath. It was a sign of hubris. I thought to myself: “This is a 4,000-year-old society that is going to be transformed by a society that has only got – if you go back to the *Mayflower* – 400 years of history.” Bush went ahead with the plan after being persuaded by the neoconservatives that a democratic Iraq was key to peace in the Middle East. They had based their argument on the advice of Iraqi émigrés, supported by Professor Bernard Lewis, a respected scholar of Islam and the Middle East, and cheered on by Natan Sharansky, a former Soviet dissident and pro-democracy activist who was at the time a member of the Israeli Knesset. It was a grave mistake. They removed Saddam, a strong man who held the disparate forces of the country together and made it governable, without producing or supporting another strong man who could fill Saddam’s shoes, which is what they should have done. To make matters worse, they disbanded the police force and dissolved the Ba’ath Party, instead of utilising both in service of a new regime.

When the Japanese Army occupied Singapore during the Second World War, they captured the soldiers but left the police and the administrators in charge because they knew they needed their help to govern the place. Even British heads of power, water and gas were not disposed of. The Americans wanted to build a government from scratch in Iraq *and* democratise an ancient people. The former is near impossible, the latter is simply impossible.

In this regard, the Chinese have the wiser foreign policy approach. They do not believe it is their business to change the system. They deal with a system as it is and get whatever advantages they can out of it, without entangling themselves. The problem with the Americans is that they go in believing they have the power to change the system. Time and again, they have been proven wrong. They have not changed the world. They may be able to change Fiji or Vanuatu, where the civilisations are young and not deep-rooted, and you can overwhelm them with, say, Christianity. But can they change China or India? These are nations with ancient traditions of their own.

Q: *When you think of the various US presidents that you have met, who are the more memorable ones or the ones who impressed you more?*

A: Well, I did not meet John F. Kennedy. He was supposed to have charisma. But a second view has emerged arguing that his policies were not all that well thought out. I consider Lyndon Johnson a strong president. He was saddled by Vietnam and he refused to give up. So he expended time and resources because he did not want to appear a wimp. But domestically, he was a good politician from Texas. Gerald Ford was an average president, but he had good advisers like Henry Kissinger and other Cabinet secretaries. So he got by. He had a good team, although he himself was not brilliant. Richard Nixon was a great strategic thinker. It is a pity that his keenness to eavesdrop on the opposition led to his disgrace. He impressed me very much. He was a thinker in his own right. I was impressed by him because he came to Singapore before he was president and spent an hour and a half pacing up and down, picking up my ideas and taking notes. So, to make my presentation simple, I told him that some nations are like trees, they grow tall and straight, they do not need support. And some nations are like creepers, they depend on a tree and they creep up the tree. Fortunately for me, he never published that, but I think he noted that.

Q: *Which countries did you have in mind?*

A: Well, I would say the trees are Japan, China, Korea, even Vietnam.

Q: *How do you think Nixon would approach US-China relations if he were president today?*

A: Nixon would engage, not contain, China. But he would also quietly set pieces into place for a fallback position should China not play according to the rules as a good global citizen. In such circumstances, where countries will be forced to take sides, he would arrange to win over to America's side of the chess board: Japan, Korea, Asean, India, Australia, New Zealand and Russia.

Q: *What did you think of Bill Clinton, who was said to be a charismatic president?*

A: He was effective and a polished speaker.

Q: *What about Ronald Reagan, someone whom you have spoken of favourably in the past?*

A: Oh, Ronald Reagan – I have great respect for him. He did not have an outstanding mind, but a very commonsensical approach. And he surrounded himself with good men, the results of which were good policies. He knew how to choose good men and get them to work for him.

Q: *When President Obama first took office, you said too that he had gathered some of the best brains in what looked a fairly solid team.*

A: But several heavyweights left. In other words, they did not agree with his policies. No president is comprehensive in his knowledge. He has to depend on advisers. That such experienced advisers have left him is not a good sign. In other words, they could not persuade him.

Q: *What do you think about the two George Bushes?*

A: George Bush Senior is the more thoughtful man. The younger Bush, perhaps under the influence of ideology, led America into Iraq and Afghanistan, which resulted in a lot of losses. In the end, they had to walk away having suffered a severe setback to their reputation. That said, I had an argument with a European leader once, who said to me: “We Europeans don’t like Bush Junior’s telephone line to God.” And I said to him: “When you are fighting a fanatic on the other side who believes he represents God, it does help to give you a serenity and a tranquillity of mind to believe you also have God on your side.” When Bush Junior announced that he had ordered an attack on Baghdad, I never saw a man more composed. He spoke briefly into the microphone and walked away, straight-backed, not a doubt in his mind. I thought to myself: “That’s not a bad commander.”

Q: *As a matter of foreign policy, Singapore associated and identified itself with George W. Bush’s war in Iraq. Do you regret that we took such a position?*

A: We are a security partner of the US, in return for which we have access to weapons not sold to other countries. So we were obliged to support them.

Q: *Talk has been going on intermittently for some time now, that the US may strike military targets in Iran if it does not begin to cooperate with the international community by accounting for its nuclear programme. Is that likely?*

A: If Iran gets the bomb, you have a very volatile situation in the Middle East, because the Saudis will buy the Pakistani bomb, the Egyptians will get one. And the bomb assures mutual destruction. It works only with rational people. I’m not sure in the Middle East there is enough of the rational to hold back the impetuous. Something can go desperately wrong and the fallout could spread across continents. But it is not likely that the Americans will strike.

The Israelis are the ones more concerned. They are the ones being immediately threatened, with Iran saying it is going to fix Israel. If the Americans want a strike, they are more likely to provide the Israelis with the weapons to do so.

Q: *That leaves Jimmy Carter.*

A: I've said enough about him. "My name is Jimmy Carter and I'm running for president." And then, he became president.

Q: *Is it a coincidence that you seem to think more highly of Republican presidents?*

A: Probably because they are more foreign policy-orientated. Not because they were Republicans, but because they were more alive to what is required of a big power – to play their role in foreign policy.

Q: *You mentioned that America's ability to attract immigrants is partly why it is able to remain competitive globally. But migration is also bringing about some unease. The Latino population, for example, is expected to grow significantly as a proportion of the total population, potentially changing the nature of American society.*

A: Yes. The question is, do you make Hispanics Anglo-Saxon in culture, or do they make you Latin American in culture. And if they live together in clusters, they will prove a real test for America.

Q: *As China grows in economic might, is there a danger that Southeast Asian countries would be sucked too far into the Chinese economy so that any threat by the Chinese to break relations would be too painful for us, and we would have to do whatever they demanded of us? I mean, this is not unlike what is happening to Taiwan, which*

will become so economically dependent on China that it cannot hope to declare independence.

A: Not quite the same. Taiwan is an emotional, national issue. It is part of China. It is a province that they first lost to the Dutch, then the Portuguese, then the Japanese. And they have always considered that a national disgrace, and they want it back. But there are no historic reasons why they would want us to be under their control.

Q: *Nevertheless, is there a danger of us being sucked too far into the Chinese economy?*

A: That is a choice you have to make. As I have said, I do not see Singapore surviving on the Chinese economy. If we spoke only Chinese, we would not be today's Singapore. What is the difference if China is ten times stronger? It will make us ten times stronger? No. Our prosperity comes from linkages with the world.

Q: *But that is the past.*

A: And the future is the same. We are not Hainan Island. We are not Hong Kong, where they have no choice. Proximity, ethnic identity leave them with no choice. We are in the centre of an archipelago of great diversity, with rich natural resources, and the world will come here.

Q: *And what if they at some point object to the American logistics hub here?*

A: No, how can they tell us that? That is crude. If they ask us to stop the logistics base, our answer would be: "You can use the logistics base and store your equipment here."

Q: *So we would host both the Chinese and the Americans.*

A: Why not?

3

EUROPE

Decline and discord

EUROPE

The fundamental problem with the euro is that you cannot have monetary integration without fiscal integration – especially in a region with spending and thrift habits as diverse as those of Germany and Greece. The incongruity would break the system down eventually. For this reason, the euro was destined to flounder, with its demise written into its DNA. Its difficulties over the last few years should not be seen as stemming from either the failure of one or two governments to spend within their means or the failure of others to warn them of the dangers of not doing so. That is to say, the euro's troubles are not the result of a historical accident that could have been prevented if a few actors involved had made different decisions – more responsible ones – in the course of its implementation. Instead, it was a historical inevitability that was waiting to happen. If things had not come to a head in 2010 or 2011, they would have come to a head in another year, with another set of circumstances.

I am not convinced, therefore, that the euro can be saved, at least not in its present form, with all 17 countries remaining in the fold.

From the inception of the euro project, clear-eyed and well-respected economists, including the likes of Harvard Professor Martin Feldstein, had been sounding alarm bells about its inherent paradoxes. The British did not join because they did not see it working. They were not convinced about the benefits and were fully cognisant of the dangers. However, the governments which joined the eurozone in 1999, as well as the populations that elected them, while eager to move on the single currency, were not prepared to accept fiscal integration because of the loss of sovereignty that it obviously implied. In the end, their choice to go ahead with the euro anyway reflected a misplaced belief that Europe was somehow special enough to overcome the contradictions. It was a political decision.

In the United States, one currency can work for 50 states because you have one Federal Reserve and one Treasurer. When one state runs into economic hardship, it receives generous transfers from the centre in the form of social spending on individuals living in that state and government projects. The federal taxes raised in that state will not be sufficient to pay for the federal spending disbursed to that state. If one were to keep accounts, that state might be running deficits for years – but it is a sustainable situation precisely because nobody is keeping accounts. The people living in that state are considered fellow Americans and the people living elsewhere do not actually expect the money to be repaid. It is effectively a gift.

The other extreme works too, of course – that is, Europe under a pre-euro system, with each country having its own finance minister and managing its own currency. Under that system, when one country experiences a slowdown, it can roll out remedial monetary policies because it is free from the shackles of a common currency. These include expanding the supply of money – what the Americans call “quantitative easing” – and devaluing the currency to make the country’s exports more attractive. But these were tools that the eurozone countries gave up as a result of their entry into a common monetary community. They did so, furthermore, without ensuring that there would be budgetary transfers similar in type and magnitude to those that depressed states in the United States receive.

What do you get, then, when a motley crowd tries to march to a single drummer? You get the eurozone. Some countries surged ahead while others struggled to keep pace. In countries that fell behind economically, governments were under electoral pressure to maintain or even increase public spending, even though tax receipts decreased. Budget deficits had to be financed through loans from the money markets. That these loans could be obtained at relatively low rates – since they were made in euros, not, say, drachmas – did nothing to discourage the profligacy. The Greeks eventually became the most extreme example of this decline, going further and further into the red. To be fair, the community as a whole also has to bear some responsibility, since there were rules under the Stability and Growth Pact that allowed for sanctions on governments that ran repeated deficits. But these sanctions were never imposed on any country.

For some time, experts with boundless optimism hoped that these governments could close the competitive gap with stronger nations like

Germany by cutting welfare programmes, reforming tax collection, liberalising labour market rules or making their people work longer. But it did not happen. The situation finally began to unravel with the global financial crisis of 2008. Easy credit dried up and the markets' falling confidence in the credit-worthiness of governments like Greece's caused their borrowing rates to soar. Germany and the European Central Bank were forced to intervene with bailouts to stop the debt crisis from spreading throughout the already crestfallen eurozone.

As at June 2013, the euro community has avoided catastrophe by throwing enough money at the problem. But the 17 governments need to face up to the more difficult question of what to do to address the fundamental contradiction in the euro project – monetary integration without fiscal integration. They might try to postpone this for some time, but they know they cannot do so indefinitely or history will repeat itself and another crisis will come along, requiring bigger bailouts, which, if push comes to shove, the Germans will probably have to underwrite. Prompt action is far better than procrastination, especially since further down the road, as memory of the pain and panic of the debt crisis fades in the minds of voters, the political will to act decisively is also likely to wilt.

Unfortunately, none of the current options are easy ones. The obvious solution is for the Europeans to accept fiscal integration. The European Central Bank becomes the Federal Reserve, and instead of different finance ministers, you have one to supervise the budgets of all the eurozone countries. This will be a move towards what European Union enthusiasts call an "ever closer union" and will cause the eurozone to look more and more like the United States. Will this happen? Will electorates willingly hand over a significant part of their nations' budgetary powers to a central authority and trust that authority to make decisions on taxing and spending that are fair to each nation and at the same time beneficial to the eurozone as a whole? It is a remote possibility and I frankly do not see it happening. But if it does happen, it would probably be the best outcome on balance for the rest of the world.

The outcome that is more likely but less desirable is a break-up – a return to separate currencies. It will be painful and confusing for all involved. You are a Greek or a Portuguese or a Spaniard and you have borrowed money in euros; now you have to pay back in euros, but at what exchange rate? The old rate before amalgamation? Or some arbitrarily set new rate? Breaking

up will be messy and costly. In the lead-up to such an event, there is great danger of bank runs occurring, as rumours prompt ordinary people to withdraw their savings in euros, in the fear that overnight those savings might be forcibly converted into a new and probably much devalued currency. The uncertainty would also discourage private investments – another reason why procrastination is bad. For countries outside the eurozone, especially those that export heavily to Europe – including China, it will also mean considerable economic dislocation. For a while, the global economy is likely to slow down as a result, although trade will eventually resume after a period of disruption, and things will settle down.

There is a third outcome that falls between a complete break-up and full integration. It is a partial break-up. Many scenarios are possible under this category, ranging from the euro surviving nearly intact, with just the dislodging of one or two currencies, to most countries being affected in one way or another, perhaps with some going it alone and others having to choose between two or three new communities – what experts call a two-tiered or three-tiered Europe, with each tier going at a different speed. A key question here is whether there is a core Europe, relatively homogeneous when it comes to economic competitiveness, that can hold together despite great centrifugal forces. I believe there is one. Any such core would clearly be led by Germany, the most hardworking of the lot, and consist of Belgium, the Netherlands and Luxembourg. I do not see the French becoming as disciplined as the Germans. They are more likely to form the core of a second tier.

Some might argue that the euro – and the European Union, by extension – should be seen as successful, since peace has indeed prevailed and war in the community is now unfathomable. But one could just as easily argue that peace was a result of other factors. The consequences of the Soviet collapse mean that in the foreseeable future, Russia is no longer concerned with confronting the West militarily, since its energies have rightly been focused (and will continue to be) on economic development. The security guarantee by the Americans in the form of the North Atlantic Treaty Organization, furthermore, has rendered all but impracticable any possible military action emanating from other non-Nato powers. Within the community, the Germans, having been beaten twice in two world wars, were never going to start another one. They have had enough of it and just want to carry on with

their quiet and comfortable lives. For this, they have been leaning over backwards to try and accommodate the others.

In the end, the euro's record will be seen by posterity as a dismal one, and any attempt to salvage political credit for the single currency project will come up against cold, hard reality.

Even as Europe attempts to sort out the problems associated with the single currency, the continent cannot afford to take its eyes off other underlying causes of its relative lack of dynamism – the welfare state and rigid labour market laws. What seemed like good ideas when conceived and gradually introduced throughout Europe in the aftermath of the Second World War have become in the last few decades increasingly unaffordable especially with the emergence of developing economies in Asia. If Europe is to avoid sustained lethargy and regain the energy and industriousness it was once known for, it has to make bold and painful reforms to reduce its elaborate system of entitlements and to liberalise hiring and firing rules for companies.

As a student in England after the war, I remember being enamoured of the early efforts of the Clement Attlee government to fund generous cradle-to-grave benefits for one and all. I was pleasantly surprised, for example, to be told that I did not owe any payment after receiving a brand new pair of glasses from the optician. They came with the compliments of the National Health Service. What a civilised society, I thought. What I did not understand at the time, but did later, was the potential of such blanket provisions to promote inefficiency and inaction.

The intentions were entirely noble. Having gone through two world wars which destroyed almost everything, the governments and peoples of Europe wanted a quiet, peaceful life for everyone with the burden shared equally. The people who fought and paid the price in blood were not the elites as much as the proletariat. There was a strong feeling of indebtedness towards the lower classes. So, when there was a move by politicians calling for fairness and for social welfare policies that looked after the unemployed, the sick and the old, widespread support was secured fairly effortlessly.

For many years, Europe could afford these policies. The Marshall Plan helped most of Western Europe get back on its feet by fuelling a relatively

robust recovery from the desolation of war. Workers’ salaries rose and the taxes they paid could fund the welfare state. But nothing stays static. The game eventually changed for Europe. As the world became more globalised, the lower-skilled European workers found themselves competing not just among themselves but with workers from Japan, and later from China and India as well. Exports were undercut and industries gradually moved their production centres to Asia. Naturally, the wages of European workers also declined. Without the entrance of China, India and Japan, the welfare state would probably have remained viable for quite some time. But with their entrance, it did not take long for welfare to become unsustainable.

The Europeans, of course, tried their best to evolve towards the production of higher-value goods and services, but there is a limit to how much a country can do on this front. You may want to move up the scale but significant segments of the population may not be able to move because it would involve learning new skills, which takes time, energy and, above all, will. Moreover, the Japanese, the Chinese and the Indians are not incapable of upgrading themselves. This is an unrelenting contest of constant self-improvement, and the gains you can make on your competitors in any given year are usually meagre. It finally depends on the innate qualities of a people and the way they are organised and governed. If it were Europe versus Fiji or Tonga, then it may be true that the latter have no hope of catching up. But we are talking here about Europe versus Japan, Europe versus China and Europe versus possibly India. It is a completely different story.

Laws and policies, unfortunately, do not change as easily as global circumstances do. Entitlements, once given, are notoriously difficult to take back. There is a tremendous penalty in votes for any government that has the guts to try. Margaret Thatcher of Britain used what political acumen and capital she had to try to reverse the policies. In the end, she succeeded only in half-reversing them. The other European leaders must have watched and seen her partial success. But they faced electorates that were in no mood to give up what had already been taken for granted over the years. The problem had become entrenched for many of these European countries.

If welfare spending had simply stagnated at a certain level, the situation might still be under control. Instead, such spending has a tendency of growing over time, not just in absolute terms but also in terms of its share

of a nation's total income. This is partly because populist pressures prompt the expansion of existing schemes. But more important perhaps is the uncanny ability, observed by veteran Swedish journalist Ulf Nilson, of the welfare system to "generate its own demand". He wrote in 2007, insightfully: "Welfare produces clients, assurance against injuries in the workplace produces injuries… the refugee policy, refugees; the ability to retire before retirement age, people who retire early." In other words, some rational citizens of these European countries invariably end up gaming the system, whether consciously or unconsciously. In some cases, people reportedly collect unemployment benefits, which can go up to three-quarters of their last-drawn salaries, while engaging in part-time work in the informal economy. This gave them two sets of income, to the loss of the taxpayer.

According to OECD statistics, by 2007, the average European country in the OECD was devoting more than 23 per cent of its GDP to government social spending. This figure was markedly higher in some countries – 25 per cent in Italy and 28 per cent in France. The average non-European OECD country, by contrast, sets aside just 17 per cent of its GDP for such spending. In the United States and Australia, the proportion is 16 per cent.

The most pernicious effect of the welfare state, however, lies not in its inflexibility or its unaffordable nature but in the negative effect it has on the individual's motivation to strive. If the social security system is designed so you get the same benefits whether you work hard or lead a more laid-back lifestyle, why would you work hard? The spurs on your hinds are not there. The self-reliant attitude is more common in America because even as the unemployed are offered a helping hand, there are measures in place to make sure they are actively encouraged, even compelled, to find work. It is a different philosophy, one based on the principle that work makes the individual and society better off, and underpinned by the belief that overly generous benefits tend to become a debilitating constraint on drive and an inadvertent suppressor of incentives. The European model has created a class of people who have grown used to the subsidies and therefore lack a strong work ethic.

On top of this, Europe is not budging on unnecessarily stringent labour market rules regulating the right of companies to lay off workers and the minimum length of annual holidays, among other things. They are digging their heels in at a time when flexibility is becoming ever more important in

the new economic landscape. Unions and socialist parties in France and its neighbouring countries have done their level best to perpetuate the myth that workers can hold on to their former benefits without the economy suffering too much. Students are demanding, as a right, the same job security that their parents enjoyed. In other words, they are demanding that the world stands still for them. What they do not realise is that these measures will eventually hurt the working class itself. Companies penalised for retrenching react rationally by moving much more cautiously on hiring even when the economy starts growing again. The jobs simply go elsewhere.

The statistics bear this out. Among European OECD countries, eight of the top ten with the most liberal labour laws in 2008 were also among the top ten in terms of low unemployment, averaged over the previous decade. The opposite is also true: seven of the top ten in strictness of labour laws were also in the top ten in terms of high unemployment.

But how do you change these policies now? You have unions marching through the streets of Paris, who will not buy the argument that global competitive forces have rendered the French workforce uneconomic, and that they have to give up their frills. They would say: “No, we keep these frills and try and compete.”

From very early on, I made sure that Singapore would not go down the same path on welfare and labour laws. Having watched the British as they were implementing some of their policies in the 1950s, I decided that that was the way to ruin. We have not allowed unions to compromise our competitiveness, and have instead engaged them in a tripartite relationship – with the government and businesses – that is based on non-confrontational negotiation. We stopped all free prescriptions for medicines, making sure the charges came closer to reality over time. We have provided assets, not subsidies. The government helps you to buy a home and makes top-ups to your Central Provident Fund[1] account. If you want to spend the funds, you are free to do so but you will have to face dire personal consequences when you retire penniless. If instead you keep the assets, allow them to appreciate in value and earn interest from them, you will reap the benefits in the long term. In other words, individuals take responsibility for their own lives, with some government help. I believe that if we adopt the European system, we will have much less dynamism in our economy. We will pay dearly for it.

Bitter years await Europe. The Europeans have chosen to go down the path of welfare and labour protection due to the unique historical circumstances they were in. Nobody can deny that their choices have resulted in kinder societies, with less of an underclass and a smaller gap between winners and losers when compared to America. But it has come at a price. If they were to forgo these policies, their GDPs would probably grow 1 to 3 per cent faster each year. For some time, life will remain comfortable for many Europeans because they have reserves built up from the good years. But whether they like it or not, the comfortable and cosseted post-war world they have created for themselves will eventually be done in by external forces. A new social contract will have to be negotiated.

A distinctive set of countries sitting in Northern Europe has not been hit as hard by some of the problems facing many of the other countries in continental Europe. The Scandinavian countries, as I see it, deserve a wholly separate analysis because they are *sui generis*, or a unique case apart from the others.

Those who argue that welfare systems can be made to work often point to Sweden, Norway and Denmark as demonstrations that extensive social safety nets paid for by the government do not always have to be accompanied by the associated excesses. Therefore, to cite the failures of France, Italy or Spain instead is to make a straw-man case against the welfare state, they conclude.

The first rebuttal to this line of argument is that the evidence shows that even the Scandinavian countries have not entirely escaped the costs of socialist policies. Unemployment in Sweden, for instance, stood at 7.5 per cent in 2011, not that much lower than, say, Italy (8.4 per cent), and very much higher than advanced Asian economies such as Japan (4.6 per cent), South Korea (3.4 per cent) and Singapore (2 per cent).

That said, one should acknowledge that the Scandinavian countries have indeed performed significantly better than their European neighbours in terms of growth. While GDP per capita (in US dollar terms) grew between 2002 and 2011 by an average annual rate of 5.3 per cent in Italy and 6.1 per cent in France, it grew over the same period by 6.4 per cent in Denmark, 7.3 per cent in Sweden and 8.9 per cent in Norway.[2] They have managed to do

so, furthermore, while maintaining high levels of social spending – a phenomenon in need of further explanation.

For starters, it is worth noting that Sweden, Norway and Denmark are considerably smaller countries than France, Italy and Spain. The combined population of the Scandinavian trio is barely one-tenth of the combined population of the latter trio. Norway, at 5 million, has fewer people than Singapore does. The scale of problems, the diversity of interests and the complexity of governance are therefore vastly different in Scandinavia.

More important than size, however, is composition – the key to understanding Scandinavian exceptionalism. Sweden, Norway and Denmark have relatively homogeneous populations, giving these nations an internal cohesion not possible in other parts of Europe. Their people have a much stronger sense of oneness and togetherness. Each of the three countries thinks of itself as one tribe, with members of the tribe prepared to suffer for one another. You are willing to work hard not just for yourself but for your tribe-mate, because you feel, almost, that you are helping a relative as opposed to, say, a group of layabouts from some strange region of the world. Faced with the punishing tax rates welfare states have to impose to balance budgets, well-heeled tycoons and other high-income individuals are less likely to flee a one-tribe society, *ceteris paribus*, even though they lack neither the options nor the means to do so. These are, furthermore, the top talent in society – those most likely to generate wealth and opportunities for themselves and others. When you are one people and one family, you will be less sceptical about having to pay taxes to support the less well-off among you, but when you have large numbers of foreigners in your midst and the law insists that there should be no discrimination in the disbursement of welfare benefits, the attitude changes.

When I visited Norway in the 1970s, it was almost completely a white society. It is a beautiful country of breathtaking mountains and glaciers, very cold and placid. I could feel the solidarity of the country. In a country like that, it is not just that those who work are willing to pay more taxes. Those who are not working are also less likely to abuse the system – again, because there is a sense of belonging to the community. In other words, even those who are on the dole are less laid-back.

All this has been changing slowly but surely in the last few years because the Scandinavian countries have adopted a liberal policy on taking in refugees and persecuted people. Each year, Sweden accepts as many as

2,000 refugees, most of them from African nations, and there are now over 80,000 refugees living in the country. How this influx will alter the communitarian outlook of its people remains to be seen, but if the pattern observed in other countries is anything to go by, the consequence – sooner or later – will be a change in the people's own perception of this largesse that they are laying out for the lower income groups. For now, Scandinavia is much less ethnically diverse than the rest of Europe.

Across Europe, the look and feel of societies today is very different from the time I was living there as a student, just after the Second World War. In London, I was in search of a vacant room and had to phone landlords to make appointments for viewings, based on the advertisements they had put up. Over the phone, I told them: "My name is Lee, but I am Chinese. So if you don't want a Chinese tenant, tell me so, and I don't have to make the journey to look at the flat." Lee is quite a common English surname and I wanted to avoid from the outset any unnecessary misunderstanding. True enough, there were landlords who advised me politely not to make the trip. That was British society at the time – still predominantly white and in many ways discriminatory towards non-whites.

Over the years, because of declining birth rates and the need for labour, European countries have taken in migrants from Asia, the Middle East, Africa and Eastern Europe. Immigration has alleviated economic and demographic pressures but has also given rise to a different set of problems.

In Germany, there are at least 2.5 million people of Turkish descent. Discomfort among Germans at the size of this group has sparked a backlash, with occasional but worrying reports of racially motivated crimes committed by extremist locals. In France, the rise of minority-dominated *banlieues* around large cities, especially Paris, has become a major source of headaches for the government. Riots sometimes take place because the residents of these areas feel marginalised. Unrest in 2005 spun out of control, with nearly 9,000 cars set on fire across the country and a two-month-long state of emergency declared. The sense of being marginalised and disadvantaged exists even among the ethnic minority university graduates. Official data shows that among French nationals, the unemployment rate of graduates of African origin is three times higher than that of graduates of French origin.

Britain is also much more heterogeneous. Anyone walking through the city centre of any major English city will be able to tell you that. However,

the angst has gradually shifted away from the Chinese to the other ethnic groups because the Chinese are more self-effacing and are seen as giving the least trouble. Many among the first generation of Chinese migrants were restaurateurs and their children became professionals. The attention these days is more focused on the Indians, Pakistanis and Bangladeshis, who tend to live together in certain neighbourhoods in large numbers. There are schools that are completely dominated by ethnic minorities because the immigrants have not intermingled.

The religious element adds to the complexity of the problem. Many migrants happen to be Muslims and, in recent years, they have become more vocal about wanting to build mosques with minarets. The visual impact this has on the traditional European architectural landscape has done nothing to assuage the fear already building up among local populations that the culture and the communities they have grown up in are being changed by troublesome outsiders. If the migrants were Christian, it would probably change the complexion of the problem. But a divide remains because many of them are Muslims and the dominant religion in Europe is Christianity – whether or not many Europeans go to church is a separate issue.

The people of Europe are not as open to immigration as the people of America. They have not succeeded in integrating immigrants already residing permanently among them. America is more receptive to newcomers because it is fundamentally an immigrant society, with the Pilgrim Fathers arriving just 400 years ago. Many immigrants have risen to the top of American society, including the likes of Jerry Yang, the Taiwanese-born entrepreneur who co-founded the Internet firm Yahoo. Europe, on the other hand, consists of old, established nations that are very proud of their literature, culture and long history.

In the last two to three years, European leaders – including David Cameron, Nicolas Sarkozy and Angela Merkel – have separately declared that multiculturalism has failed in their countries. In other words, the Turks who have settled in Germany have not become Germans, nor have the Algerians and Tunisians in France become French. Increasingly, Europe sees these people as indigestible. Race is at the root of this inability to assimilate, although religion, culture and language are also factors. But it is also not possible for Europe to stop the inflow because these immigrants meet a pressing domestic need. So we may well see European governments

letting in immigrants when they can, only to hit the brakes when electoral cycles come around and far right parties outflank their moderate opponents with angry rhetoric. However you look at it, they face a catch-22.

When Europe emerged from the devastation of two world wars, the idea of European integration seemed most natural. Here was a continent of countries that held many things in common. They had all lived through the Renaissance and the Enlightenment and had come away with one European culture, a similar way of thinking about themselves and the world. Christianity was the dominant religion. Going further back in history, these countries shared a heritage from the days of the Roman Empire, which gave them a certain uniformity in the way they organised society. Yet, for all their commonalities, what came to the fore dramatically in the 20th century were their disagreements and their separateness, as they were led by their worst angels to engage in brutal, internecine and protracted wars resulting in the death of millions. Integration, then, became a central mission for European leaders. It represented their best hope for enduring peace. It was the clearest way for the countries to build on their similarities, set aside their differences and bind the fates of their nations closer to each other so that they would never again have to suffer such horrible consequences that were, arguably, of their own making.

Having decided that this was an important project, they went about building the necessary institutions. They signed the Treaty of Paris in 1951, establishing the European Coal and Steel Community, the pioneer of the EU. In 1957, the Treaty of Rome, which proposed the creation of a common market, and common agricultural and transport policies, was agreed on. The community later evolved into the European Union and was expanded to include 27 states after the end of the Cold War. Of those states, 17 adopted a single currency, the euro.

Integration holds great promise apart from just peace. A Europe that achieves singularity in purpose would have much greater economic clout and, more significantly, a much bigger voice in international affairs. Put simply, it would be a more powerful Europe. If the Europeans were to deepen its integration efforts and go on to have one finance minister, and perhaps even to having one foreign minister and one defence minister, their

augmentation in hard-power terms would be enormous. Consider the people of the United States of America. They are basically Europeans who have been transferred to another continent and have dropped their tribal loyalties and their different languages. If Europe integrates to the same extent and becomes the United States of Europe, there is nothing the Americans can do which they cannot do. Europe as one entity is more populous than America (500 million versus 310 million) and has an economy one-sixth larger than America's. Such a Europe would certainly be in the running for the world's leading superpower.

Alas, all the signs point to the impossibility of integration. They have so far failed to make a single currency work and are not likely to progress to a single foreign policy stance or a single military. They have individual histories, each going back many centuries. Each nation is proud of its own traditions. Above all, they want to keep their languages alive – there is glory and literature behind it. America decided to start afresh and create a new literature, but Europe will not be able to do so. Even though English is already the second language in all the other countries, those on Continental Europe will never accept it as the single working language.

What then will be Europe's place in the world? They will be smaller players on the international stage. In the face of dominance by the major powers such as the US and China, and maybe later on, India, Europe will be reduced to the role of supporting actor. Most of the European countries will be treated – quite rightly – as ordinary small states. Germany might be able to carry its weight alone, thanks to its population and its economic success, although it will not want to raise its head above the parapet because it is still filled with guilt for having killed six million Jews during the Holocaust. The British will retain some influence because of their special transatlantic relationship with America.

But otherwise, Europe cannot hope to count for much at a table where the US, China and India are seated, even if some European leaders may still be reluctant to admit it because of their historical sense of self-importance and their long experience in playing the game of international affairs. In the end, you are comparing nations of 40, 50 or 80 million against 1.3 billion Chinese and 1.2 billion Indians. The Chinese, especially, will find that a fragmented Europe makes life easier for them. They can deal with each country individually, rather than in a group. Each European country will be more dependent on the Chinese than the Chinese are on them. This will be

even more so as China's economy moves towards being driven by domestic consumption.

Europe's declining international voice, however, will not result in its living standards falling by the same magnitude. If it can survive the break-up of the euro, it goes back to what it was. Europe loses its voice in the world, but the countries in it have a high standard of education and skills and can make a good living. There will be some decline, but each country will reach a steady state at its own level of competitiveness. The Europeans will lead lives that are happy enough.

I write more in sorrow than in derision about Europe's inevitable decline. I do not want to run Europe down. The Europeans are a very civilised people. Yes, they were colonialists – the French, the Belgians, the British and the Spaniards. But the French had their *mission civilisatrice* to transfer their civilisation to the Africans. And on the whole, the British left institutions behind them, including in Singapore. We had the rule of law, we had statutes, we had the English language and we were wise enough not to change any of that. They have helped us to grow. Their institutions were already working. What I did was to make sure that we did not subvert the institutions but reinforced them.

The Belgians, in stark contrast, left Congo in a mess. They extracted the raw materials and when the time came to leave, the place just broke up into tribal warfare. Congo is still in trouble today. In Guinea, Charles de Gaulle was so angry with Ahmed Sékou Touré, who was a forceful freedom fighter, that they ripped off all the electric and telephone wires before they left. Guinea has still not recovered from that. They did not do that to all French colonies but they did that to Guinea because Sékou Touré baited the French government. Thus, Sékou Touré inherited a non-working system, which he never got back into working condition.

These things make a difference. If the British had left me with a French or Belgian situation, I am not sure I would have been able to build it up to today's Singapore. The British left in good grace. The main building of the Istana was occupied by the last Governor, Bill Goode, who handed it over intact, everything in order. He took me around and introduced me to the butlers and so on before leaving. From here he went to North Borneo for a

while and then retired. We should be thankful for their system and their graceful exit.

Q: *How do you see the individual European countries developing? The Germans, for instance, have done very well in the last 10 years.*

A: Yes, because they do not spend more than they earn and their workers are highly skilled. They produce some of the best machinery in the world, and the best cars – Mercedes, Volkswagen, BMW, Porsche. The Germans will continue to do well because it is in the nature of their society. They nearly conquered the whole of Europe. They've got the drive and they are prepared to organise themselves. But for Winston Churchill, the folly of attacking the Soviet Union, and the Americans, Hitler would have conquered Europe and they would all be German-speaking by now.

Q: *Do you see a more dynamic or less dynamic Britain in 20 years' time?*

A: It will be so-so. It is a country that had built up a great empire, then dismantled it after the Second World War because it was forced to by the Americans. After they lost India, Pakistan and Bangladesh, the rest did not matter. And if you look at the attitudes of the Australians, the New Zealanders and the Canadians, once loyal Commonwealth members, the Commonwealth now means nothing to them. In their eyes, the important players are America, Nato and the informal equivalent of Nato in the Pacific. They are attaching themselves to the next big power, with which they think they share the most in culture and geopolitics.

Q: *Assuming there isn't an integrated Europe and assuming China continues growing and becomes very dominant in Asia, will Europe*

become increasingly irrelevant to the people of Southeast Asia, including Singapore?

A: Well, it has been caricatured as a museum. But I think it is a very cultivated place, and if you ask me, for instance, where I would like to spend a weekend on a holiday, I would say France. Why? Because there you find a very gracious way of life. The French will give you a good life even if they will not give you the standard of living of the Germans. I like to go, when I am in Europe, for a weekend in the beautiful French countryside. Every city bigwig in France has a vineyard that he goes to, with gentleman farmers who have one worker or keeper. It is all subsidised by the European Common Agricultural Policy. It is a very pleasant life: good food, good surroundings, siesta after lunch. The French today are not going after glory anymore. I don't think the Germans have that. But each country develops its characteristics and traits over the centuries.

Q: *How did the Europeans manage to create such a wonderful life?*

A: They were industrialised before the other countries, before China, and they captured the rest of the world. The British had the British empire and the French had the French empire. The Belgians had Congo – a little state of fewer than five million people owning the vast African country, with its enormous mineral resources that the Belgians exploited. Then decolonisation came and they were reduced to size. The age of empire – the way Europe dominated the world – will never come back, at least not in that form. It may come back in some other form. Economically, you might get Chinese dominance in certain parts of the world, but not actual colonisation.

Q: *Will the Russians play a bigger role in a fragmented Europe?*

A: I do not think so. The Russians consider themselves a major power, with nine time zones, a huge mass of territory and enormous

resources. The old Soviet Union was a security threat, but today's Russia is going to have a hard time remaining a strong nation. The population is declining, the economy is dependent on gas and oil and there is no real social economy. Pessimism reigns as seen in the high level of alcohol consumption and the fact that the women are not bearing enough children.

Q: *Some European leaders believe part of the solution to Europe's problems, following the debt crisis, is austerity. But in some countries, electoral revolts have expelled leaders who preached austerity, such as in France, where Nicolas Sarkozy failed in his re-election bid in 2012.*

A: The revolt against the austerity measures is a natural reaction in a popular democracy. Somebody stands up and makes a case, saying, "We don't need the austerity." The voters decide to give him a chance. Well, let's see whether they do or they do not need austerity. If in fact they don't, then the voters have made the right choice – everything is going to be fine and Sarkozy was naive. If in fact they do, then they are in for difficulties. They are back to the original position.

Q: *Do you believe they need the austerity measures?*

A: I do not believe that rational leaders in charge of France and Germany would stand by an unpopular move and go to elections if they did not profoundly believe that it was necessary. France has opted for change, Germany has not. The German people are standing strongly by Angela Merkel. I do not think President François Hollande is going to change Mrs Merkel's views. The French have simply chosen the easier way out.

Q: *There are experts, particularly from America, who argue that austerity is the worst possible solution at a time of crisis, and that*

while it may be needed in the longer term, growth is what is needed in the short term to stimulate the economy. Where do you stand on this?

A: Between the two, I would take the Europeans who are more familiar with their own problems than the Americans, who are always optimistic that next year will be sunny.

Q: *And you believe that they should stick to what has been agreed – an agreement basically driven by the Germans? You believe that that is the way out for the countries of Europe?*

A: That is the best way out. Merkel and the German people are not stupid. They are the most successful country in Europe because they are self-disciplined.

Q: *They are not doing it for Germany's own interests?*

A: No, they want France and the other eurozone countries to succeed because they want the euro to succeed.

Q: *Moving on to social issues, is there anything Singapore can learn from the Europeans on policies to boost fertility?*

A: How can you change lifestyles so easily? The Swedes have maintained their nearly two children per family because they are a homogeneous group and have very supportive policies – infant care, kindergartens and benefits all the way up to adulthood. They can do it because they feel they are one tribe and are willing to sacrifice for each other. How do you replicate that? France has done it to some extent.

Q: *You have made the "one tribe" argument for the Scandinavian countries – that they are cohesive and support a welfare state because they are genetically similar. Would you extend that argument to the Japanese and the Chinese, both relatively homogeneous in racial composition also?*

A: The Japanese, yes. That is why they do not want immigrants. But the Chinese, no. China is not a single tribe but many tribes. Yes, they all speak the same language and use the same characters, but there are different accents throughout the country and no central government can ever enforce a uniform policy throughout the empire. That is why in the provinces and counties, they say the mountains are high and the emperor is far away. In each province, they can say, "Right here, I am the emperor." It is a vast country with the different provinces holding very different attitudes.

Q: *Is the underlying racial tension in Europe today different from what it was when you were there in the 1940s?*

A: It is difficult to say since I do not live there. (Emeritus Senior Minister) Goh Chok Tong's daughter married an Englishman and lives near Bradford. He visits his grandchildren who look more Caucasian than Chinese. He tells me that they get along with their neighbours. But that's because they are middle class.

Q: *Will this change in the future with the rise of China?*

A: No, I don't think so. This has nothing to do with the rise of China. The Japanese had a powerful country before the war, but it did not change the Europeans' view of them. No, the Europeans believe they are a superior people, just as the Chinese believe they are superior. So we are quits.

Q: *One problem with immigrants who do not integrate into European society is home-grown terrorism. We have seen a few examples of this…*

A: No, that has got nothing to do with integration. They are plain terrorists. Even if they are integrated, they will still become terrorists, because they are self-radicalised via the Internet.

Q: *Are you worried about the backlash against immigrants, and the rise of far-right parties in European politics? It could make for quite an unpleasant, fractured Europe.*

A: A fracture is already there. It is just being enhanced, that's all. Even when the immigrants made up just five or six per cent of society, the fracture was there. Look, you can classify the world into the following races: white, yellow, black, brown; and you can only mix and integrate within each colour. If, for example, a Chinese marries a Japanese or a Vietnamese, their child can pass off as Chinese or Vietnamese or Japanese.

Q: *Who will you rate, amongst all the European leaders you have met in the last 50 years, as the one who has impressed you the most?*

A: I cannot say. Historically, Winston Churchill stands out. He was a great leader because the world would have gone differently had he not been so defiant in the face of the most impossible odds to hold out against the Germans. His attitude was one of total defiance. "We shall fight on the beaches, we shall fight on the landing grounds, we shall fight in the fields and in the streets, we shall fight in the hills. We shall never surrender." He had a delivery which was lisped, but which carried total conviction and carried the British people along with him, whereas the French did not have such a leader and they caved in. Marshal Pétain was produced from retirement and settled

for Vichy France. Winston Churchill was in a class unto himself for that period in history. Without him and the Royal Air Force, the British would have been overrun by the Luftwaffe. But the spirit he injected into his pilots saved Britain. Then the Japanese attacked Pearl Harbor and that pushed the Americans into the war. So it was good luck on his part. But he held out for a year on his own.

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[1] CPF is the retirement fund in Singapore. It is based on individual accounts.

[2] According to International Monetary Fund statistics

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JAPAN, KOREA & INDIA

JAPAN KOREA & INDIA

JAPAN

STROLLING INTO MEDIOCRITY

The most serious challenge facing Japan is demographic. Its population is rapidly ageing and not replacing itself. All its other problems – a stagnating economy and weak political leadership – pale in comparison. If Japan does not solve its demographic problem, its future will be very grim.

The numbers alone make for sobering reading. The fertility rate stands at 1.39 children per woman, far below the replacement level of 2.1. With fewer births, the number of workers supporting each senior person has shrunk from 10 in 1950 to 2.8 in recent years. This is projected to continue dropping – to 2 by 2022 and possibly to 1.3 by 2060. By the time it hits 1.3, it may become so unbearable for the young workers that they will choose to leave. The population, which grew in the six-and-a-half decades after the war from 72 million to 128 million, has registered declines for the past three years and is currently 127.5 million. A shrinking economy cannot be far behind. The situation is wholly unsustainable.

For years, Japanese women accepted their culturally assigned role in the family and in society. They were quite happy to stay at home to bear and rear children, to serve their elderly folk and to take charge of household matters. But as the women travelled and interacted with people from other parts of the world, and as they tasted the freedom of working and being economically independent, attitudes changed dramatically and irreversibly. Some Japanese women working for Singapore Airlines, for example, married Singaporean air stewards. They saw how women in Singapore lived – separate from their in-laws and without their husbands bossing them around. Japanese society tried its best to hold back the tide and to keep the women economically reliant on the men for as long as possible – but failed. In one or two generations, women abandoned the role they played in the old society. They made their own calculations and decided that the former deal

was no longer worth their while. They did not want to be burdened by children. Many have therefore chosen to remain single. Others got married but did not have children. Unhelpfully, a significant number of Japanese employers have refused to move with the times. Unlike the Swedes, who have made it possible for their women to have babies and careers, many Japanese companies still convert the women who leave to give birth into temporary employees. For women who are ambitious and on the rise – as well as for those who feel they need the full-time income that corresponds to a career – the decision to have children becomes unnecessarily costly. Many never find the courage to take the leap, even if they were inclined to have children.

Singapore's problem with low birth rates is not dissimilar from Japan's. But there is one key difference: we have shaded our problem with immigrants. Japan has been remarkably intransigent about accepting foreigners. The idea that the Japanese race must be kept pure is so deeply ingrained that no attempt has been made to publicly discuss alternatives. A multiracial Japan is simply not imaginable – whether among the Japanese public or its political elite.

I have seen for myself this pride in racial purity on display. During the Japanese occupation in Singapore, I spent time working in the Cathay Building as an English-language editor. On December 8 each year, there was a ceremony there in which a Japanese soldier wielding a big Samurai sword would say: "*Ware ware Nihonjin wa Amaterasu no Shison desu* (We Japanese are the descendants of the Sun Goddess)." In other words, we are and you are not. I doubt they will repeat the line as much these days, but I do not think the basic belief has changed. One civilian Japanese officer educated and born in America called George Takemura was not fully trusted. He worked in the *Hodobu* (Japanese information or propaganda department) during the Japanese occupation and dealt with the cable news editors like me. He was gentle in speech and behaviour.

Holding firmly to such a belief has serious implications. It means the most commonsensical solutions to their demographic dilemma may be automatically precluded. For instance, if I were Japanese, I would seek to attract immigrants from ethnic groups that look Japanese and try my best to integrate them – Chinese, Koreans, perhaps even Vietnamese. And in fact, such a group already exists within Japan. There are 566,000 ethnic Koreans and 687,000 ethnic Chinese living in the country. Speaking perfect

Japanese, they are fully assimilated to the rest of society in their ways and habits and long to be accepted as full, naturalised Japanese citizens. Indeed, many were born and bred in Japan. And yet, Japanese society has not accepted them.

To fully understand the extremity of this insular attitude, one has to consider another group that has been rejected: pure-bred ethnic Japanese from Latin America, also known as *nikkeijin*. From the 1980s, tens of thousands of them, mainly from Brazil, have moved to Japan under liberal migration policies drawn up in the hope that they were the answer to the nation's ageing population. In making the trip halfway across the globe, these *nikkeijin* were going in the reverse direction of their grandparents or great grandparents, who had emigrated in the 1920s in search of jobs in the labour-intensive coffee plantations of Brazil. The experiment failed. Having grown up in an entirely different society, the *nikkeijin* were so culturally alienated from their genetic relatives in Japan that they were treated as foreigners. Finally, in 2009, at the height of the economic crisis, the government offered unemployed *nikkeijin* a one-time resettlement fee to return to Brazil. In another society, one with a different attitude towards foreigners, this experiment may have succeeded. Indeed, the Japanese government must have believed in the possibility of success before they implemented the policy. Even they had underestimated the level of intolerance.

Foreigners currently make up less than 1.2 per cent of all residents in Japan, compared to 6 per cent in Britain, 8 per cent in Germany and 10 per cent in Spain. Japan is so homogeneous that young Japanese who have spent time overseas, usually because their parents were sent abroad to work as expatriates, have a difficult time adapting when they return, even if they had studied in Japanese schools. So much in everyday communication is left unspoken, and the other party is expected to make inferences based on body language and guttural noises. It will take many more years and a very fundamental shift in attitudes for the country to contemplate a demographic solution that is based on attracting immigrants. But does Japan have the luxury of waiting many more years before confronting this problem? I doubt it. If they leave it for another 10 to 15 years, they would have gone down the slippery slope, and it may be too late to recover.

Japan has experienced two "lost decades", and is currently entering a third. Between 1960 and 1990, the country's GDP grew at an average

annual rate of 6.2 per cent. From post-war devastation, the Japanese people picked themselves up, worked extremely hard and built the second-largest economy in the world, with help from the Americans. As Japanese businesses snapped up real estate in the West, alarmed analysts at one time warned that Japan Incorporated was poised to take over the slowing-down developed world – not unlike how some talk about China today. But in 1991, the asset bubble in Japan burst, marking the start of an extended period of depressed growth. The average annual GDP growth rate since 1991 has been a paltry 1 per cent. As I write, a third decade of despondency has begun. Unless decisive action is taken very soon to resolve the population problem, no change in politics or economics could restore this nation to even a pale shadow of its post-war dynamism.

Demographics determine the destiny of a people. If you are declining in population, as a nation, you are declining in strength. Old people do not change their cars and television sets. They do not buy new suits or new golf clubs. They have all the things they need. They hardly even dine at expensive restaurants. For this reason, I am very pessimistic about Japan. Within a decade, domestic consumption will begin to fall and the process may not be reversible. This is partly why repeated stimulus packages have only had a very modest effect on the economy. The Japan of today is still the second most inventive country in the world after the United States, as measured by number of patents filed worldwide. But inventions come from young, not old, people. In mathematics, a person peaks at about 20 or 21. No great mathematician produces greater works after that age.

I visited Japan in May 2012 to participate in a conference called “The Future of Asia”, organised by the Nihon Keizai Shimbun group. When I spoke with some of the Japanese leaders I met, I skirted around the population issue because I wanted to get a sense of what they genuinely thought. I did not say: “Would you take immigrants?” I said: “What is your solution?” They replied: “More childcare allowances and baby bonuses.” It was a disappointment. Baby bonuses are not going to turn things around. Government incentives to have children have only had a very limited effect wherever they are implemented, because the problem is not money but changed lifestyles and aspirations. Even in places where these incentives are making a difference, such as in France or Sweden, the process is slow and extremely costly.

The Japanese are an impressive people. When the Tohoku earthquake struck on 11 March 2011, the world watched with admiration how the people of Japan reacted – no panic, no looting, only dignity and grace in the face of devastation, people caring for and helping one another. Very few societies can maintain such calm, order and discipline during a catastrophe of such magnitude. The Japanese are also peerless in the way they strive for perfection in everything they do – from the production of defect-free television sets and cars to the putting together of the best-tasting sushi. The sense of teamwork in the Japanese workforce gives them that edge over other countries. The Koreans and the Chinese may be able to match them individual for individual. But team for team, the Japanese are unequalled. Perhaps it was this impressiveness that led me to believe at one time that the Japanese could be shaken out of their slumber on the population question – as soon as stark reality stared them in the face. After all, how could it make sense to allow your neighbours to grow as you receded gradually and not do anything about it?

I no longer believe in the inevitability of there being a Japanese response. Years have passed and I see no movement. More likely than not, this is a nation strolling into mediocrity. Life, to be sure, will remain comfortable enough for middle-class Japanese for many years to come. Unlike the developed countries of the West, Japan has not accumulated enormous foreign debts. The country is also technologically advanced and the people are well-educated. But eventually Japan’s problems will catch up with it. If I were a young Japanese and I could speak English, I would probably choose to emigrate.

Q: *We are witnessing a very rapid change in the state of affairs. Not so long ago, we saw Japan rise very quickly. Are you surprised at how events have turned out?*

A: I did not expect it, but then lifestyles changed.

Q: *You once said that when the Japanese have their backs to the wall, as a people they will respond. They will fight back because it is embedded in their culture. Why do you not think it likely that they will be able to overcome the population problem?*

A: That is a situation where they are fighting somebody outside. Here they are fighting somebody inside them. The women have to change their attitudes – and so have their men – to have more children. But the women have changed their lifestyles from just being servants of their parents, their in-laws, their husbands and their children, and they have revolted.

Q: *Is it also an indication of failed political leadership on the issue? Singapore, for instance, faces a similar problem, but the leaders here are trying to lead. They are trying to persuade, to warn, to cajole.*

A: Maybe it is a different culture and they do not talk about these things. Even if they did, I do not think it will change the minds of the Japanese people.

Q: *Is it that the political leadership wants to move but it knows the population is unwilling? Or does the political leadership itself agree*

with the population?

A: The political leadership is part of the population. If the society is in a lethargic frame of mind, you cannot have dynamic leadership. The Japanese know they are in this condition, but they are doing nothing about it. They are laid-back.

Q: *But the Japanese are not known to be a laid-back people.*

A: Unfortunately, on this issue, they are.

Q: *So you do not think the emergence of, say, a great leader in Japan can change things?*

A: No.

Q: *But you do acknowledge that Japan's unstable brand of politics is not helping. What is your explanation for this instability?*

A: The leadership rotates between Samurai chiefs. In the Diet, you have factions led by Samurais and their warriors. And he who has more warriors gets the premiership. I do not know if they switch support. Probably they do when induced by offers of office. But whatever it is, it is unstable and does not give any leader a chance to make an impact on Japan's policies.

Q: *Perhaps the Japanese thinking on the demographic problem is: Yes, population would decline; yes, the economy would decline; but if we can keep GDP per capita up and maintain standards of living, we are fine.*

A: No. An ageing population will not maintain GDP per capita. It is the young that keeps the economy going, and they lack young people.

Q: *What are the geopolitical implications of a diminished Japan, especially given China's rise?*

A: Even if they were bustling with more children and had a growing population, the rise of China is such a huge problem for them that it makes no difference. They cannot stand up to China and they certainly cannot do what they did in the 1930s, when they tried to and nearly did conquer large parts of China. They need the US security guarantee. The Japanese on their own cannot overwhelm or block the Chinese. But the Japanese in alliance with the Americans can. And they will keep the alliance, but they will be a weaker partner, a smaller, declining partner.

Q: *So the Japanese will hold firmly to their friendship with the US?*

A: It is their best choice. But at the same time they will invest in China and make friends with them, and make business out of that.

Q: *Okinawa is a big conundrum for the Japanese. The Americans base most of their troops there, but the Okinawans consider it unjust that they have to bear the cost of security for the entire Japan. Do you think the Americans will eventually be forced to leave? And if so, what will that mean for Japan's security?*

A: I cannot say whether eventually the Japanese people will support the Okinawans to push out the Americans, but it is not in the interests of Japan to do so. But if they do, the Americans will retreat to Guam and Midway, and that is a long way off.

Q: *What sort of Japan-US alliance do you see in 20 years' time?*

A: It depends on what sort of economy America will have. If the US cannot afford the alliance, then it is going to tail off. If that happens, then Japan has got to submit to China. They become a client state.

Q: *A client state?*

A: Well, it cannot fight China. It has got to listen to China. If there is a collision between a Japanese ship and a Chinese ship over the Senkaku or Diaoyu Islands, the Japanese ships will withdraw.

Q: *Do you see Japan normalising its Self-Defence Forces?*

A: If America's influence in the region recedes, Japan may develop a defence force with nuclear weapons as a last resort.

Q: *And this will help it to counter China?*

A: Not counter. Self-defence. How can it counter China? Three bombs can annihilate Japan. Three bombs cannot annihilate China.

Q: *Will Beijing resist attempts by Japan to normalise its defence force or to develop nuclear capabilities?*

A: How can it resist? It is within Japan's rights to arm itself. What China can do is to increase its own armaments further.

Q: *Another issue dogs the China-Japan relationship – the memory of the Second World War. Will this continue to be an issue for a very*

long time?

A: The Japanese were in occupation of China, of all the major cities. Had the Americans not threatened them with an embargo for oil, they may well have conquered China. For how long, I do not know, because they would have been stuck in a guerilla war. The Chinese have not forgotten that.

Q: *The Japanese insist that they have apologised many times.*

A: They have, but they continue to visit the Yasukuni Shrine, where all the war criminals are interred.

Q: *You once related a comment you heard from a Japanese leader, that if the Americans fight the Vietnamese, which they did, after a certain period, they can shake hands again. But if Japan fights China, even after 100 years, they cannot shake hands.*

A: It has lasted a long time – since 1931.

Q: *What is your explanation for it?*

A: Because China is a very big country, and this is a much smaller country trying to capture it. And it very nearly did so because the Chinese people were then broken up by warlords.

Q: *So there is a deep-seated animosity between the two people.*

A: I would not say so. Trade between them has been growing at a phenomenal rate. Japan is investing in China. China invites investments for Japan's technology. And China provides a cheap

production base. But the World War II issue is a flag you can wave from time to time.

Q: *Should Singapore and Southeast Asia hope that the relationship grows and the two economies become more closely linked together?*

A: Yes, it is in our interests that both should prosper.

NORTH KOREA

A GRAND HOAX

I have never been to North Korea. I have never felt the urge to go there. It is a most unusual country. Even in China, people are living with certain basic rights. In North Korea, you have a population that is totally suppressed and completely isolated from the outside world. To say that the Kim family has built a personality cult would be a grave understatement. To the mesmerised Korean people, the Kims are semi-deity. They hold the family in awe, not realising that they are actually living a hoax. All these sturdy-looking men and women marching are part of a big charade. Far from being a socialist heaven-on-earth, North Korea is one of the worst-run countries in the world, failing even in the most basic of tasks, such as ensuring that the population is fed.

How they have managed to maintain such a grand hoax in this age of instant communication is, in itself, quite remarkable. They do not have iPhones or satellite televisions. If they did, the hoax would not work. Some North Koreans do eventually get out of the country and learn about how far the world – and, in particular, South Korea – has progressed and how much their country has been left behind. But these people are in the minority. They are the ones who find life so unbearable that they willingly place themselves in great danger by attempting to defect to China or to South Korea. Some succeed. Many others fail. Those who succeed know that they have escaped by the skin of their teeth. They put their lives at stake by braving the high seas in wooden boats or by making their way on foot at the risk of getting caught by border guards. The day that a majority among the North Korean people comes to a similar realisation – that their country is stuck in the dark ages thanks to the present regime – would be the beginning of the end for the regime.

Unfortunately, it is probably too late for the North Korean regime to try to reform itself. They are past the point of no return. The Chinese have been trying to convince them to change gradually – taking their leaders to places like Shanghai, Guangzhou and Shenzhen, to try to convince them that there is a way to pull this off without losing your grip on power. But North Korea is a very different proposition from China. It is held together by a cult, and if the cult figure collapses – as is inevitable when you open up to the world and implement free market reforms – the country will collapse. The North Korean people will wake up to the fact that they had been swindled for decades. They will see how foolish they were to be enthralled with the Kims, believing that this made them the world's greatest nation. They will see a South Korea that is rich and prosperous. Opening up simply will not work.

To complicate matters, the personal lives and liberties of North Korean leaders are at stake, because they have in the past given orders for crimes to be committed internationally, including the assassination of South Korean politicians, the blowing up of a passenger plane in the Gulf over the Andaman Sea and the abduction of foreign citizens, including Japanese ones. Some of these leaders will be dead, but those still alive will face the very real prospect of being held to account because these acts must have been carried out with the concurrence of the North Korean leadership, if not under its direct command.

For the foreseeable future, then, the status quo is likely to be maintained on the Korean peninsula. There is no compelling force to shift the balance one way or the other. Nearly all parties with a vested interest in the Korean problem, including China and the United States, do not want to see either war or peaceful reunification taking place – at least not in the short term. The stakes are simply too high.

The North Koreans will not want to repeat what they did in 1950 – that is, to launch a war to take over the South. They know they cannot possibly hope to defeat the Americans, who for strategic reasons can be expected to marshal all the military resources necessary to defend South Korea against such an attack. But even without the Americans, the North Koreans will not prevail in a one-on-one fight with the South Koreans. They may have pursued an overall military-first policy, but the South has the overwhelming advantage in economic wherewithal. To believe armaments are all that matter in war is to make the same mistake as the Japanese in the Second

World War. The Japanese thought they could destroy the American fleet and secure a decisive advantage in the war. But American industrial production capabilities were such that they could rebuild the fleet and more. It did not take them a long time to get back on their feet and punish Japan. In the end, it is your industrial capacity that determines your national strength, not the number of ships and guns you have. If you have arms not supported by a solid economic foundation, you may be more prepared for war, but it may well be a war that you have no ability to sustain. The North Koreans will know this. They are not stupid.

In recent years, the North Koreans have taken brash military action, sinking the South Korean warship *Cheonan* and shelling the island of Yeonpyeong. A total of 48 South Koreans were killed in the two incidents. These provocative acts reflect the kind of brinkmanship also evident in their policy on nuclear weapons. But I believe that the North Koreans, despite all their apparent senselessness, are conscious that there is a line they must not cross. More likely than not, they calibrated their acts to fall just short of that which would invite severe retaliation. And they did so while reaping maximum benefits domestically. It may have been, as some analysts point out, a convenient way to bolster the military and political credentials of the heir to the throne, Kim Jong-un.

Similarly, the South Koreans will not want to see any dramatic move towards reunification. War is highly risky because its capital Seoul is within artillery range of the North. So although the South may win the war, its capital may be destroyed in the process. And approximately one-fifth of all South Koreans live in Seoul. But peaceful reunification may not be cheered by the South Koreans either. While reunification is their long-term desire and eventual goal, the South Koreans have decided that the economic costs of a Korea reunited overnight – say, by mutual agreement – will be so horrendous to the South that it is preferable to delay it for the time being. The problem for them will be two or three times bigger than what East Germany was to West Germany, simply because North Korea is in a much worse state than East Germany was. And Germany, it should be noted, continues to suffer from the effects of reunification. It is one thing to say, “Let’s rejoin”. It is another thing to say, “I keep on feeding you for decades till you reach my standard of living.” The South Koreans would very much prefer a gradual opening up of the North to the world, and a much longer

lag time – decades perhaps – between the beginning of those reforms and an actual merger with South Korea.

Finally, China and the United States, the two major powers that fought a proxy war in Korea in the 1950s, are also not unhappy with the status quo on the Korean peninsula. They could do worse. The Americans have only recently extracted themselves from two costly wars in Iraq and Afghanistan and have no appetite for more fighting. Although nobody doubts their commitment to South Korea's defence, they will be hoping the situation remains calm for many years.

China does not want to see reunification by war or peace. China treats North Korea as a buffer state. A reunified Korea will be one dominated by the South, with American troops possibly being allowed to go all the way up to the Yalu River, which is on the Chinese-Korean border. To have American troops at their doorstep is a most unsavoury prospect – and this was what drew them into the Korean War in the first place. But even if the Americans were to agree to leave Korea upon reunification – and this is a big if – the Chinese will not see reunification as welcome news. Why should they want a strong Korea on their border? In general, you are in a more comfortable position when your neighbours remain fragmented.

And so, the situation as it stands is not unstable. All sides will move very, very cautiously. The Korean issue could still be around ten or twenty years from now, with virtually nothing having changed. Sooner or later, the North Korean regime will implode because their system is ultimately unsustainable. But the Kims will do everything they can to make sure this happens later rather than sooner. And later could take a long time to come. A breakthrough will happen when communications with the outside world becomes easier for ordinary North Koreans.

In the meantime, North Korea is making an international menace of itself by pursuing nuclear weapons. On this, the Chinese are the only party with any leverage over the North Koreans, and the Chinese have not succeeded in persuading them to give up their weapons. The North Koreans believe that going nuclear is vital to regime survival. They do not trust the Chinese completely because they saw how quickly the Chinese reached out to the South Koreans when they wanted South Korean technology and investments. The North Koreans may be prepared to place their nuclear weapons in a glass box and break the glass only in case of an emergency – provided, of course, they continue to receive international aid promptly

when they ask for it. But giving it up is out of the question. I put myself in the shoes of the North Koreans and I would make the following calculations: the Chinese will put pressure on me, but it is not to their benefit to see me fail. So why should I listen to the Chinese? The Libyan experience will, if anything, have convinced them that it is in their best interests to cling on to their weapons. Libya’s Muammar Gaddafi gave in to the West’s demands and got rid of his nuclear weapons, only to find that when a domestic uprising took place, there was nothing to restrain France and the United States from entering the fray to support the rebels. Gaddafi was summarily executed by the rebels in October 2011, an event that must have sent chills up the spines of members of the Kim family.

As North Korea dithers, South Korea will continue on its path of growth. It has done well and can do so for many more years. It is open to the world and especially to China, taking full advantage of its giant neighbour’s markets and labour resources. When I visited South Korea a few years ago, every other businessman I met had business interests in China. The Koreans also make up the largest group among the foreign student population, learning the language and building important relationships, or *guanxi*, for the future. Their willingness to plug themselves into the biggest growth story of this century will give them a strong boost.

South Korea already leads the world in a number of products, including LED screens. Their *chaebols* – Samsung, LG and Hyundai, among others – can hold their own against the world’s most successful multinational corporations, and they are strong in R&D. For an emerging economy with a population of 50 million, what they have achieved is highly impressive.

The Koreans are among the toughest of all the peoples in their region because Korea was where the invading hordes of Mongolia stopped. They had trouble crossing the waters to invade Japan and many just settled in Korea. And so, the Koreans have the blood of the most aggressive warriors from Central Asia. They are a tough lot. You continue to see that streak in them, to a certain extent. Furthermore, they have a well-educated population that is industrious, hardworking and examination-conscious. They will maintain their high qualities.

But past achievements are no guarantee of future success. South Korea needs to overcome some barriers in their society in order to continue growing.

First, the country needs to keep a close watch on its overall population trend. Fertility rates are low, but South Korea has been more accepting of foreigners than Japan, which is a distinct advantage. They have to keep finding ways to top up the baby shortfall to ensure the country is moving uphill in the long run.

Second, it would help if there was greater consensus over the way forward for the country, instead of the constant infighting that plagues South Korea more than it does other societies. For example, the bickering between political parties over the role of *chaebols* – and whether or not the government should squeeze them more to redistribute the wealth – is causing some of these companies to consider moving more of their operations overseas. These quarrels are a drain on society's energy and resources. South Korea could be so much stronger if its people were to instead unite and say, "Let's attack the global market together."

Q: *Do you see a nuclear arms race in Northeast Asia?*

A: North Korea may already have nuclear weapons. So all it needs is for South Korea to also make one, which I think they are capable of. It will happen if America's economy goes downhill and it loses the ability to project power in Asia. Because when that happens, the American security guarantee will be over for South Korea and Japan.

Q: *So Japan might also want to be part of the nuclear club?*

A: I think Japan would be the last to develop nuclear weapons because it suffered both in Hiroshima and Nagasaki, and it knows the consequences – not just for those who died but also those who lived and died subsequently of leukemia and many other diseases. So they have an aversion to it.

Q: *But if Japan and South Korea both get nuclear weapons, it will make for a safer Northeast Asia, will it not? They all have nuclear weapons, they would not be able to go to war with one another.*

A: It depends. There are several theories on nuclear weapons. If you can knock off your enemy in one strike, then your enemy's nuclear weapons are not much use, unless they make the first strike. If your first strike is not enough to finish the job and your enemy can retaliate, then the threat of mutually assured destruction is a believable one.

Q: *And you do not see war breaking out on the Korean peninsula in the next couple of decades?*

A: I doubt it. There is no advantage for anyone.

Q: *For the North Korean leadership, there are lessons to be learned from Libya. Might there also be lessons to be learned from Myanmar? The regime there has also had a change of heart.*

A: The Burmese generals decided that they were going nowhere. They could see the progress the Thais were making. They decided it was not possible to carry on because they will eventually collapse. But the North Koreans are of a different culture and type. You do not see Burmese generals with their sarongs and headdress looking as brutal and resolute. It is a different people altogether.

Q: *South Korea's policy towards the North has changed dramatically from the time of Kim Dae-jung's Sunshine Policy. President Lee Myung-bak took a very hardline approach instead. Is that a wise approach?*

A: Kim Dae-jung's policy did not work. Had it worked, it would have been carried on, but the North just took advantage of it. Lee Myung-bak's policy is more sensible. There is no point in offering them bread when they do not thank you, and they bite your hand.

Q: *On South Korea, you once said, about a decade ago, that they had made an overly rapid transition from martial law to free-for-all democratic politics, and that the unions were creating problems, and so on. Looking at the South Korea of today, would you say they have made the transition successfully?*

A: I think they could have made that transition more gradually without such militant unions. The unions are still militant. You have seen them going on strike and putting their fists in the air. That has become part of their culture.

Q: *Some might say that is a strength of the system, a sign that they are vigorous.*

A: The Japanese are very strong and their unions never went on strike except to wear armbands. They put the future of the company and of Japan ahead of their own difficulties. The South Koreans are different in this respect.

INDIA

IN THE GRIP OF CASTE

Over the years, I have come to the conclusion that there is no comparison between China and India. China grew organically and became one people. It was not a nation created by outsiders. The Han people make up 90 per cent of the population and almost everyone in the country can speak the same language. China has a certain cohesiveness that India lacks. In India there are more than 400 indigenous languages,[1] and before the British Raj came and unified them by building a railway network, they were multiple groups of people, each under a maharaja, a sultan or a nawab. Because of the great diversity of languages, you cannot stand up in Delhi and speak to more than 40 per cent of the people at any one time. (Delhi is in the Hindi-speaking belt of India; according to the 2011 census, 41 per cent of the Indian population are native Hindi speakers. Non-native Hindi speakers like Punjabis would also understand Hindi.) Many of the languages – Tamil and Punjabi, for example – have no historical connection and the speaker of one language might as well be speaking Greek to the other. If you speak English, 200 million out of 1.2 billion people will be able to understand you. If you speak Hindi, you have the ears of about 500 million people. If you speak Tamil, you have only 60 million people or so. It is a great handicap for any prime minister of India because no single prime minister can speak all the languages.

India was never a single homogeneous entity. It was a concept thought up by the British. And despite the best efforts of the British and the Indian nationalists, India as a nation is still more of an aspiration than a reality.

To compare the two civilisations, India and China, therefore, is to compare apples with oranges. To ask if India can achieve what China can is to ask if you can make an apple into an orange. The results of these fundamental differences between India and China are quite apparent. One

country gets things done. The other talks incessantly but seldom finds the will or ability to get up and go. India simply does not have the same push or the singleness of purpose that you see in China.

The fragmentation is reflected in India's political system. The man in Delhi cannot order chief ministers to do what the centre wants. They do not depend on him for their appointments, but on the votes of the people they are governing. In China, you follow instructions given by the centre – or you step aside. The nation moves forward as one. But India would not have held together under a unitary system like China's because of its disparateness.

When China was able to successfully host the Olympic Games, India's Finance Minister P. Chidambaram laid down a challenge for his country to host the Games in 2020 if not 2016 at a scale comparable to that of the Chinese. Will it happen? Whatever your views may be about China's one-child policy, it was implemented in China. The Chinese can bring out a seven-month-old foetus, as was reported in the news in September 2012. A heavily pregnant woman in Shaanxi province, Feng Jianmei, was forced to undergo abortion because she had not sought official permission for her pregnancy. That is how a centralised system works. You break the rules, you have an abortion. The Indians will not try to make the rules, let alone enforce it.

The caste system is a further complication for India. It is another key factor that holds back development in the country. According to the rules of the caste system, when you marry downwards, you automatically lose caste. Therefore, Brahmins tend to marry only Brahmins, Vaishyas only Vaishyas, Dalits only Dalits, and so on. The Brahmins, who are associated with the priesthood, are – as individuals – as bright as anybody in the world. Many among them are multilingual. So what effect does the caste system have on India? What I am about to propose is not popular, but I believe it to be true. At the macro level, the caste system freezes the genetic pool within each caste. Over many years, this has had an isolating impact on the overall intelligence of the people. In ancient China, a bright official could marry multiple wives and spread his genes around the country each time he gets a new posting. If he retires, he often settled in Suzhou, for the mild micro-climate, and had several wives. A Brahmin, on the other hand, cannot marry a non-Brahmin without falling down the social ladder. If the caste system did not exist, the Brahmins would have spread their genes and there would

be many more half-Brahmins around India. Supposing your society suddenly came up with a new rule that said university graduates cannot marry non-graduates without automatically losing social status, where would your society end up?

I had my first insight into the power of the caste system in the 1970s. I had a private secretary by the name of A. Sankaran, who happened to be a Brahmin Indian. His father was the priest of the Tank Road Hindu temple in Singapore. You could tell that Sankaran was a Brahmin from his physical features. On one of my trips to India, Sankaran was with me, and when we went to a Raj Bhavan, or the Government House, a most peculiar incident took place. When we arrived, he spoke to the orderlies working there, and they immediately obeyed him. They knew from the way he spoke and from his features that he was a Brahmin and his words therefore carried much authority. The orderlies listened to him. Sankaran has since died, but this incident was such a revelation to me that I will never forget it. From nowhere, this Singaporean Brahmin talks to a group of Indian orderlies, and was shown the respect by virtue of caste.

Another incident happened more recently, about 20 years ago. I was again in India, in a car travelling between Agra and Delhi. The highest official in Agra was accompanying me and I took the opportunity to probe him about the caste system. I said to him, “Supposing I tell you I’m a Brahmin. Would you believe me?” He answered: “Well, if you have the standing, the wealth and the manners of a Brahmin, I might believe you. But if you are going to marry my daughter, then the most intensive investigations have to be made.” I then asked him how it was possible to trace a person in a sprawling metropolis like, say, Delhi. He replied that Delhi was not just a mass of people – you had to stay somewhere and therefore you could be traced.

These incidents took place a few decades ago, but things have not changed significantly since. In India’s most cosmopolitan cities, such as Mumbai, the caste system would have weakened slightly. But looking across the nation, the overall decline in caste consciousness is very marginal. It may take many more decades or centuries of gradual shifts before India can declare itself to be free from the influence of caste.

As a result of these forces, the gap between India and China will widen every year. GDP per capita in India (US$1,500) stands at less than one-third of what it is in China (US$5,400). India has been growing at 60 to 70 per

cent the rate at which China is growing. I do not see them catching up. Parts of India will develop faster than others, due to the relatively robust private sector. Mumbai is a key growth area. Bangalore is another fast-growing city, in part because of companies like Infosys led by world-class entrepreneurs like N.R. Narayana Murthy. But how many people can Infosys employ? This dynamism is not found throughout India.

Perhaps because of the relative lack of opportunity, or the frustration at the inability of their country to fulfill its potential due to bureaucratic impediments, many talented Indians are leaving India for greener pastures and do not go back. This is an important difference between the Indians and the Chinese. The Chinese also go to America in large numbers, but quite a few return to China to start businesses. There are opportunities in China beckoning that may not exist in India. In other words, China is not suffering a brain drain to the same extent that India is. The ones leaving India are the most outstanding individuals. They run some of the world's major corporations, such as PepsiCo and Deutsche Bank.

Infrastructure is another important area where India's disadvantage is obvious. The country has developed a reputation for being inconvenient for investors because it does not have a solid infrastructure in place for doing business: container ports, railways, airports, communications and liveable cities. Many Japanese investors in China who want to diversify their bets have gone to India in the hope of setting up a plant or a mine, only to be surprised by the poor state of the infrastructure. How do you move the goods in? How do you get the products out? The length of China's expressways grew from less than 100 km in 1988 to 74,000 km in 2010, second in the world only to the United States. By comparison, India has only 700 km. The Indian government now wants to spend US$1 trillion on infrastructure over the next five years. But who will build it? If it is going to be built by Indians, it will take a very long time. It will be much more realistic to franchise it and allow the Japanese, Koreans and Chinese to come in and build them. If that happens, it can be done in four or five years. But will India do that? I am not so sure.

It is with sadness that I make these observations about India. I started out rooting for India because it was a democracy, while China was an autocracy. Then I grew older, and I realised two things. One, that democracy is no magic potion. It does not solve all problems for all peoples. China would not have got to where it is today if it had been run as

a democracy. Two, that there are certain fundamental forces at work in societies – especially those with long histories – that do not change easily. India is trapped by the almost unchangeable realities of its internal composition and the persistent grip of the caste system.

Q: *You speak of Indian diversity. But Indians were united behind Gandhi and Nehru, regardless of language or caste.*

A: No, when you say they united behind – it was the cause that they united behind. Gandhi was against the salt tax, so they all felt they had something at stake, and he became an icon in the process. Nehru was the first secular leader so, naturally, there were great expectations. He made great speeches in English. The speech he made on the eve of India's Independence Day, on 14 August 1947, had a beautiful opening phrase: "At the stroke of the midnight hour, when the world sleeps, India will awaken to life and freedom". But that reached only one-sixth of the people. His Kashmiri Hindi was not very fluent and he said that he regretted it. He was educated at Harrow and Cambridge.

Q: *But Nehru today enjoys cult-like status in India, even among people who would not be in that one-sixth that understood him.*

A: Yes, but that is *ex post facto* nostalgia, and a desire – if only Nehru had persisted and changed India. But as I have grown older, I have grown sadder. I do not see Nehru – even if still alive and youthful – being able to change the composition of India. When I was young I thought he could have done more. Now I believe he could not have done more because he cannot change the deep cultural prejudices, especially the caste system.

Q: *You have in the past described Indira Gandhi as a very strong-willed woman.*

A: Yes, she was a very tough woman indeed.

Q: *She was at some points authoritarian when she ruled India. Is there a case for believing that India needs that kind of leader right now?*

A: I think India needs stronger leaders. There are so many pulls in so many different directions because of the nature of the country.

Q: *Are there strengths in the Indian system that you admire that China does not have?*

A: The great strength that they have is also their weakness. They are so diverse and different. Every earthquake that they have, the stones somehow move with each other and do not fall apart. They are still in place. I am not saying that the Chinese stones will fall apart. But in the case of India, there are different state governments and chief ministers, they keep on shifting but it coheres together somehow.

Q: *What about the demographic dividend that Indians talk about? There is a population bulge between the age of 15 and 35. Could that be to their economic advantage?*

A: That gives them more of a youthful drive. They have a fertility rate of 2.5, which is much higher than China's. And China may one day regret not turning its back on the one-child policy earlier. But the problem for India is housing, education, schooling and living standards for its young. In some parts of the country, they have no schools and they teach their students under trees. So the growth in population may ultimately result in more illiterate people.

Q: *You envisage China becoming strong and dominant in Asia relative to the United States. What role do you see India playing?*

A: India will play a very powerful role in the Indian Ocean. The Indians have kept up the standards of the Indian army and the Indian navy – which had been created by the British – even though they are disparate units. I once attended a march past in Delhi on Republic Day. I was in Delhi in January 1996 on a visit and saw this march past. It was very impressive. I saw the tall Rajputs with high turbans and many other soldiers of different races, but they are one army under one commander-in-chief. So too the navy and the air force. They are held together. And they are no pushover in the Indian Ocean.

Q: *How were they able to do that, given that Indian society is not held together?*

A: The military is a uniformed unit, and when you enter the military, you accept orders. But in government, the states may not respond to Delhi. Furthermore, national security comes above everything else, so they put in a lot of effort towards defence, including the defence of the Andaman Islands, which is many thousands of miles from Delhi, but which belongs to them.

Q: *Can the Indians project power in the Pacific Ocean as well?*

A: No, I do not envisage the Indian navy going into the Pacific. I do envisage the Chinese trying to get ports in Myanmar and in Pakistan. In fact, they are building ports to safeguard the ships that carry raw materials from Africa back to China. But they cannot dominate the Indian Ocean.

Q: *How about the US-India relationship? How do you foresee that relationship developing?*

A: That relationship will always remain important because the US wants a counterweight to China and the only counterweight to China in numbers is India. India's total GDP is still much smaller than China's, but a large part of that GDP goes into its armed forces. But you have to put things in perspective. The Chinese have just put a woman into space. The Indians have not done so yet. That they can do it I have no doubts, but it is taking them more time, and it will take a lot of resources away from growth. But the Chinese are prepared to do it to show the Americans that what you can do, I can do.

Q: *On a slightly more personal note, when you go on your visits to India, what are some of the things you enjoy about the country?*

A: I have not been to India for some years. First, they speak the English language, so it makes for rapport. Second, Indian food is very good.

Q: *You have no problem with the spices and the curries?*

A: You can tell the chef to make it less peppery. But what I do not like are the squatters around the top hotels. One very stark sight greeted me when I was staying at the newly built Sheraton in an Indian city, and just across the road was a squatter settlement. That is democracy for you. In China that will not happen. I do not know what they do with homeless people in China, but they are not allowed to clutter up the cities with squatter huts.

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[1] Source: *The Economist*, February 2012

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SOUTHEAST ASIA

SOUTHEAST
ASIA

MALAYSIA

A DIFFERENT PATH

Malaysia and Singapore emerged from colonialism at comparable levels of development and with largely similar legacies left behind by the British. But the two countries could not have picked more different paths after 1965. Malaysia chose to be a Malay-speaking country, while Singapore chose English and has forged a multiracial society. The concept of a Malay-speaking Malaysia will, over time, become more firmly established as Malays form an ever larger share of the population.

For nearly two years, when Singapore was part of Malaysia, I did my best to confront the race issue by leading others in a coalition that stood for a Malaysian Malaysia. But the opposition to our efforts was violent, sometimes literally so. It culminated in Singapore having to walk away from the federation on 9 August 1965.

Those from my generation had always believed that Singapore and Malaya were one. The British kept us as a separate colony after the war and we fought for a merger. The leaders of Malaya did not want us initially because the large number of Chinese in Singapore would have upset the overall racial mix. Eventually the British persuaded Tunku Abdul Rahman, Malaysia's first prime minister, that with the leftists gaining strength in our Chinese schools, the danger of Singapore going communist was simply too grave. He finally agreed to take us in along with Sabah and Sarawak, which had lower proportions of Chinese, to balance us.

But after we joined, the Tunku told me: "Your party should leave Malays in Malaysia alone." We had three Malay-dominated constituencies in Singapore – in Geylang Serai, Kampong Kembangan and the Southern Islands – and he did not want us to reach out to constituencies in Malaya, which he considered Malay territory. But we could not abide by that. We had to go by the constitution, which did not say that it was a Malay

Malaysia but a Malaysian Malaysia. We went ahead and formed the Malaysian Solidarity Convention, which advocated a truly multiracial country. We persuaded parties from Sarawak, Penang and Ipoh to join. There were more than a few Malay representatives. As the convention gathered strength, the Tunku got upset and we were told that Singapore had to leave Malaysia or there would be bloodshed. Some within my Cabinet were opposed to leaving Malaysia, most notably Toh Chin Chye, then deputy prime minister. Toh was born in Ipoh and, for him, it went against the grain to get out. He wanted to see the Tunku. I encouraged him to do so. The Tunku refused to see him but wrote a letter indicating that he could no longer control the situation. "There is absolutely no other way out," the Tunku wrote.

Between 1963 and 1965, as prime minister of Singapore, I had to attend meetings of the Council of Rulers in Malaysia. The rulers who attended would all be Malays, dressed in uniforms and accompanied by their sword bearers. All the chief ministers had their traditional Malay dresses on and I was the sole exception. This was not mere symbolism. It was to drive home a point: "This is a Malay country. Never should you forget that."

Separation marked the end of our attempts to work towards a different vision in Malaysia on the race issue. I look back with much regret. If the Tunku had been firm and had put down the Malay ultras and built a multiracial Malaysia, allowing the Chinese and Indians a share of power in the police, the army and the civil service, there would be a more prosperous and fairer Malaysia than what it is today. Much of what has been achieved in Singapore could have been replicated throughout Malaysia. Both countries would have been better off.

I was probably overly optimistic about the Tunku's role and the constraints on his abilities as a Malay leader. He was of a different generation, one that grew up under British rule and viewed everyone – including those of other races – as British subjects. His friends were Chinese. His best friend at Cambridge University was Chua Sin Kah, whom he would ring up to say: "Come over and join me. Have my roast beef and brandy." The Tunku also accepted that Singapore was more advanced and that we would be the New York of Malaysia, while he could lead the country from Kuala Lumpur and have it be the Washington of Malaysia. But I did not realise at the outset that he could not prevent the Malay ultras from pushing the Malay agenda. Even at Malaysia's inception I should have

seen this, given their insistence that Sabah and Sarawak join too in order to ensure the Chinese remained outnumbered. The Malays had assumed power in Malaya and they wanted to make sure that Malaysia continued to be their country, permanently.

The demographic changes in Malaysia will lead to a further entrenchment of Malay privileges. In the last 40 years – that is, since the enactment of the New Economic Policy – the proportion of Malaysian Chinese and Indians of the total population has fallen dramatically. The Chinese made up 35.6 per cent of the population in 1970. They were down to 24.6 per cent at the last census in 2010. Over that same period, the Indian numbers fell from 10.8 per cent to 7.3 per cent.

The shift in ethnic mix is a result of many factors. There is a higher birth rate among Malays. There was also significant migration, with many Filipinos coming into Sabah. The government was later accused of granting citizenship en masse – an issue that has become the subject of an inquiry. Many Chinese and Indians chose to leave. Those who are well-educated, in particular, often hear their parents tell them: “Here’s your passport to a foreign university. Don’t come back.”

Forty per cent of our migrants are from Malaysia. Those with the means to do so leave for countries farther afield. In the early days, Taiwan was a popular destination among the Chinese-educated. In recent years, Malaysian Chinese and Indians have been settling in Europe, America and Australia. Some have done very well for themselves, such as Penny Wong, Australia’s current finance minister. Among those who have chosen to remain in Malaysia, some lack the means to leave and others are making a good living through business – despite the discriminatory policies. Many in this latter class partner with Malays who have connections. They are not unlike the *cukongs* in Indonesia – the Chinese who worked with Indonesians who had the licences but did not know how to run businesses. The Chinese *cukongs* were brought in to do all the heavy lifting in the operation of the businesses and they were allowed to take a share in the spoils. But the key is what their children do. In Malaysia, many of them get an education abroad and they migrate.

Malaysia’s race-based policies place the country at a disadvantage. It is voluntarily shrinking the talent pool needed to build the kind of society that makes use of talent from all races. They are prepared to lose that talent in order to maintain the dominance of one race. In recent times, the Malaysian

government has been somewhat more willing to acknowledge this loss of talent to vibrant cities elsewhere and is making an attempt to lure some overseas Malaysians back. But the reality is that these efforts may be too little, too late. In a globalised world where the competitive advantage of a people will increasingly hinge on the skills, the brainpower and the drive that they possess, Malaysia is losing ground. It is giving other countries a head start in the external competition.

Eventually, the Chinese and Indians will exert little influence at the polling booths. When that day comes, with no votes to bargain with, the Chinese and Indians cannot hope to bring about a fair and equal society for themselves.

In the aftermath of the 2008 general election, there was a strong sense among some quarters in Malaysia that the country was on the verge of real change. An opposition that campaigned officially on, among other things, promises to do away with some of the country's race-based policies surprised even its own supporters with the result it got. In terms of votes, it was the opposition's best result since 1969. In terms of seats, it was its best result ever. The government was denied a two-thirds majority. A year after the election, Najib Tun Razak took over as prime minister. He then launched a campaign called 1Malaysia to strengthen racial harmony and national unity.

Prime Minister Najib proposed 1Malaysia because he wanted to win back some of the Chinese and Indian votes that his party lost in the 2008 election. But has the ground moved with him? Has there been thunderous applause from the Malays at 1Malaysia? It may have been that he started out with ambitious plans. But it appears that political realities may have conscribed his subsequent actions. It is impossible for him to win votes from the Chinese and Indians without losing votes from his party's core supporters – the Malays.

The 1Malaysia slogan has not lived up to the initial excitement it created. When I met with the Malaysian Chinese press shortly after its launch, they said that they had initially reported it as one multiracial Malaysia but were later corrected to report it as simply 1Malaysia. In other words, the people share one Malaysia, but the communities remain distinct, as Malays, Chinese and Indians. It still remains to be seen if the campaign can level the playing field for non-bumiputras in any significant way.

If those counting on 1Malaysia to usher in a new era for race relations are being unrealistic, those counting on the opposition to do the same someday are not very much less so. To begin with, the opposition coalition coming to power in the near future is a very long shot indeed. But even if it were to happen, the chances of it getting rid of Malay special treatment are next to nothing. To understand this, one has to examine closely the Pakatan Rakyat coalition. This is an opportunistic ad-hoc group not held together by even a vaguely coherent set of ideas but by a common desire to unseat the government. As long as it does not actually hold the reins of the federal government and therefore does not have to implement the said multiracial policies, some semblance of unity can be maintained. When it comes to the crunch, however, PR will not be able to do away with Malay supremacy. The moment the bluff is called and it is handed the full power to push ahead, it will either be torn apart from within or be paralysed by indecision. If it attempts to move in any meaningful way, PAS – a Malay-Muslim party that will hold, if not a majority of seats within the coalition, then at least a significant enough share to give it veto power – would block action in an instant. In doing so, PAS would be responding to the same electoral pressures that Umno faces from the Malay ground.

Whether or not Umno or the Barisan Nasional can cling on to power, therefore, is not the critical issue if one is to make sense of the entrenchment of Malay privileges. Instead of thinking of Umno as the entity that will remain in power, I think of the Malays as the bloc that will always control the majority of seats. Any party that takes the place of Umno and becomes the main party representing Malay interests will not act very differently from Umno.

There are issues other than race on which Singapore and Malaysia differ, but over the years we have learned to live and let live. We accept that we are different. When we separated from Malaysia in 1965, English was the language common to both countries. Some years after that, Malaysia decided to drop English and teach all subjects in Malay, making it the working language. The Chinese privately financed their own schools. When the government concluded that it was a disadvantage to lose English, they reintroduced English for the teaching of science and maths in 2003. But there was opposition from the Malays, especially those from the rural areas, and the language medium for science and maths switched back to Malay in 2009. The decision to drop English was not easily reversible. In Singapore,

we have also maintained the independence of the judiciary bequeathed to us by the British. In Malaysia, in 1988, the government responded to unfavourable court judgments with a series of decisions that included the sacking of a chief justice and other senior judges as well as an amendment to the constitution to weaken the judiciary. Twenty years later, the government led by Prime Minister Abdullah Badawi made ex gratia payments to the sacked judges or their families. By Prime Minister Abdullah Badawi's own admission, the events of 1988 marked "a time of crisis from which the nation never fully recovered".

Singapore and Malaysia have chosen two entirely different ways of organising our societies. But we have each come to the understanding that there is no need to try to influence the other to your own point of view. We cannot change them. They cannot change us. We just coexist, separately but amicably.

What is important for Singapore is that we develop and maintain a strong military force to protect our sovereignty. As long as we have a Singapore Armed Forces capable of fending off an aggressor, we will be left alone.

Q: *In retrospect, would you say that you pushed too hard on Malaysian Malaysia?*

A: No. If I had not pushed then, we would be prisoners now.

Q: *You have said in the past that there were those around you who told you that merger would not work, including Mrs Lee. You once said: "She told me that we would not succeed (in Malaysia) because the Umno Malay leaders had such different lifestyles and because their politics were communally based, on race and religion. I replied that we had to make it work as there was no better choice. But she was right. We were asked to leave Malaysia before two years."*

A: Yes. But I had to give it a chance.

Q: *What were the other options then for Singapore?*

A: An independent Singapore, which at the time would be facing the Chinese Middle School students' drive to extend their power. They may well have won. But once in Malaysia, the Chinese understood that they were within a Malay region and that a Chinese Singapore was not possible. What was possible was a multiracial Singapore.

Q: *So that was part of your calculation for wanting the merger?*

A: No, it wasn't part of my calculation. It was the result. My calculation was that we had to rejoin them in order to have a united whole. Singapore and Malaya were one historically.

Q: *It was not specifically to neutralise the Chinese communist threat in Singapore?*

A: No, that would have been too great a price to pay. Supposing we were arraigned in Malaysia and we had not fought for a multiracial Malaysia with the Malaysian Solidarity Convention, we would be like Penang or Kuching or Jesselton, now known as Kota Kinabalu. They are not Malays. They are Dusuns, Dayaks and Kadazans.

Q: *Some people have also put forward the view that you and the PAP went into Malaysia harbouring ambitions of ruling the entire country.*

A: That is simply not possible. The demographics would not allow that. What they wanted was for non-Malays to play a secondary role. They had the Malaysian Chinese Association and the Malaysian Indian Congress as partners, holding the loyalty of grassroots leaders in Malaya. Sabah and Sarawak they could manipulate because the leaders were young, and new. In the midst of the struggle the Tunku offered to make me the United Nations representative to get me out of the way.

Q: *When we separated, newspaper reports said many Singaporeans at the time celebrated the event. I suspect that if you ask Singaporeans today, they would say that it was probably one of the best things that had happened to Singapore because we could be on our own, with our destiny in our own hands. When you look back at Separation today, do you see it in fairly positive terms, especially given how Singapore has developed?*

A: No. We had to make the best of it. But the odds were against Singapore making it. They were banking on us crawling back to them on their terms, not on the terms they had worked out with us

and with the British, where we had certain rights and privileges, including over education and labour. We were a distinct part, not an ordinary state of Malaysia.

Q: *One of the views put forward by some experts is that this desire to protect Malay privileges is borne out of a sense of insecurity, because of the large number of Chinese and Indians. According to this view, if Malaysia becomes more homogeneous, with Malays forming the overwhelming majority, they may feel less threatened and may be more likely to let go of these privileges.*

A: You believe the majority will support leaders who want them to give up their privileges?

Q: *There are many countries in which very small minorities tend to be advantaged rather than disadvantaged. In China, for instance, those from the minorities get extra points when applying to enter universities.*

A: Look at the history, the evolution. The Chinese are a huge confident group, wanting to win over the minorities. So they are willing to say the One Child Policy does not apply to minorities, and to grant autonomous regions such as Xinjiang and Tibet. Is there any comparison between their historical context and Malaysia's?

Q: *You have argued, in the case of other countries, that a country dominated by one ethnicity or that speaks one common language tends to be more cohesive. Does that argument apply to Malaysia, as it becomes a more Malay country? Would Malaysia be better off?*

A: If you are a Chinese or an Indian there, would you think you are better off?

Q: *Perhaps not. But is it possible for Malaysia as a country and as a society to be better off?*

A: The answer to that question is: Where do you think the talent pool is?

Q: *So your point is that there is potential that could have been realised, but has not.*

A: Yes, of course.

Q: *There is something happening concurrently with the change in ethnic mix, which is that Malaysia is also becoming more rigorously Islamic in its practice.*

A: That is part of the influence of the Middle East.

Q: *Can it be a progressive Muslim country?*

A: You believe that? What do you mean by a progressive Muslim country?

Q: *Open to the world, open to new ideas.*

A: That they will not wear their headdress, that they will shake hands, men and women, and sit down, that a non-Muslim can be drinking beer and have a Muslim sit down and drink coffee with him?

Q: *But could it become more like Turkey than Saudi Arabia, for example? Relatively open, imbibing some of the more international*

values?

A: No, it will be a Malay-Muslim country. Once upon a time, they were relaxed. Now, under the influence of the Middle Eastern states, they are much more orthodox. They used to serve liquor at dinners and drink with you. When I was there, the Tunku would invite his friends over and drink whisky and brandy with them. Now, they toast each other in syrups.

Q: *Besides race and religion, one other issue that is uppermost in many people's minds is money politics and the corruption in the system. The policy of giving contracts to Malay businesses, for instance, tends to benefit very few Malays. Do you see Malaysia ever being able to resolve this issue?*

A: I cannot say. It is possible if you get a group of young and well-educated Malays who want to run the system in a rigorous manner and they are prepared to fight vested interest. In every Umno division, their chiefs hold the votes and they get privileges because of that. So I am not sure that you can have any change, unless there is a vast transformation, Malaysia-wide.

Q: *On Singapore-Malaysia relations, do you see potential to cooperate economically? One example would be Iskandar Malaysia – both sides are pragmatic and there is a basis on which we can do business.*

A: Let us wait and see how Iskandar develops. This is an economic field of cooperation in which, you must remember, we are putting investments on Malaysian soil. And at the stroke of a pen, they can take it over. They are not likely to because they want more investments. But when we go there, we must understand that any real estate or building that you plant on the ground belongs to the owner of the ground.

INDONESIA

MOVING AWAY FROM THE CENTRE

The most significant development in Indonesian politics since the end of the Suharto era was a surprisingly undramatic one. It did not involve noisy street demonstrations calling for sweeping changes or bold government plans to transform the nation's economy. You could not make a Hollywood blockbuster out of it. Yet, I am convinced that historians who look back many years from now will recognise its momentous nature. The development that I am referring to is regionalisation, also known as decentralisation.

In 1999, Suharto's successor as president, B.J. Habibie, quietly signed into law the devolution of powers from Jakarta to the 300 or so districts that made up the sprawling country. The laws came into effect in 2001 and their results have been remarkable. With each region taking responsibility for its own affairs through locally elected officials, the country has been given a new lease of life. Economic development is now spread out much more evenly. Local autonomy has also relieved secessionist pressures and will help the country hold together as one. A decentralised Indonesia is better off and more likely to reach its full potential.

Before the enactment of these laws, Indonesia had one of the most centralised political systems in the world. Important decisions about the economy were made in the capital by the president and his Cabinet and implemented throughout the country by bureaucrats and representatives of the central government. Everything was lined up through Jakarta. Foreign investors, including those from Singapore, understood the rules of the game. They knew that the entrance fee to investing even in far-flung regions of the country was paid in Jakarta. Naturally, the tax revenues and profits that arose from harnessing the country's rich resources flowed back to the capital, which then decided how the benefits would be reallocated.

For many years, this was a system that worked reasonably well under the leadership of Suharto. A military man, Suharto succeeded Sukarno as president in 1968 and served for the next three decades. His accomplishments were nothing short of extraordinary. Suharto inherited a country plagued by hyperinflation and languishing in dire economic conditions. He turned it around by focusing the nation's resources on development. Whereas Sukarno devoted his energies to pounding the table at international conferences and trying to turn Indonesia – and himself – into the leader of emerging countries, Suharto knew that Indonesia could not speak with force on the global stage unless it first succeeded at tackling its internal problems. When Malaysia came into being, Sukarno came up with the slogan *Ganyang Malaysia*, which means Crush or Chew Up Malaysia. Suharto, determined to stabilise his country's international relations, dropped the slogan, accepted Malaysia as a neighbour and acknowledged that Sabah and Sarawak belonged to Malaysia.

Indonesia made real progress for 30 years under Suharto, who appointed well-qualified administrators and serious economists to run the country. One only has to compare Myanmar and Indonesia to grasp the enormity of Suharto's contribution. The two countries started out at similar levels of development. Both were well-endowed and had military leaders at the helm. But General Ne Win of Myanmar, or Burma at the time, went down the path of socialism. If it had not been for Suharto's hard-headed policies promoting development, Indonesia would have turned out like Myanmar. Suharto may have failed on corruption and on nepotism. But history will also judge him on outcomes, which speak for themselves: he educated the people, grew the economy and built roads and infrastructure.

But the centralised system that Suharto relied upon was not the best one for uniting such a diverse country. Indonesia is made up of 17,500 islands stretching over 5,000 kilometres and inhabited by more than 200 different ethnic groups. In the 1960s, Goh Keng Swee remarked that the eventual disintegration of Indonesia was virtually "ineluctable". He recognised the forces at play in an archipelago that can hardly be described as sharing a sense of oneness, whether as a matter of culture or history.

Language is one factor that has helped prevent a break-up, and Sukarno, for all his faults and his antics, can claim credit for this. Sukarno chose Malay as the national language, not Javanese. If he had wanted to choose Javanese, he would have been able to cite many good reasons for doing so.

The Javanese were the dominant group in Indonesia. Their language was a refined one that brought with it an ancient literature. Sukarno himself was Javanese and Jakarta, the country's capital as well as its economic and cultural centre, was located on the island of Java. But Sukarno understood that Javanese would not have united the nation, because it was considered a foreign tongue in many parts of Indonesia. The other islands would have found it a burden and this would have torn the country apart. Malay, on the other hand, was already widely spoken as a second language because it was the language of the merchants and the sailors who travelled not only throughout the country but throughout the Southeast Asian region. He chose Malay and decided that all schools would teach it as the first language, with the local language or dialect as the second language. As a result, any person speaking in Jakarta today is understood throughout the country. It was a masterly stroke and Sukarno's greatest gift to Indonesia.

A common language alone, however, was insufficient. Suharto also kept the country whole through the sheer force of the military, which he used to put down, for instance, insurgencies in Aceh. This was sustainable only as long as the use of force could be maintained. But the military's role was changing. In the final days of Suharto's presidency, he wanted his top general, Wiranto, to contain an uprising of students and workers. But Wiranto declined because he understood the limits of military action. When Habibie succeeded Suharto as president, there was a real fear that a string of separatist movements throughout the country might take advantage of the changing political situation by seceding.

The Habibie government decided that regionalisation was the way to go. However, instead of handing power to the 30 or so provinces, which may have, over time, emboldened some provinces to opt for independence, the Jakarta elite leapfrogged them by declaring the 300 districts and municipalities as the basic unit of government. Later, in 2004, the government acknowledged that this approach was not without its problems and passed laws that re-established the hierarchical relationship between province and district. Nevertheless, after 2001, each region took back full decision-making powers in a wide range of local matters, such as health, education, public works, agriculture, transportation, trade, the environment, labour and so on. The authority to grant licences for investments was also delegated to local governments, except in the case of oil, gas and radioactive material. That Habibie did not come from Java but South

Sulawesi must have made a difference. If a Javanese had succeeded Suharto, the wheel and spoke system would probably have remained for some time at least. The fact that Habibie had spent some 20 years studying and working in Germany, which had a federal rather than a unitary system, probably also had a part to play. In any case, Abdurrahman Wahid, who succeeded Habibie as president in late 1999, respected the laws signed by Habibie and facilitated their full implementation. A World Bank report on Indonesia's regionalisation process said that, post-2001, two-thirds of all civil servants previously working for the central government found themselves reporting to local governments, and over 16,000 service facilities, including schools and hospitals, were similarly transferred.

The move was highly risky, but turned out successful. Today, every region manages its own resources and deals directly with companies from abroad. Butter has been spread all around and the complexion of the whole archipelago has changed. Some processes have been sped up because businesses no longer have to deal with multiple layers of government. Local authorities are more familiar with events on the ground, which enables them to react to changing circumstances. Post-decentralisation surveys also show that many ordinary Indonesians believe public services have improved since 2001. This is, no doubt, at least partially a result of key decision-makers having to report not upwards, to Jakarta, but downwards, to the people who elect them and to local legislatures.

The Riau Islands are one example of a region that has done well from the changes. Before, it fell under the control of Jakarta, but now they deal directly with investors from Singapore and Malaysia – which makes perfect sense, since Batam, the largest city in the province, is much closer to Singapore than it is to Jakarta. Foreign investments have risen significantly, as have job opportunities for locals.

But most importantly, decentralisation has kept Indonesia united as one country. No region can claim that it is being oppressed or treated unfairly by the centre, since the destiny of each region now lies in the hands of its own people. The profits from natural resources are being handled by local governments. The military solution to separatism under Suharto gave Indonesia a pressure cooker quality. Relations between the centre and the provinces were often tense and one had to make sure the lid was firmly secured, or there would be an explosion. The Habibie solution of granting

local autonomy released the steam from the cooker and made the situation tenable in the long term.

Regionalisation is irreversible. Once you have given the regions direct ownership of their communities, it is not possible to take back control. There will be adjustments as the country finds the right balance of autonomy, say, between provinces and districts, but Indonesia will not return to a centralised system like that of the Suharto era.

One would be remiss, however, to believe that Indonesia's developmental path is, as a result of these positive developments, no longer fraught with difficulties and uncertainties. Regionalisation may have been a very good thing for the country, but it is no magic bullet. Traditional challenges and fresh ones, including political gridlock at the centre, poor infrastructure and widespread corruption, continue to threaten to veer Indonesia off course. Whether, how and when Indonesia confronts these challenges will determine the fate of its people.

Singapore got a taste of the problem posed by political gridlock when we signed the Extradition Treaty and Defence Cooperation Agreement as a package with Indonesia. The president clearly believed the pact was in his nation's interest, or he would not have signed it. The national legislature, or Dewan Perwakilan Rakyat (DPR), however, blocked it on the ostensible grounds that it compromised Indonesia's sovereignty. Any political analyst could have told you the real reason they wanted the agreement halted: An election was due in 2009, and the legislators, most of whom were not from the president's party, wanted to boost the chances of their own parties by diminishing the president's standing. Is it possible that the president, who was an army general, the defence minister, the foreign minister and the attorney-general, did not understand what Indonesia's sovereign rights were? Singapore's troops had been training for more than 20 years in Indonesia during the time of Suharto, without any complaints. But it was part of the *wayang kulit*, or political theatre, that continues to plague Indonesia, as a result of how the institutions are organised at the centre.

Indonesia's constitution was amended in 2002 to make provisions for the president to be directly elected by the people. Previously, the president had been elected indirectly, by the legislators. He therefore automatically had the support of the legislature, and did not have to worry about his policies being blocked. But the new system created the possibility that the president would come from a party other than the majority party in the legislature,

which in turn gave rise to the potential for logjam. If the amenders of Indonesia's constitution had studied the French system, they would have considered giving the president powers to call for legislative elections, either shortly after he is elected, or perhaps later down the road, so that he can appeal to the electorate for a clearer mandate to rule.

The structure that was designed in 2002 tends to foster deadlock and hamper decision-making at the centre. Reform, furthermore, is unlikely because any bill would have to be passed by the DPR, which has no incentive to give up any of its powers. Holding on to the ability to block the president suits the DPR just fine. Seen from this perspective, regionalisation is the saving grace, since many important decisions have been devolved to the regions.

The second big conundrum for Indonesia is infrastructure. When you have 17,500 islands, the ability to connect these islands becomes vital to economic development, since major population centres need to be brought together in order for growth in one region to feed off that in another. More fast ferries and domestic flights would help considerably. Building bridges between islands would also be hugely beneficial. None of this is being done enough. The Sunda Strait Bridge, which would be the country's longest bridge and would connect Sumatra and Java, Indonesia's two most important islands, has been talked about for years. If built, this bridge would turn the two islands into one big island, generating much economic potential. Unfortunately, words have not been translated into action.

Indonesian analysts have observed that infrastructural improvements have slowed down when compared to the Suharto era. The present government has hosted a series of infrastructure summits and has made grand plans for upgrading roads and other links, but actual projects have been lacking. The frustration is made worse by the fact that many among the Indonesian elite enjoy spending their weekends in Singapore. At the end of each mini-retreat, they leave with a strong sense that their own roads and airports are in sore need of investment and development.

Finally, the country has to get a handle on rampant corruption. Regionalisation has done nothing to reduce this, since the provincial chiefs are also demanding their share of the pie. Corruption results in leakages all along the way. A dollar is spent, but 10 cents is taken out here and 20 cents there, and by the time it reaches the ordinary worker, or the foreign investor trying to turn a profit, there is little left. President Yudhoyono knows how

difficult corruption is to extirpate once it has been allowed to set in. It will take very determined and sustained action, and it has to start from the centre. If corruption can be reduced significantly, then a new future can be forged and a new Indonesia is possible.

Indonesia has not done too badly over the last decade, consistently achieving growth of between 4 and 6 per cent. The country was virtually unaffected by the global financial crisis. It is attracting major investments from China and Japan, thanks to its wealth of natural resources. But over the next 20 to 30 years, I would be very surprised to see the country transform itself. Malaysia is likely to make greater strides. It is more compact geographically. There is also better transportation and a more driven workforce.

While positive developments are taking place in Indonesia, it remains a resource-based economy with a mindset among the people premised on making a living through what the ground provides rather than what you can create with your own two hands. They believe that they have resources that will last them a long time. And they may well be right. There are huge strips of territories still unexplored. They have oil and gas, which may be exhaustible, but they also have timber and palm oil, which is not exhaustible, because these are agricultural products that can be planted repeatedly. The resources they have tend to create a laid-back culture that says, “This is my land. You want what’s underneath? Pay me for it.” Over time, this has cultivated a non-enterprising nature that will not be overcome easily.

Q: *Indonesia continues to have big-power ambitions, and because of its growth over the last few years, it has improved its profile internationally. What do you make of those ambitions and the implications for Asean as well as a small neighbour like Singapore?*

A: Generally, Indonesia expects Singapore to be supportive towards them on the international stage. I suppose if it is not against our interest, we will support them. In Asean, they are still the de facto leader. They have 240 million people. Of course, if they were 240 million people on one big island, that would be different. But still, they are the biggest nation.

Q: *It has been said that Indonesia in the old days enabled Asean to grow by allowing other countries, like Singapore and Malaysia, to take some of the limelight. They were not bossy, unlike India was within Saarc (South Asian Association for Regional Cooperation). Will a more confident Indonesia want to take centre stage all the time in Asean?*

A: We will have to wait and see. But even if they do that, I don't see how they can detract from what we have already established for ourselves, as a hub for communications, logistics, trade and investments.

Q: *When you were prime minister, one of the defining characteristics of the Singapore-Indonesia relationship was your close ties with Suharto. The two countries developed an understanding as a result of that. Do you see difficulties or problems ahead now that that relationship is gone?*

A: There isn't the same to-ing and fro-ing, but Prime Minister Lee Hsien Loong still meets with President Yudhoyono from time to time. Business exchanges are often done through the Chinese Indonesians. This also underscores the importance of Singapore developing a core group of non-Malays who can speak Malay fluently so that we can keep up these ties. This is important for building rapport with both Malaysia and Indonesia.

Q: *With China's dominance in this part of the world, how do you see the Indonesia-China relationship developing?*

A: The Chinese will treat them with great respect and courtesy. They want the natural resources that Indonesia has and I see that relationship blossoming. They have lifted the ban, imposed under Suharto, on the teaching of Chinese and on celebrating Chinese festivals. So the interaction with the Chinese will grow. They are encouraging their own Chinese to go to China to get business.

Q: *One issue that foreign investors, including those from Singapore, have flagged is rising economic nationalism in Indonesia. There is pressure put on companies to increase the share of local ownership. Do you think this is going to happen more or less?*

A: More, I think. They want to have a bigger cut of the cake.

Q: *Do you see Indonesia remaining a seeding ground for terrorism? And is the rise of the Islamic militia a threat to Indonesia's stability?*

A: If you read the reports, somehow the Jemaah Islamiyah has found some recruits in Indonesia and they had the Bali bombings and the Marriott Hotel bombings. But I see Indonesia in different terms from Malaysia. Malaysia is more openly Islamic. There may be subtle changes taking place in Indonesia because of the influence of the

Saudis. Their form of Islam is now taken as the gold standard because they’ve organised these meetings and paid for the expenses of Muslims to come from other parts of the world to attend. This has led to the rise of Islamic pressure groups in Indonesia. But these things don’t change overnight – especially not when they are in the culture of the people.

THAILAND

AN UNDERCLASS STIRS

The arrival of Thaksin Shinawatra permanently changed Thai politics. Before he came onto the scene, the Bangkok establishment dominated all sides of the political competition and governed largely to the benefit of the nation's capital. If there had been disagreements among the Bangkok elite, none were quite as ferocious as the ones to come. Nor were any of the quarrels as divisive as those that arose during and after Thaksin's term. What Thaksin did was to upset the apple cart of the Thai political status quo by diverting to the poorer parts of the country resources that had previously been hogged by Bangkok and its middle and upper-class residents. Thaksin's was a more inclusive brand of politics that allowed the peasants from the north and the northeast to share in the country's economic growth. A gulf had already existed before his arrival, created by the Bangkok-centric policies of his predecessors. All he did was to awaken the people to the gulf – and the unfairness of it – and to offer policy solutions to bridge it. If he had not done so, I am convinced that somebody else would have come along to do the same.

When he took over the premiership in 2001, Thaksin was already a successful businessman and a billionaire. But if rich Thais were counting on him to show class solidarity, they would soon be sorely disappointed. He implemented policies that favoured the rural poor to an unprecedented extent. He extended loans to farmers, overseas scholarships to students from rural families and government-subsidised housing to the urban poor, many of whom had migrated to the cities in search of jobs and could only afford to live in slums. His healthcare plan targeted at those who could not pay for their own medical insurance provided coverage at just 30 baht (about US$1) per hospital visit.

To Thaksin's opponents, he was turning the country upside down. They were not about to let him get away with it. They called him a populist and claimed his policies would bankrupt the state. (Remarkably, this did not stop them from continuing many of these policies and coming up with other similar ones when they held power from December 2008 to August 2011.) They accused him of corruption and favouring his family businesses, charges he denied. They were also unhappy with his firm – some say dictatorial – handling of the media and his controversial war on drugs in the south of the country, during which due process and human rights may sometimes have been overlooked. Nevertheless, the peasants, overwhelming in numbers, ignored the criticisms and re-elected him in 2005. The Bangkok elite ultimately could not tolerate the man. He was overthrown in a military coup in 2006.

Thailand's capital has since experienced great upheaval. Scenes of chaos have broken out repeatedly on the streets of Bangkok since 2008, with mass protests involving either the Yellow Shirts, who oppose Thaksin and do so in the name of defending the monarchy, or the Red Shirts, made up of Thaksin's ardent supporters. But the latest general election, held in 2011, which handed Thaksin's sister Yingluck the premiership, was a clear vindication by the Thai electorate of the new path that Thaksin had chosen for Thailand. The peasants of the north and the northeast of the country, having tasted what it was like to have access to capital, were not going to give that up. Thaksin and his allies have now won five general elections in a row, in 2001, 2005, 2006, 2007 and 2011. For Thaksin's opponents to try to hold back the tide is futile.

Despite the recent ferment in Thai society, there is cause for optimism in the long run. The Red Shirts will continue to outnumber the Yellow Shirts for a long time because the latter group draws from a shrinking constituency. The younger generation already holds a less reverent view of the royal family. Furthermore, even though King Bhumibol Adulyadej is a well-respected figure, much of the prestige and magic associated with him will go when he passes on.

The army has always played a central role in Thai politics. It has made sure that no movement against the monarchy, from which it derives its strength, is allowed to raise its head. It too, however, will have no choice but to accept and to adapt to the changed situation. It is after all untenable to resist the will of the electorate for a protracted period. Given time, its

ranks will also be filled by soldiers from a younger generation, less enamoured with the monarchy. The military leaders will continue to insist on privileges and will not be content with being reduced to an ordinary army. But they will also learn to live with a government made up of Thaksin’s allies. It may even be possible for the army to accept Thaksin’s eventual return to Thailand, if he can promise to get along with them and not pursue any vendettas.

There can be no reverting to Thailand’s old politics, to the pre-Thaksin era when the Bangkok elite had a monopoly on power. Thailand will continue moving along the path that Thaksin first steered the country onto. The gap in living standards across the country will narrow. Many peasants will be lifted into the middle class and will help drive the country’s domestic consumption. Thailand will do well.

Q: *Some Thai analysts are less optimistic about the changes in Thai politics since the arrival of Thaksin. They speak about how in the 1990s, the prime ministers were able to develop the Thai economy with long-term policies but since Thaksin came to power in 2001, the government has been resorting to short-term populist measures and handouts to the poor.*

A: No, that's a very one-sided view. Thaksin is much shrewder and smarter than his critics. That's why he tapped the northeast to overcome the resistance from them.

Q: *But I think there is a concern about the race to the bottom, to try to win as many of the rural votes as possible.*

A: Where do you get the money for all the handouts?

Q: *That's the problem.*

A: No, before you give a handout, you must have the resources. It can only come from revenue. And if you want to give more, and the revenue is already fully balanced, you've got to increase taxation.

Q: *Or it can come from borrowing.*

A: Who will lend? Against what assets?

Q: *So you don't think it likely that Thailand will experience long-term paralysis from a general descent into populist politics.*

A: I doubt it. Why would they pander excessively to the have-nots?

Q: *What are your impressions of Thaksin?*

A: He is a hands-on leader who works hard to get results quickly. He trusts his business experience and instincts more than economic theories. He once told me he took a trip by coach all the way from Bangkok to Singapore and he decided that he knew what made Singapore tick. So he was going to do it the same way. I don't know whether one trip gets him to understand our black box, which has to do with education, skills, training and a cohesive society with equal chances for all. You must not forget that in the northeast there are more ethnic Lao than Thais.

Q: *There was a time, at least a decade ago, when Singapore leaders were talking about Thailand as a serious competitor to Singapore, as a transport, manufacturing and medical tourism hub. Is that still the case?*

A: Look at their geography. You can bypass Bangkok but you cannot bypass Singapore by ship.

Q: *What about by air?*

A: How high are their skills and education? They have to be better than us.

Q: *Do they have the potential to be better than us?*

A: First, we have the advantage of the English language. Second, we have an education infrastructure that has been producing high quality

graduates, those from the polytechnics and those from the ITEs. Nobody goes without some skill. Can they develop that for 60 million people spread across the rural areas?

Q: *Can we discuss the geopolitics of the region? Thailand has been an ally of the US. It was used as a base by the US during the Vietnam War. Will it continue to be an ally?*

A: It makes no difference. The real question is: Do their interests coincide? You can have an alliance and it will hold good only when your interests coincide. It's like Nato. They were united when there was a Soviet Union. When the Soviet Union collapsed, Nato became ineffective.

Q: *One view is that the turning point came when Thailand encountered problems with the Asian financial crisis in 1997 and the people realised that the US wasn't there to bail them out. And they have decided since then that China may be a much more dependable friend.*

A: Because the value of Thailand to the US had dropped with the end of the Vietnam War.

Q: *How do you see the Thais responding to the growing dominance and influence of China in this part of the world?*

A: You know the history of the Thais. When the Japanese were strong and about to attack Southeast Asia, they allowed Japanese troops into Thailand, made it easier for them to move on to Malaysia and Singapore. So whoever is the winning side, whoever is the more powerful side, that is the side they will ally themselves with.

VIETNAM

LOCKED IN A SOCIALIST MINDSET

Many held high hopes for Vietnam when it decided to introduce free market reforms in the 1980s, a few years after China made a similar move. *Doi Moi*, or “to change to something new”, as the reforms were called in Vietnamese, started out on an encouraging note. Among the very first steps the country took away from socialism was to return control over vast tracts of collectivised land to individual farmers. This resulted in a sharp rise in agricultural output within a few years. Vietnam, it was thought by many both inside and outside the country, was going in the right direction. Indeed, as it became clear to the world that China’s opening up had been an incredible economic success, those who did not watch Vietnam as closely began to assume that its reform programme was moving along a similar trajectory.

A more circumspect assessment is emerging. My own view of Vietnam’s reforms has been revised considerably from the rather more optimistic one I held at the time of my first few visits in the 1990s. Vietnam’s older generation of communist leaders, I now believe, is incapable of breaking out of a fundamentally socialist mindset. They had initially agreed to embark on the journey of reforms because they could see that the country was not going anywhere. But they have not since come close to exhibiting the genuine determination to overhaul the system that one finds in China. These Old Guard leaders are keeping Vietnam stagnant. Until they pass on, the country will not make breakthroughs in its bid to modernise.

A first-hand experience I had on one of my recent visits is illustrative of the kind of obstacles Vietnam faces. I was in a meeting with a number of top civilian and military leaders and I recounted to them the problems confronting a Singapore company that was developing a hotel project on West Lake in Hanoi. As the company began piling works, thousands of

villagers arrived to demand compensation for the noise pollution. To avoid incurring extra costs, the company decided to change its method of laying the foundation to screwing, which was much quieter than piling. This time, it was the official who had approved the project who approached the company. He said: “I never gave you permission to do that.” It was clear that the official was in collusion with the disgruntled residents. I explained to the Vietnamese leaders in the meeting with me that this was counterproductive. If you want to open up, be serious about it, I urged them. They responded with hemming and hawing that clearly indicated they were only half-hearted about reforms. They did not understand that one happy investor would attract many more. Their idea was that when you had an investor ambushed in a corner, it was your chance to squeeze as much out of him as you could.

Members of the Old Guard have earned their stripes in the party hierarchy during the war and presently occupy the positions of authority. Unfortunately, they rose up the ranks not because they managed the economy well or demonstrated a talent for administration. They did so by digging tunnels from the north of the country to its south for more than 30 years. What they have in common with China’s opening up experience are officials who have turned corrupt. Cadres who believed that they would be taken care of by the system suddenly saw those outside the party becoming rich quickly. They got disillusioned and became grasping, with senior customs officials importing cars illegally, for example, so they could share in the wealth. What they do not have in common with China is a Deng Xiaoping-like figure who had both indisputable standing among cadres and unwavering belief that thorough reform was the only way out. The reason they lack such a figure goes back to the Vietnam War. While the Chinese communists were chalking up decades of administrative experience in peacetime, picking up practical pointers about what worked and what did not, and updating their beliefs and ideology as they went along, the Vietnamese communists were stuck in a brutal guerilla war with the Americans, learning nothing about what it took to run a country. Furthermore, most of the successful businessmen among the South Vietnamese, who would be familiar with the workings of capitalism, fled Vietnam in the 1970s.

The Vietnamese are among the most capable and energetic people in Southeast Asia. Their students who come to Singapore on Asean

scholarships are serious about their studies and score the highest grades. With people of such intelligence, it is a real pity that they are falling short of their potential. Hopefully, when the war generation fades away and a younger group takes over, they will look at how well Thailand has done and become convinced of the importance of the free market.

Q: *Vietnam has great problems with China over territory in the South China Sea. And at an Asean Ministerial Meeting in 2012, when the regional grouping failed to agree on a joint communiqué for the first time in 45 years, Vietnam was one of the countries heavily involved in the quarrelling.*

A: They could not get Asean consensus to support their position because the Chinese are believed to have dealt separately with Brunei and Malaysia on their claims, which were smaller ones. But the main claim – the one that remained problematic – was by Vietnam.

Q: *Is this a demonstration of how China is able to divide Asean on the issue?*

A: It shows how skilful the Chinese are. They have dealt with foreign countries, or foreign barbarians, for thousands of years and they know how to play them one by one and to prevent them from coalescing so they don't have to face a group. They buy them off one at a time.

Q: *Vietnam is looking to expand its ties with the US, so it can better deal with China.*

A: Yes. Leon Panetta, the American defense secretary, went to Cam Ranh Bay in 2012. The implications are that it might be open to the Americans. It may be useful to have the Americans there if there is a quarrel over the Paracels, but I don't see the Americans confronting the Chinese directly. The best that the Vietnamese can hope for is to

apply the United Nations Convention on the Law of the Sea to the dispute.

Q: *There was also talk that the Vietnamese might buy American arms.*

A: I wouldn't be surprised. The Americans are now closer to them than the Chinese. And the Americans have arms that are more sophisticated than those of the Chinese.

Q: *Do you think Asean should perhaps steer clear of the South China Sea dispute in future summits?*

A: They have already broken ranks. There was supposed to be a code of conduct but that is now shattered.

MYANMAR

THE GENERALS CHANGE COURSE

There is only one rational course of action when you find yourself stuck in a dead end. Turn around and walk right out of it. This is, in many ways, a good analogy for understanding the dramatic change of heart starting in 2011 on the part of Myanmar's military junta over where it wanted to take the country. It was not a volte-face rooted in deep soul-searching or genuine epiphany. Neither was it a desperate act of self-preservation by an authoritarian regime that believed it was on the verge of collapse. A much more prosaic explanation is in order. The generals could see that the country was in a cul-de-sac. There were no options left.

Looking across the border at the relative prosperity in Thailand would have accelerated this discovery. In terms of natural resources, Myanmar is as rich as Thailand, if not richer. But if one were to compare, say, the pomelos produced in each country, one would find the Thai version of the fruit bigger and sweeter because of research in science and technology. The Thais had also built themselves up as the biggest regional exporter of orchids and other plants and fruits. In theory, Myanmar should have been able to do the same, since it is blessed with the same climate and soil. In practice, nothing was happening. But the most despairing part of this comparison was probably the fact that Burmese had to cross the border with Thailand to barter for medical supplies using gems and precious stones. The country was being left further and further behind.

Cyclone Nargis was another wake-up call for both the regime and the people of Myanmar. The 2008 disaster rendered millions in the country homeless as a clueless government showed neither effectiveness in providing aid to its own citizens nor a willingness to accept help from foreign countries like America and France. In stark contrast was the reaction of the Chinese government to an earthquake in Sichuan that was no

less destructive. The troops were prompt in their rescue efforts, the Chinese leaders, including Premier Wen Jiabao, looked on top of things and the nation rallied together. There are Myanmar experts who believe that the cyclone acted as the final nudge that took the country past the tipping point, thereby planting the seeds of reform. They may not be far from the truth.

Without much fanfare, the country began making reforms in earnest from 2011. Political prisoners were freed, including Aung San Suu Kyi and hundreds of others. The Nobel Peace Prize winner was permitted to run in parliamentary by-elections in 2012 and she was duly elected. The regime moved quickly on elections and prisoners partly because they wanted to persuade the West to lift sanctions, believing that this would give the country an important economic fillip. The West responded cautiously at first, but finally acquiesced, and the rehabilitation of Myanmar on the international stage was completed with a visit by President Barack Obama in November 2012. In 2015, the country is expected to hold its first free and fair general election since the notorious 1990 one that Aung San Suu Kyi had won by a landslide but the military junta refused to recognise. Slowly but surely, Myanmar is going back to being a normal country again.

In the 1960s, Burmese leader General Ne Win chose to go down the path of socialism. He deported the Indians, who had been brought in by the British to make the economy work because they were the traders and the entrepreneurs, leaving the country with just the Burmese themselves and a closed economy. The country stayed stagnant for 40 years.

For a time, roughly a decade ago, I was in touch with Khin Nyunt, the brightest among the generals and the only one inclined towards reforms. I urged him to learn from Suharto – to take off the uniform, form a political party and win elections. Then you get the support of the people and you can open up, I said. But shortly afterwards, Khin Nyunt was placed under house arrest. I lost contact with the regime, and did not consider it to be in Singapore's interest to go to Myanmar to convince them of the need for change, when so many had tried and failed. It was hardly my business.

In the last two years, Myanmar has made important strides towards opening up. I do not believe the generals will turn their backs on the reforms this time. The only question is: How quickly will they move forward?

One figure that many have placed their hopes in is Aung San Suu Kyi. She is an iconic figure who has rallied the anti-military forces in the

country. Some are calling on her to play a leading role in a government of the future. I have my doubts. She was married to an Englishman and her children are half-British, so even though she is the daughter of Aung San, the liberator of Burma, she is not accepted by some people in her country fully as a Burmese. There are rules in the constitution currently barring her from becoming president. At 68, she is also getting on in years. But even if she could lead, she would have to grapple with multiple ethnic insurgencies from north to south. Would she be able to keep the insurgencies down?

The Burmese living abroad are another group that could encourage the country to open up faster. They are the best people from Myanmar who had previously gone into exile. Their children would no longer feel any obligation to the country, but those who left Myanmar in their youth or as adults would have retained an emotional connection. With the changing political situation, if they can be persuaded to return to start enterprises, it would certainly be a boost to the country.

Q: *In one of your previous books,* Hard Truths to Keep Singapore Going, *you said that you had written off the Burmese generals for your lifetime, that they were a dumb lot who just didn't see what they needed to do.*

A: They were very intransigent. But even they came around and acknowledged that they had come up against a brick wall.

Q: *There is some discussion over whether it was Asean's so-called constructive engagement or Western sanctions that ultimately prompted the Burmese to decide to reform and open up. What is your view?*

A: It doesn't matter which one. What is important is that they have decided to embrace a different future.

Q: *If the reforms persist, and Myanmar opens up, will we continue to see increasing Chinese dominance and influence in Myanmar?*

A: Yes, because they have built a highway. And they were helping the Burmese throughout the long years of isolation. So they have made friends and they know that these are long-standing friends. The Indians are trying to enter the picture by giving some aid but I don't see them being able to compete with the Chinese.

Q: *Would the Americans be able to gain a foothold in the country, as part of their efforts to compete for influence in the region?*

A: They are too far away. The power projection is too distant. Myanmar shares a land border with China, with Yunnan.

6

SINGAPORE

A nation at a crossroads

SINGAPORE

POLITICS

A general election outcome like that of May 2011 would have been produced sooner or later. The People's Action Party (PAP) polled an average of 60.1 per cent nationwide and lost six seats – the worst result since Independence in 1965. The near-total dominance of the PAP at elections before that was not sustainable in the long term. It was possible because the generation that grew up with Singapore's independence saw its living standards rise very substantially from a low base. Eventually, improvements would slow down and become less visible. A new generation with different life experiences would vote according to a wholly new set of considerations compared to that of their parents and grandparents. There were particular short-term factors surrounding May 2011 that made the situation less favourable to the PAP, such as the decision of Workers' Party's chief Low Thia Khiang to move out of his Hougang base and contest the Aljunied GRC, and general unhappiness with certain government policies. Ultimately, though, losing one Group Representation Constituency (GRC)[1] to the opposition could not have been held off indefinitely.

The more important question, therefore, is: Where do we go from here? The answer to that depends as much on the PAP's choices – its reaction to the changing circumstances – as it does on the electorate's. There are countless imponderables. However, I am certain of one thing. If, in the end, Singapore decides to move towards a two-party system, then we are destined for mediocrity. We will lose our shine and become nothing more than a dull little red dot, if we tell ourselves: "Look, never mind. Let's just be an ordinary city. Why should we try to be better than other cities or countries?" I will be very sorry for Singapore if we ever went down that road.

On 22 August 2012, I received a thank-you card from a Singaporean by the name of James Ow-Yeong Keen Hoy. From his elegant, cursive handwriting, I guess he must at least be in his 50s. Young people these days prefer to type, and when they do write, they simply do not write as beautifully. He wrote: “My family is deeply grateful and has benefited from your magnificent leadership and solid contributions that have enabled our nation to achieve peace, happiness, progress, prosperity, solidarity and security all these good years. A big thank you! May we have the honour to sincerely wish you, Sir, peace and joy, wisdom and longevity and all the very best in the coming good years. And may our beloved country be blissfully and richly blessed and be mercifully safeguarded now and always. God bless.”

I quote at length from this card to highlight the enormity of the mindset shift, from an older generation, including this writer, his peers and his seniors, to a younger one that takes for granted Singapore’s affluence. People like Mr Ow-Yeong have seen Singapore develop from the unsettling 1960s, when hardship and poverty were still the rule rather than the exception, to today’s vibrant and cosmopolitan Singapore, providing well-paying jobs to a highly educated population. Many older Singaporeans also progressed from living in shanty huts to high-rise apartments with present-day conveniences and surrounded by safe neighbourhoods. They have a good understanding of the nation’s imperatives – what it took for us to get here and what it would take to keep up our success – as well as its vulnerabilities. The younger voters do not share those views. Having been born into a Singapore that had in many ways already arrived, they see all that is around them – a working system generating stability and wealth – and they ask: “Where is the miracle?”

In successive elections over a few decades, the PAP was able to secure complete or close to complete sweeps of the seats in Parliament because those from the older generation made up the bulk of voters. When I was prime minister from 1959 to 1990, the waters rose dramatically and each one could see his boat rising sharply as well. Singaporeans returned the PAP to power time and again with overwhelming majorities. The same happened after Goh Chok Tong took over from me, between 1990 and 2004. But eventually, the tide reached a peak, and it was very difficult to outdo that peak in a way that could be appreciated by voters. Older Singaporeans continued to support us in large numbers because they

retained memories of the earlier years, and understood that good governance was just as important after the economy had matured – if not more so. Younger voters did not, because they believe that what we have achieved is secure.

The demographic push is relentless. In the 2001 general election, which was the last one under Goh Chok Tong, the PAP won a landslide, taking 75 per cent of votes and all but two seats. Of the voters that year, those born before Independence outnumbered those born after Independence by two to one. In 2011, the ratio had been overturned. It was 51:49 in favour of post-1965 voters. The PAP's vote share fell to 60 per cent and the opposition won six seats.

Of course, one must also take into account the immediate circumstances in each election. These happen to be very important for the two elections in question. In 2001, the September 11 terror attacks in America had just taken place and the global atmosphere of uncertainty would have prompted some voters to stick with the party with a history of delivering the goods. In 2011, at least two factors worked significantly to the PAP's detriment.

The first was the fact that WP chief Low Thia Khiang was able to produce a solid-looking candidate in international corporate lawyer Chen Show Mao. He appeared to be a talented person. Low decided to stand in Aljunied GRC, along with Chen and the party chairman Sylvia Lim. The implied message to voters was clear: "We're putting all our eggs here. Let us have one GRC." And so they won one.

Chen, however, has not turned out to be so brilliant. In Parliament, he makes good prepared speeches, with a written script, but in the follow-up, he is all over the place. It simply does not gel for him. If he has a keen mind that has thought through the subjects deeply, he certainly has done a good job of concealing it in his performances. This is not just my view. The journalists reporting on political news, and voters sitting in the public gallery may have felt the same way. The weight of public expectation of the man, given his rather impressive résumé, has probably added to the disappointment.

The other factor that had a significant effect on the election results in 2011 was unhappiness over the large number of foreigners. Unfortunately, our options on this issue have become very limited because we have not been reproducing ourselves. If we do not take in immigrants and foreign workers, this country would tank. The government has been moderating the

influx to a level that causes less discomfort. But the unhappiness will continue for some time, because even as the transport companies try to ramp up bus and train services, each day the commuter has to endure a crowded ride is another day of irritation for him.

The right way to think about big trends, however, is to set aside these short-term factors. You have to ask yourself, if you take these factors out of the equation at the next election or the one after that, will things go back to the old normal that existed before 2011? I believe the answer is a definite no. The issue here is not one particular candidate or one particular government policy that was unpopular. It is an underlying desire among some younger voters for more political competition.

What happens from now on will be determined, at least in part, on the actions of both the PAP and the opposition. Can the opposition live up to the expectations they have tried so hard to build up for themselves and become a First World Opposition? Will they be able to persuade enough good people – equal to the PAP frontbenchers – to join them? I doubt it. Very few who are successful in business or academia or the professions would be willing to sit in the opposition benches for four or five terms before they form the government. If you want to go into politics, you better join the PAP. It is a ready-made organisation with a proven track record.

The PAP will not stay static either. The party will continue to put forward young, credible and serious people who will reach out to a new generation of voters and strive to win their trust. In 2011, we fielded some of the most outstanding candidates, who have gone on to become office holders. Heng Swee Keat, now Education Minister, was the best Principal Private Secretary I ever had. The only pity is that he is not of a big bulk, which makes a difference in a mass rally. But he has one of the finest minds among the civil servants I have worked with. There were other people we fielded who are now in the Cabinet: Chan Chun Sing, Tan Chuan-Jin and Lawrence Wong. We are saying to the voters: “This is the quality of the people we have roped in. We are not hanging on till we are dead.” Can the opposition produce the likes of the younger generation of PAP ministers, never mind the likes of Prime Minister Lee Hsien Loong or Deputy Prime Ministers Teo Chee Hean and Tharman Shanmugaratnam?

It is nevertheless possible that, eventually, younger Singaporeans may, despite the most earnest efforts of the PAP, want not just more political competition, but a full two-party system. They have the right to choose.

After all, it is for each generation of Singaporeans to decide for themselves what kind of country they want to build and how they want to organise society. But I hope the young will not make the decision lightly and will consider carefully all that they stand to lose. It is they who will have to live with the consequences, not I, or those from my generation. We will not be around by the time the consequences kick in.

The biggest problem with the two-party system is that once it is in place, the best people will choose not to be in politics. Getting elected will be a dicey affair. Fighting campaigns will also tend to become unnecessarily uncivil, even vicious. If you are talented and doing well in your career, why would you place so much at risk – not only your own interests but your family's too – by standing for election? You are more likely to prefer to stay out of the kitchen and in your comfortable life.

Already, it is a Herculean task at each general election for us to convince the best and most committed to stand. Because the country is doing well, it will become very difficult to find people prepared to give up perfectly good careers outside politics. How much harder it would become if we turned into a two-party system! It would not just mean that our A team would be divided into two, or that we would have an A team in power half the time, and a B team in power the other half. No, it is much worse than either of those two scenarios. It is simply that the A team – and possibly also the B team – would be turned off from politics and would concentrate on other pursuits. You would have a C, D or E team in place.

If there was significant doubt about whether or not we could get Lim Kim San, for instance, elected, I would have had much trouble getting him to enter politics. Once it becomes an iffy situation that could go one way or the other, the normal reaction is to let somebody else do it. But in the event, we fielded him in a seat where we could say with confidence that he would win. And what a loss it would have been for Singapore if he had not joined! This is the man who built up the Housing and Development Board (HDB), the public housing authority, without which this country would be a very different place. If Singapore allows mediocre people to run the government, it will sink and become a mediocre city.

If you look at other countries that already operate a two-party system, you will come to the same conclusion. In Britain, if you look at the First Class Honours list of Oxford or Cambridge and trace their careers, you will find that these people end up not in politics, but in banking, finance and the

professions. The frontbenchers in Parliament are often not from the top tier. They are not drawn from the best lawyers or surgeons. The same forces are at play in America. The chief executive of a Fortune 500 company has a much better life, and the post would naturally attract more able candidates than those vying to become the president of the United States. But the difference between Singapore and those countries – that is, America and Britain – is that they will continue to do well despite an average government, but we will not. This is a small country with no natural resources and in the middle of a region that has been volatile historically. Special leadership is required here.

Even as things stand, we have regretfully shifted the system away from attracting the best talent through reductions to ministerial pay. If I were a Cabinet Minister at the time the change came up for discussion, I would have stood firm. But the younger generation of ministers decided to go with the trend. It is true that no country in the world pays ministers as we do. But it is also true that no other island has developed like Singapore: sparkling, clean, safe, with no corruption and low crime rates. You can walk the streets or jog at night. Women will not be mugged. Police do not take bribes, and if they are offered bribes, there are consequences for the ones offering. None of this came about by coincidence. It took the construction of an ecosystem that requires highly paid ministers.

With every pay reduction, the sacrifice that a minister makes – giving up his profession or his banking job – becomes greater. Some will eventually tell themselves: “I don’t mind doing this for half a term, two and a half years, as a form of national service. But beyond that, it has to be: thanks but no thanks.” The final outcome would be a revolving door government, which will inevitably lack a deep understanding of the issues or the incentive to think about problems in a long-term manner.

Will Singapore be around in 100 years? I am not so sure. America, China, Britain, Australia – these countries will be around in 100 years. But Singapore was never a nation until recently. An earlier generation of Singaporeans had to build this place from scratch – and what a fine job we have done. When I led the country, I did what I could to consolidate our gains. So too did Goh Chok Tong. And now, under Lee Hsien Loong and his team, the country will do well for at least the next 10 to 15 years. But after that, the trajectory that we take will depend on the choices made by a younger generation of Singaporeans. Whatever those choices are, I am

absolutely sure that if Singapore gets a dumb government, we are done for. This country will sink into nothingness.

Q: *Are we seeing a more populist form of government after the 2011 election?*

A: No, I do not think so. We have lost one GRC, six seats in Parliament. It's not a disaster.

Q: *You say the PAP has fielded good candidates who have since been promoted into Cabinet, such as Heng Swee Keat. But some among the younger generation appear to want more opposition MPs, regardless of quality…*

A: I cannot predict or gainsay what they will ultimately choose.

Q: *But is this a trend that you worry about?*

A: No, my job is done. I'm 89 years old. Do I worry whether the world will come to an end? My job is done. I have put in place a system that is clean, meritocratic and open.

Q: *But you believe that if they decide to make it a two-party system, it is inevitable that Singapore will become mediocre?*

A: Inevitable. And, as I have said, if this view that we should just be a regular city or country continues with a younger generation, it will happen.

Q: *Would the PAP lose power before that point?*

A: I'm not sure whether PAP will be in power three, four, five elections after this.

Q: *But if the PAP was able to change and keep up with people's expectations…*

A: No, you tell me how they should change and what those expectations are.

Q: *Many people, for instance, would want the core values of the PAP but something with more heart.*

A: More heart? Spell it out.

Q: *One, ministers that don't appear so top down. Two, more spending on social issues. This comes, of course, with a fiscal implication. At its core, those are the two demands that people have.*

A: When you say "top down", what do you mean?

Q: *Less preachy. Maybe more consultation in the formulation of policy.*

A: That is what you have been getting from Teo Chee Hean and Tharman Shanmugaratnam.

Q: *There was talk during and after the general election about how the PAP has to transform itself.*

A: No, whose talk was it?

Q: *George Yeo was one of those making the comment.*

A: No, no. George Yeo lost. And every defeat must be accompanied by a thorough rethink. But it does not mean a change in your basic values and policies.

Q: *On ministerial salaries, is it your belief that the government is pandering too much to popular sentiment?*

A: No, I am not saying they are pandering to popular sentiment. They are trying to cater to a change in the mood of the population.

Q: *But in your view, with costs.*

A: Definitely.

Q: *But even with high ministerial salaries, many of the PAP MPs have been drawn from the public sector rather than the private sector.*

A: No, no. I had Lim Kim San. I had quite a few others.

Q: *But that was a different era, when the pay wasn't what it is today.*

A: No, you mustn't say that. The pay mattered. Had the sacrifice been too big, he would have left after one term. But then he got caught up and he built HDB and now everyone has a home. He felt after one term that it was worth doing.

Q: *What is your greatest worry for Singapore?*

A: I have no worries. I have done my job. I found a successor and handed over to another generation. I can do no more. I cannot live forever as a young, vigorous 40- or 50-year-old.

Q: *But do you feel sad sometimes, looking at what lies ahead for Singapore?*

A: To tell you the truth, I am resigned to what will happen. There is no need to be sad. It depends upon the generation that is growing up now, what they will do. Do they share the values of their parents' generation?

Q: *Is it possible for us to reach an equilibrium that is neither the overwhelming PAP dominance of the past nor a two-party system, but somewhere in between? Perhaps, one-third to the opposition, two-thirds to the ruling party…*

A: Do you think that is possible? If you have three children, can you persuade two of them to vote for the PAP and one for the opposition?

POPULATION

If I were in charge of Singapore today, I would introduce a baby bonus equal to two years' worth of the average Singaporean's salary. The sum would be enough to see the child through to the start of primary school at least. Would I expect the number of babies to increase substantially? No. I am convinced that even super-size monetary inducements would only have a marginal effect on fertility rates. But I would still go ahead and offer the bonus, for at least a year, just to prove beyond any doubt that our low birth rates have nothing to do with economic or financial factors, such as high cost of living or lack of government help for parents. They are instead the result of changed lifestyles and mindsets. And if there is little we can do by way of incentives to persuade Singaporeans to have more children, then we have to be realistic and ask ourselves what other options we have to prevent this society from disappearing within a few generations.

In 1959, the year I first became Prime Minister, 62,000 babies were born in Singapore. A remarkable reversal took place in the five decades after that. The resident population has more than doubled, but the number of babies produced plunged. In 2011, just 39,654 infants were born here. The total fertility rate per woman came down to a low of 1.15 in 2010, from close to 2.0 in the late 1980s. The replacement level is 2.1. There is a minor increase in births every time the Year of the Dragon comes around on the Chinese calendar (1988, 2000, 2012), but this spike has been shrinking, in line with the long-term downtrend.

No matter how you slice the population, the numbers are declining steadily, because fertility is falling among all demographic groups. The total fertility rate is now 1.18 [preliminary 2012 figures] for the Chinese, 1.14 for the Indians and 1.69 for the Malays. That means if nothing is done, the Chinese and Indians will roughly halve in each successive generation and

the Malays will fall by a fifth. More Singaporeans are also choosing not to get married or to get married later and to have fewer or no children. Among ever married women aged 30 to 39, the average number of children born has fallen from 1.74 to 1.48 in a decade. For those aged 40 to 49, it has dropped from 2.17 to 1.99. The share of those who remain single has risen – to 45.6 per cent for men between 30 and 34, and 32.3 per cent for women of the same age.

At the current fertility level and without immigration, the burden of an ageing population on the young will become unbearable within one generation. The number of working-age adults supporting each citizen aged 65 and above will fall from 5.9 in 2012 to 2.1 in 2030. Only the pandas are in a similar situation on the question of reproduction – and they do not have to worry about whether there are enough resources to ensure their seniors will be taken care of.

Some have suggested that the government's overly successful "Stop At Two" campaign in the 1970s may have been responsible for Singapore's present travails on fertility. This is an absurd suggestion. Singapore is not an exception on this issue. Changed lifestyles have taken hold of developed societies everywhere in the world, from Japan to Europe. Once women are educated and have equal job opportunities, they no longer see their primary role as bearing children or taking care of the household. They want to be able to pursue their careers fully just as men have always been able to. They want more leisure time. They want to travel and to see the world, without being burdened by children. They have very different expectations about whether or whom they should marry because they are financially independent. There is no turning back the clock, unless we want to stop educating women, which makes no sense.

In many Western countries, a culture has emerged that tolerates not just cohabitation but also the raising of children outside of wedlock. This has ameliorated the fertility problem for them, creating space for more babies. Unmarried mothers suffer much less stigma than they do in Asia. Indeed, some of these societies provide extra help for single mothers, effectively, if somewhat inadvertently, incentivising the decision to not get married. On this issue, Singapore remains a more traditionally Asian society. While some have taken to the idea of cohabitation, the share of unmarried women having children is very low because the taboo remains strong. If social norms were to change considerably, this is one possible way births could

increase here. But I expect social norms to shift only very gradually, and the government cannot move faster than the population. Furthermore, an increase in out-of-wedlock births may be associated with other social challenges and problems as evidenced in societies where there are high rates of single parenthood.

Singaporeans have strong reservations about admitting immigrants, but we arrive at this option almost by process of elimination. It is natural for us to feel uncomfortable with those who look, sound or behave differently from us. I like to see familiar faces. But are we reproducing ourselves? Do we face up to reality and accept that some immigrants are necessary, or do we simply allow Singapore to shrink, age and lose vitality?

There are three limits to the immigration approach.

First, they have to come at a pace that is politically digestible or there will be a significant backlash from the population, which would be counterproductive. As a society, we need to come to a consensus about what this level would be. For now, we are probably comfortable with about 15,000 to 25,000 migrants a year. Below this range, it is mathematically impossible to prevent the population from shrinking at current fertility levels. But if the government is successful in making clear the gravity of the situation we find ourselves in, and hence, in bringing Singaporeans on board, we should ideally increase this figure, especially in years to come when the ageing problem hits us harder.

Second, even if Singaporeans were to eventually increase their threshold of tolerance, there is still a level beyond which more immigration would be undesirable, because we do not want the local culture or ethos to be significantly altered by a foreign one. When immigrants understand that they are a much smaller group compared with the local population, they tend to want to assimilate with locals and blend in to the existing culture. If the integration process is not completed in the first generation, it will be completed among their children. But when a critical mass of immigrants is reached, there is often a desire in them to want to assert themselves and to remain distinct. Indeed, if the number is large enough, they may even be able to force changes onto the local culture. To be fair, some of these changes may be positive ones, even if they are discomfiting. But if we allow ourselves to reach that point, then we would have no control over which parts of the immigrant culture we want to incorporate and which we do not. We have already seen examples of some unambiguously negative

elements in these cultures. For instance, new immigrants may come from a country which is more mono-ethnic and be unused to living with others from different races. Or the relations between people from different layers of society may be different than the more level one we have here in Singapore. The social attitudes they come with may, unconsciously, not fit in well with the social norms and practices in Singapore, and may lead to friction. We need to guard against such attitudes, which may inappropriately encroach on our way of life.

Finally, empirical evidence tells us that immigrants do not boost our fertility rates because they have as few children as Singaporeans do. They replace the young adults that we are short of, but do not have enough children to replace themselves. Each generation of immigrants, therefore, represents not a permanent fix to the underlying problem, but temporary relief. A never-ending stream of immigrants is required. What we really need in order to change the game is therefore a willingness to consider a different lifestyle and to have more babies.

But even as we recognise these limits to immigration, we must understand that there are no alternatives in the short term. We must remain open to the diversity that newcomers bring to our shores. If harnessed effectively, diversity within our schools and workplaces can broaden perspectives and facilitate the constructive exchange of ideas. Permanent residents are potential citizens; either we or they themselves have not yet made a final decision on Singapore citizenship. We should just take them in at a rate at which we can integrate them and let them adjust to our values and norms, so that they form a pool who could become citizens. In the case of temporary workers, we acknowledge the positive role they play in helping build up and improve Singapore, but that they will leave after working here for a number of years, and do not add to our ageing population when they do so.

I have seven grandchildren in their 20s and none of them is married. I doubt any of them intends to get married until they are in their 30s, by which time it may be too late to have many children. The choices they make are not very different from those of many of their peers. It is a different generation that holds different expectations of life. Unfortunately, as each person makes decisions according to his own rational set of calculations and his own outlook or worldview, society as a whole is ambling towards a dangerous place. The implications for Singapore are quite stark. Is there a

country in this world that prospers on a declining population? If I had to identify one issue that threatens Singapore's survival the most, it would be this one. I cannot solve the problem and I have given up. I have given up the job to another generation of leaders. Hopefully, they or their successors will eventually find a way out.

Q: *Do you think this generation of leaders can solve the population problem?*

A: You better ask them. What else can they do? DPM Teo Chee Hean has put up a White Paper. Let's wait a few years for it to be implemented, to see if the measures work. Please give us your ideas. If we think they are practical, we will take them on board. This is a lifestyle change of a profound nature. The Germans are not reproducing themselves, so the Turks are coming in to do the jobs. None of the Asian Tigers are replacing themselves. Only the Americans are, but I think it's the Latinos who are reproducing faster than the Whites. The Chinese, with the one-child policy, will regret bitterly when they find one child having to support four grandparents.

Q: *Should we consider the Scandinavian model – that is, fairly extensive support at the preschool level, childcare facilities, so you lighten the burden somewhat for families with young children?*

A: No. The Scandinavian societies, as I have argued, function like tribes. They are prepared to share with one another. I do not believe we should impose the same heavy levy on people. It is quite possible that even with heavily subsidised or free childcare services, the fertility rate won't rise.

Q: *Another issue that has often been linked with babies is housing. The argument is made that housing prices are too high. It eats into the income and makes the raising of a family even more difficult. Some of the flats are, furthermore, becoming smaller and smaller.*

A: The land is limited. As I said, it's linked with lifestyle changes rather than such factors. Singaporeans lived in much more crowded conditions previously and had more children.

Q: *You can build up to 50 storeys then.*

A: You've read Khaw Boon Wan. He's in charge. He says he will solve the problem over the next few years. But it doesn't mean building bigger flats. You say go high. But if you go high, you have more expensive lifts, higher maintenance cost, higher installation cost.

Q: *We have to find a way of bringing down the prices.*

A: No, I say we have to find a way to make families want more children. They will be happier in a bigger or less expensive flat, no doubt, but they will still have one child. The issue is one of lifestyle. Married couples are not replacing themselves now. They come close, but they don't hit 2.1. And with one in three women in their early 30s who are unmarried, you actually need the married couples to produce three babies, not two – to make up for the singles.

Q: *I think the large majority of unmarried people want to get married. It is just that they, for whatever reason, are not able to find the right partner.*

A: The "whatever reason" is that they have a comfortable life. They can support themselves and can afford to wait for the ideal man – preferably someone who is earning more than them. And he doesn't appear, and they remain unmarried.

Q: *There are some measures to subsidise in-vitro fertilisation now. Should we consider increasing the subsidies on this front, especially*

since more are getting married later and may need some help from the latest medical technology?

A: It is a dangerous course to take. You get all kinds of complications—a higher incidence of multiple births, and coupled with older mothers, a higher likelihood of premature births. There is also a balance that has to be struck. You don't want to encourage people to further delay marriage in the false belief that in-vitro fertilisation will solve the problem of having children.

Q: *Assuming Singapore society does change as a result of the migrants, what are the possible changes that might worry you?*

A: It depends on who the migrants are.

Q: *If a large number of the migrants are from China?*

A: Not only from China, but from different parts of China. So you will have a polyglot community. Yes, they will speak Mandarin, but they all have different backgrounds and they have to adjust to Singapore. But if they become the majority, they may change us.

Q: *Would it work if we discriminated in favour of people from the southern provinces of China, since most Singaporean Chinese are of southern origin? Some have observed that new immigrants from Fujian, for instance, tend to integrate better than Chinese from the north.*

A: No, we don't go by province. Assimilability, economic contributions and qualifications are some of our key considerations. In one generation, they will change. Their children become Singaporeans. We want the bright and the able, not because they are Hokkien or Cantonese.

Q: *The immigration solution also has implications on the racial mix.*

A: Yes, we are trying to maintain the balance of that mix because we feel that we have been able to accommodate each other, and if we have an influx of one group that alters the equation, we will have problems. In fact, that is one of the problems now because, numbers-wise, the Indians are catching up with the Malays – not if you count citizens only, but if you count the permanent residents as well because we have taken in these high-end IT people and there are four Indian schools here. It is causing some disquiet.

Q: *Will the Indians overtake the Malays?*

A: No, they won't. We will not allow that to happen.

THE ECONOMY

Singapore has a very open economy. From the moment we were separated from Malaysia, it was destined that, as a port city cut off from its natural hinterland, we had no way to develop other than to create very extensive links with the rest of the world. We have prospered from these connections, riding on the tremendous growth that took place globally after the Second World War. Today, according to the World Trade Organisation's figures, our trade to GDP ratio (416%) greatly exceeds those of our neighbours Malaysia (167%) and Indonesia (47%) as well as those of other Asian economies that pursued an export-oriented strategy early on in their modernisation efforts, such as Taiwan (135%), South Korea (107%) and Thailand (138%). Only Hong Kong (393%) has an economy that is as exposed as Singapore's – and only if you count the business they do with China as external trade.

Because of our dependence on these connections, we will always be very vulnerable to factors that are outside of our control – what happens in other parts of the world. We do our best to hedge our bets so we are never beholden to any single external force. But when a slowdown seizes major economies of the world, for example, it is unrealistic to expect Singapore to emerge unfazed. And so, if the developed economies of the West can grow at 2 to 3 per cent each year, and China at 7 to 8 per cent, then we are likely to do just fine, growing at an average rate of 2 to 4 per cent.

If there is turbulence in Southeast Asia, we will take a hit. Multinational corporations may consider the region as a whole unstable, and may pull out or withhold further investment. At present, the possibility of such an outcome remains thankfully dim. Malaysia looks calm. Indonesia has long forsaken the high rhetoric and aggressiveness of the Sukarno days. Myanmar is starting to open up. Thailand has always been a free market.

The region is quiet for now, and Singapore will profit if things remain that way.

The domestic situation also needs to be kept on an even keel. If Singapore returns to the 1950s, when the Chinese school students and workers had sit-ins and strikes and banners used to be hung all over the place as a constant reminder of the politicking and the divided nature of society, where would investments go? Why should they come here? Industrial relations today are relatively peaceful, as they have been for decades, thanks to the hard work of first-generation trade unionists like Devan Nair, who were committed not just to workers but to the community's well-being too. They sought to settle disputes quietly but effectively, without harming the country or disrupting essential services. For foreign firms, the industrial peace is one of the real attractions of coming to Singapore. To strengthen the tripartite system, we always have a trade unionist in the Cabinet. If the special understanding shared by the government, workers and management breaks down, Singapore will find itself in very dangerous waters.

Finally, we have to keep pace with the competition, always staying nimble and being quick to accept new realities. What those new realities would be in two or three decades, I cannot say. But we stand ourselves in good stead if we fortify the advantages that we have built up over the years: a well-educated workforce that speaks English as a first language and Chinese as a second language, the rule of law and respect for intellectual property rights, an eagerness to embrace the latest technology in every field, transparency and non-corruption in the government as well as general ease of doing business.

Unfortunately, as we continue to thrive, we will be confronted by a widening income gap. The problem is not peculiar to Singapore. In a globalised world, the nature of competition is such that the wages of those at the bottom get depressed and those at the top, who are mobile and much sought after, enjoy ever larger pay packets. But we are actually doing a lot better than our critics give us credit for. As well-known as Europe is for its welfare set-up, which European city has been able to house more than 80 per cent of its resident population in public housing, with the vast majority of that group owning their own homes?

I am not implying for a moment, of course, that we can afford to be complacent on the issue. The government has to address the income gap or

Singapore will not remain united as one people. The question is: How do we do it in a way that does not damage our overall competitiveness?

I am opposed to too much interference with the free market. This distorts incentives and creates inefficiencies that are much harder to root out later. The minimum wage is one example of that. A far better approach would be to allow the free market to run its course and achieve the most optimal outcome in terms of total economic output before having the government step in at the end of that process to tax the rich to give to the poor. Singapore is doing that to a certain extent. By far, the rich bear the much larger part of the tax burden – in personal income tax, goods and services tax, property tax and so on, raising revenue that is used to help the poor through goods and services tax rebates, utilities savings, HDB flat subsidies, Workfare pay-outs, just to name a few of the existing schemes that are redistributive in nature. But we have to be careful that we do not increase taxes too much or the rich who have the means to move out of Singapore would do so. We may be able to retain some of those from the older generation because they have already sunk roots here. But if you are young and talented and the world is beckoning, the temptation to leave would become irresistible.

Some argue that the influx of foreign workers over the past decade has widened the income gap by dampening potential wage increases for lower-skilled Singaporeans. I do not deny that this is true to a certain extent. The reality for Singapore, however, is that if we had prevented those workers from coming here, the small and medium enterprises sector, which accounts for nearly half of the country's GDP and 70 per cent of all employment, would have collapsed, with even greater consequences for low-income locals. Of course, we are reaching the limit in the number of foreign workers we can take, both because of discomfort among Singaporeans and in finding the space to house them, which is why the government has moved to cut back in the last few years. But the trade-off continues to hold true – too substantial a cutback would result in a significant economic slowdown. The fine balance we tread on this issue may not be fully appreciated by the wider population, which, understandably, tends to favour populist outcomes, but the government has a responsibility to remain watchful in managing the long-term health of the economy.

Q: *Is there any particular change in strategy we should consider when it comes to economic growth?*

A: A change in strategy might be to increase domestic consumption, but when you have such a small population, it makes no sense. China or India can boost domestic consumption. We can't.

Q: *Is there any scope in the future for spotting and nurturing certain industries like what we did for the life sciences?*

A: There could be. But you have to be fairly accurate and confident that that is a growth sector in which we can stay growing, and we have the talent pool to stay in that sector.

Q: *Were we fairly confident about the life sciences when we took the leap?*

A: No, I'm afraid we haven't quite made the leap. We have trained more PhDs to do R&D in life sciences, but it is a long way from building up good research to reaping economic dividends.

Q: *On the issue of making productivity gains, we lag behind many developed countries. In manufacturing and services, Singapore's productivity is only 55 to 65 per cent of that in Japan and the US.*

A: Because we have large numbers of migrants who do not fit into the workforce so easily and who do not speak English. Some hold work permits and do not stay for long – they leave within a few years, after developing skills.

Q: *Moving on to income inequality: Could more have been done to raise the wages of those at the bottom, despite the realities Singapore faces?*

A: The inequalities are there because at the lower end, there's an enormous supply of Chinese and Indian workers, not here but in China and India. So unless you are skilled, that gap will widen to your disadvantage. But you ask yourself how many small and medium-sized companies will pack up if we cut off the foreign workers?

Q: *But isn't it a chicken-and-egg situation? Precisely because it is so easy and cheap to hire foreigners, the SMEs continue to rely on them. If the tap were tightened, they would be forced to find new ways of operation. There will be some that will shut down, but maybe some level of churn is necessary so that the economy can go on to be more productive.*

A: You cut them off and you find the SMEs just caving in.

Q: *Would that be a bad thing, or could that just be a necessary transition?*

A: If our SMEs collapse, we will lose more than half of our economy.

Q: *In a way, that is what the government is now trying to do. They are trying to slow down the growth in the foreign labour force.*

A: Yes, because the Singapore public feels uncomfortable with so many of them. Not because of the economics. From an economic point of view, we should grow.

Q: *So how do you see this ending now that we have started to tighten the tap? Does it mean that we will lose half of our economy?*

A: As you bleed out the present workers on work permits, the economy will shrink. But we are keeping the same level and just slowing down the inputs of new workers. Not stopping them. You stop it, you are in trouble.

Q: *Our tax rate is now very low compared to many other developed countries. Is there scope for moving it up?*

A: If you raise it too much, you find your best people leaving. Already, we are losing them. Many of our best students go to America, they are headhunted by the big companies and don't come back. The people who are middle-aged and beyond will stay. They have no choice. Those who are still flexible, below middle-aged, will leave in larger numbers. And without top-quality Singaporeans, this place would not be the same. Without my generation, there would be no such present Singapore. It's Goh Keng Swee, S. Rajaratnam, Lim Kim San who helped build this place. In today's world, they would probably go to America and get a job with Microsoft and not come back.

Q: *But you and your generation decided to come back to Singapore after being educated at the best universities in the world. Is it not possible for a younger generation of Singaporeans to come back also if they feel a sense of home or purpose?*

A: My generation – we were not allowed to stay in America or Britain after graduation.

Q: *Could you not have stayed on as a lawyer in Britain?*

A: No. I wouldn't have made a living. I didn't do my chambers in Britain. I came back and started working here.

Q: *What about PM Lee Hsien Loong's generation? My point is, maybe the decision to come back is not merely one of economic opportunity.*

A: No, the only reason that will bring them back is their parents.

Q: *That's one big reason. But how about a sense of patriotism, or a sense of having something to contribute to the land?*

A: You're talking about a globalised world. The world is their oyster.

Q: *And maybe Singapore is a special part of the oyster?*

A: No. The world was not globalised then. It is now.

Q: *Did you follow the debate that was prompted by Professor Lim Chong Yah's comments on the need for another wage revolution?*

A: Lim Chong Yah is an academic. He was wanting to be provocative. Has he come out with a plan that says, "If you are really serious, you will do it, and you will do it in this way?" The prime minister and the ministers did not take him seriously. One minister replied to him and he admitted he was only kicking the ball for the others to follow – not that he will dribble with the ball to the goal post.

Q: *He can't dribble the ball – not from his position.*

A: No. If he has an ordered plan, he can put it out: Step 1, Step 2, Step 3, Step 4, Step 5, goal post reached.

Q: *As we become more of a knowledge economy, is it possible that we will increasingly subsist on ideas and genuinely innovative game-changers like Twitter and Facebook?*

A: No. How often can we produce a Bill Gates? We are 3 million Singaporeans. The Chinese are 1.3 billion and yet they are not as innovative as the Americans. India too. Why? America had high quality people migrating there beginning with the Pilgrim Fathers, then followed by other people at the top end.

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[1] In Singapore, some seats are grouped together into GRCs. Parties contesting these multi-seat wards put up a slate of candidates, which either wins or loses as a team. Before 2011, the PAP had lost single seats, but not GRCs.

7

MIDDLE EAST

A Spring without a Summer

MIDDLE
EAST

When the flurry of excitement over the so-called Arab Spring is finally over, the world will probably come to the stark realisation that nothing much has transformed the governance in that region. As dramatic as the changes look, and as sensational as newsmen have made them out to be, when we look back with broad lenses many decades from now, it is highly doubtful that any of them would prove to be part of a substantive and permanent shift towards popular rule in the region. It is far more likely that these democratic experiments will not last. Before long, I expect many of the countries that have taken exploratory lurches in the direction of one man, one vote to revert to one-man rule, or one-cabal rule. In other words, spring is followed by summer, autumn, then winter. Life just goes on – just as it has for millennia past.

The Middle East region lacks a history of counting heads and making decisions on that basis. There is no democratic tradition – whether in ancient Islamic times, in more recent colonial history, or in the post-colonial nationalistic era. When the British and French protectorates broke up into separate states, they all ended up with one-man rule – not by coincidence, but for deep cultural and sociological reasons.

One might argue, of course, that democracy, being a relatively novel phenomenon in human history, begins *somewhere* in every region, and that in many places, including a number of Asian countries, it has taken root – or at least appeared to do so – despite a similar absence of democratic tradition. But there is one key difference. On top of not having any prior experience in representative forms of politics, the Middle East also lacks vital social factors that form the foundation on which democracy must stand.

The first is a sense of equal citizenship. This is the idea that you and I, despite all our differences in wealth, social standing, achievement, physical and mental attributes, and so on, are on par at some level for no reason other than that we are both citizens of a particular nation. We possess the same rights and responsibilities that the nation accords to any individual belonging to it. We are legally equal, and morally so as well. This concept necessarily precedes the development of actual democratic practices and institutions. It has to gain acceptance not only in intellectual or progressive circles but throughout society.

What we see in many parts of the Middle East, however, are tribal or feudal systems. In Saudi Arabia, tribal leaders bring gifts to the king once a year. Like in ancient China, the king gives them more valuable gifts in return. The loyalty held by ordinary people is to the tribe – not to the nation, for no nation exists, and certainly not to fellow citizens. I spoke to an American diplomat some years back after he left his posting in Saudi Arabia and he agreed with this view. The Saudis have a feudal set-up, he said to me. The Libyans, similarly, do not have a united nation, but an amalgamation of tribes that is exacerbated by regionalism. In these tribal states, when one regime falls, there might be a significant recalibration in the rules governing how politics is organised – who gets to decide what and how – but democracy will not emerge because the basic unit in the polity is not the citizen but the tribe.

Observers have pointed out that some Arab states have become nations, in the more modern sense – most notably Egypt, Morocco and Tunisia. Even in these cases, however, there is a second and no less vital ingredient they lack which is necessary for democracy to mature and for the citizenry to accept the outcome not just of the first election after the revolution but all subsequent elections as well. This ingredient is what I call the wherewithal to make real economic progress.

The ability is missing simply because they have insisted on keeping women in the background. Arabic society in general is male-dominated. They have refused to allow women to be educated equally and to become as productive as men in society – precisely what is needed for the potential of these countries to be unlocked and for their economies to become modernised. They have resisted this, always finding some excuse or other. The problem is passed on from one generation to the next since less-educated women tend to bring up less-educated children, as mothers spend

much more time with their children than fathers do. A generation of well-educated mothers, by contrast, is bound to nurture a generation of young people with different attitudes and worldviews.

Even in the Middle Eastern countries where women attend universities in near-equal proportion to their male counterparts, they are prevented from reaching their full potential in many other ways. Often, they are denied entry into prestigious courses, such as the sciences, engineering or law, and are expected instead to take up more traditionally "female" occupations like teaching. Even when they do make it out of the educational system as equals, the labour force participation rate for women in many Middle Eastern countries trails that for men by a large margin for various reasons. Some have to endure discriminatory work practices ranging from unequal pay to sexual harassment. Others simply do not find it worth the trouble battling daily with inconveniences such as restrictions on women travelling in public alone or with a general social intolerance towards married women who do not stay at home to take charge of domestic affairs.

New democratic regimes cannot survive for long without delivering real economic progress. After all, what does democracy mean to the man in the street if it does not bring him tangible results? Little more, surely, than having to stand in a line from time to time, waiting to mark a piece of paper. Within one or two election cycles, there would inevitably be disillusionment with the system, followed by a reversion to some form of authoritarian rule. In Egypt, the Muslim Brotherhood – in power[1] for the first time – seems to understand the urgency of the task at hand and has sent delegations to other countries to learn what they can about development. It is a sign of their seriousness. But will they succeed? The changes that need to be wrought are too fundamental and the timeframe for bringing them about too short. In seeking to make sweeping reforms, they will also face significant obstacles in the form of elements brought over from the old regime. The civil service, for example, would be filled with former President Hosni Mubarak's appointees. They remain an integral part of the system simply because there is no way the system can function if it is completely dismantled and has to be built from scratch.

As the world becomes more globalised, the governments in the Middle East know they have to move with the times, however gradually. In Saudi Arabia, which has very Islamic social structures, women are still made to cover themselves fully in public and not allowed to drive cars. Many public

places are segregated. But even in this ancient society, things are changing. The King Abdullah University of Science and Technology (KAUST), for example, was set up in 2009 as a liberal enclave in a deeply conservative country. The university hired as president Professor Shih Choon Fong, who had been vice-chancellor of the National University of Singapore (NUS). Within the confines of the campus, men and women are treated equally and people live like they do in westernised societies. This is a step forward, but I do not expect the graduates of KAUST to change the country. You cannot change a feudal system with just a few bright and educated young men and women. You are dealing with a priesthood, the Wahhabis, the most powerful and most conservative group of clerics in the Arab world. Their power is entrenched by the symbiotic understanding they have with the royal family: the latter gets to deal with the fortunes of the country while the former is almost assured free rein over all religious matters. But having met King Abdullah, I believe the royal family in Saudi Arabia understands that it is not possible to keep the country frozen in a certain era. They will allow for evolution. Change is inevitable. But what the pace of change will be, I cannot say. Perhaps the social norms in KAUST will eventually be extended to whole neighbourhoods, then whole cities.

But for now, the long-term trajectory for the Middle East looks like one of volatility. After the present experimentation with voting and elections draws to a close, the problem of how to provide sustained growth and good jobs to some 350 million people remains. The irony is hard to miss. This is a region that is arguably unsurpassed in the richness of its natural resources. Yet many parts of the region remain mired in torpor.

The real challenge for the countries of this region is how they can make themselves relevant to the world when their finite energy resources run out. They need to transform oil-rich economies into economies that can sustain themselves in the long term, and they have to do this in a matter of decades. They will have to raise their game quickly and to find their competitive advantage in non-extractive industries, whether in banking, aviation, tourism, consumer products, or a mix of all of the above. One way they can do this is to send their top young talent to work in these industries in American and European cities, and then to have them return to build up similar capabilities in their home countries. Unfortunately, considerable oil wealth tends to breed populations that believe the world owes them a living. Their governments have the unenviable job of attempting to mobilise the

people and to rid them of this debilitating sense of reliance. They have to convince the people that oil wealth does not last forever, even if all the proceeds are kept in a special fund and invested carefully. This is a most difficult task.

Some years back, a Middle East country sent some of its students to study in Singapore, thinking that these students, coming from a new generation, could be changed. That did not happen. They were not here to absorb our culture or our work ethic. They were gallivanting. Singapore was a strange place to them. They thought to themselves, “Let’s have a good time and then go back.” Why should you work when you have such immense wealth lying right beneath your feet?

The Middle East is a beautiful place to visit, with a rich culture and a long and fascinating history. Some of the countries close to the south of Europe, such as Morocco and Tunisia, are sophisticated and less enclosed than the other Middle Eastern countries.

When I was in Iran on the invitation of Shah Mohammad Reza Pahlavi, before he was overthrown, I was put up in one of the Shah’s palaces. I still remember the carpets – they were so fine that if I owned them, I would probably put them up on the wall. But in the palace, you just walked on them. They have many weavers. When it was the Shah’s turn to come through Singapore, he gave then President Benjamin Sheares a big carpet and gave me a small one – both of the same pattern, made of silk. The one given to me is now in my son’s house. It is on the floor. But then they walk barefooted, and the floors are clean.

The country in the Middle East that I know best is Egypt. I stayed in one of King Farouk’s palaces when President Gamal Abdel Nasser Hussein invited me to visit. Nasser was a moderniser who lived a modest life, although he did not succeed in liberating his people. He built the Aswan dam with Russian help, which was a great achievement because it controlled floods and generated power. They flew me to the dam in one of his private aircraft and I stayed a few days – a completely dry and a very silent sort of place. I suppose if you go to the Gobi desert or the Grand Canyon, you may get the same feeling. The only difference is that when you leave the Gobi desert, you will find a bustling society alive and at work. And when you leave the Grand Canyon, you have the American dream being displayed before you.

Q: *You seem pessimistic about the Middle East. But what about Turkey as a model of a country that is Islamic and at the same time democratic and open to the world?*

A: No, I am not saying that Islamic countries are incapable of running a country. The Ottoman Empire was very successful and they were Islamists. Turkey is not really part of the Arab world. They are Turks. They were part of the Ottomans who considered themselves the conquerors of the Arabs. That they are doing better than the others is just because they are a better-educated lot.

Q: *Moving on to the Arab Spring and its geopolitical implications, there are some who believe that the Americans were too quick to abandon President Hosni Mubarak of Egypt, who had maintained close ties with the Americans. Those critics see the incident as yet another sign that the Americans cannot be relied upon as a friend or an ally.*

A: How could they save Mubarak? Could they send troops there? This was an internal revolt. They would be burning the American flag if the Americans tried to intervene. So it does not mean that because the Americans support you, you are safe. The exception is Taiwan, which China wants to reabsorb. The American Seventh Fleet is standing in the Straits of Taiwan, between the island and the Chinese continent. But even that will not last forever.

Q: *Would you say that America has, on balance, been a winner or a loser in the geopolitical sense as a result of the Arab Spring?*

A: I cannot say either way. American influence was anyway on the decline because the regimes they were supporting had their power

bases taken away. But the new strongmen may after a while need the billions in American subsidies to run the country, so they may come back. Aid is, after all, a very important part of their finances.

Q: *How, then, do you see the interplay of power turning out in that part of the world? Could the Middle East become – like Asia has – an arena of competition between the Chinese and the Americans?*

A: Who are the powers involved? The only local power that wants to and can dominate the region is Iran. The Chinese cannot go there – it is too far away. The Americans will find their flags being burned and their ambassadors being killed, which just happened in Libya.

Q: *So you see the United States losing its interest and its influence in the region?*

A: No, it will always have an interest because of the resources there. The Americans say they have found shale gas in their own country, and that they will become energy-independent. But many countries do not have shale gas, and oil will continue to be an important commodity. You need oil for aeroplanes, for ships, for most forms of transportation.

Q: *The Chinese must want a piece of the action.*

A: Yes, but they are too removed from the area. They will not be able to project their power there. They will go, invest and extract resources. This is what they have been doing in Africa. They are building conference halls and palaces to generate goodwill so that they can get more oil and other primary resources.

Q: *What would you say is a sustainable US policy in the Middle East?*

A: Just wait and see who is in power and make friends with him.

Q: *Even if they are the Islamist parties?*

A: After a while, yes.

The Israeli-Palestinian conflict is the biggest problem plaguing the Middle East. It is a running sore that is oozing pus all the time. To end the conflict, there has to be a two-state solution – one state for the Israelis and another for the Palestinians. The Palestinian state must also be economically and politically viable. Its people must feel that they have a reasonable chance of making a success out of their country – only then will they have a vested interest in keeping the peace in this troubled region.

Because of the pro-Israel policy the Jewish lobby has succeeded in forging for America, a hard-line stance is allowed to prevail in the Israel leadership. This can have adverse and irreversible effects on the peace process. By building settlements in the occupied territories, for example, Israel is slowly but surely annexing land that presumably would be handed over to the Palestinians in any potential deal between the two sides. Ultra-conservatives in Israel believe the settlements bring Israel closer to its rightful historical borders, as laid out in the Hebrew Bible. They believe recovering the land is ordained by God, no less. The settlements represent an unwelcome revision to an already complicated status quo. They are causing the prospects of any possible future deal to become ever more remote.

In the early days of the Zionist movement, it was the British who actively backed the Jewish cause. They supported the settlement of Jews in Palestine, with the view of eventually allowing them to form a Jewish state. The Balfour declaration of 1917 formally set out this position. It read: “His Majesty’s government view with favour the establishment in Palestine of a national home for the Jewish people, and will use their best endeavours to facilitate the achievement of this object…” Before the subsequent influx of Jews into Palestine, the number of Jews living in the area was not significant. After the trauma of the Holocaust which saw six million Jews killed, European sympathy for the Jews was at its highest, and government policies swung to their advantage. With the decline of Britain as a superpower, however, the Americans have come in to fill the vacuum, and

the state of Israel, formed in 1948, turned to America as its primary ally. America has continued to support Israel ever since.

With every passing day, a permanent resolution to the conflict becomes less likely. The United Nations has declared the Israeli settlements a violation of international law, describing them as a “creeping annexation”. The Israelis, however, know that such declarations are toothless unless they are endorsed by the Americans. If, for example, the Americans are willing to cut off financial aid to Israel – amounting to $115 billion since 1949 – as well as other forms of military and political support until the building of settlements stops, Israel will have no choice but to act. Without the Americans putting pressure on Israel, there is no end in sight for the conflict.

All of this is doing America no good in the long run. It erodes the superpower’s overall credibility and roils up the whole Arab world against the Americans. Their diplomatic goals in the region are more difficult to achieve as a result. The conflict also serves as an evergreen cause which jihadists can exploit as part of their propaganda efforts to attract young recruits. The cause is kept alive across the Middle East, as well as in other parts of Asia, through television images that play up Palestinian sufferings.

The Israeli-Palestinian conflict is at the centre of a complicated web of violence and unrest in the Middle East. It is like a cancer in the international system which, if removed, would pave the way for the resolution of many other problems. It would change the political climate of the region. Israeli-Palestinian peace is a necessary, though not sufficient, condition for a wider peace in the Middle East. If America can demonstrate greater neutrality and seriousness in seeking a two-state solution, the governments of many Arab states – especially the states with Sunni majorities – would be more prepared to support US policies in the region openly. This should be America’s top priority in the region.

One country that would prefer to jeopardise any such peace deal is Iran. The Iranian government has repeatedly affirmed its commitment to the destruction of the state of Israel. The predominantly Shi’ite country sees the Israeli-Palestinian conflict as necessary to its fight with Sunni Arab states to secure leadership of the Middle East – the Shi’ite-Sunni schism going back more than a millennium. Sunni Arab states are deeply suspicious of Iran because of the hold that Iran has on Shi’ite minorities living across the region. As former Egyptian President Hosni Mubarak once said: “Shi’ites

are almost always loyal to Iran and not the countries where they live." Saddam Hussein's Iraq had been an important counterweight to Iran in the region, but with that counterweight now gone, America is the major roadblock in Iran's bid to dominate the region.

Iran's ambitions stem at least in part from how it views itself – as a civilisation in its own right, quite separate from the Arab world. Iranians are very proud of their history. I was struck by an answer that an Iranian minister gave to a question put to him on a BBC programme some years back. He said: "There are really only two civilisations in Asia worth talking about – China and Persia." That is reflective of how Iranians think. They hanker after their glorious years of empire.

This geopolitical struggle has huge implications for world peace, since Iran appears to be keen on developing nuclear weapons and could conceivably trigger a nuclear war, or at the very least a nuclear arms race. If Iran obtains a nuclear bomb, Egypt would also want one – and they may well get one from Pakistan. That would lead to a very precarious position in the Middle East, with four nuclear powers – Egypt, Saudi Arabia, Israel and Iran. It would also increase the chances of nuclear material and capabilities being sold to countries in other parts of the world, or even non-state actors.

I am not convinced that Iran can be prevented by Israel from obtaining a nuclear weapon. The Americans can do the job, but only if they are prepared to launch a ground invasion, a virtual impossibility given that they have only recently extricated themselves from Iraq. That means a less stable world, with the frightening possibility of miscalculation. We could see the first use of nuclear weapons since the Second World War in this region.

Perhaps the only consoling thought is that if there ever is a nuclear exchange, the clouds might not reach us here in Southeast Asia. They will cover large parts of the Middle East and might reach Europe. We might get some droplets.

Q: *President Obama has said he wants to amend political donation laws to curb the power of lobby groups with a lot of cash. Could that change the dynamics somewhat?*

A: It won't happen. Even if he wanted to do it, he would find it very difficult to get it past the Senate and the House of Representatives.

Q: *Is it of consequence that European sympathy for the Palestinians is growing?*

A: What is sympathy worth? Every day, land is taken away from you. What is the sympathy doing about it?

Q: *On Iran and the nuclear bomb, you would not rule out the possibility that the Iranians, having obtained the bomb, would use it on Israel?*

A: I would not.

Q: *But there is another view – that an Iran with a bomb might actually be safer, more predictable to deal with, than an Iran without the bomb, and that if Iran crosses the nuclear threshold, it may not be such a bad thing for the region. What do you say to that?*

A: That is a comforting theory. But I would say the Iranians may not be in the same mindset as the Americans and the Russians. There, they make the calculation: I hit you, you hit me, I hit again, and you hit again. First strike, second strike, third strike, we are both wiped out and so is a large part of Europe. Have you got that kind of cool-headed thought processes between Israel, Iran and Egypt? That is the

basic question. We are talking about a system that produces suicide bombers who say, "Yes, I want to die and I want more of you to die." I think anything can happen.

Q: *That is one of the arguments Israel would use to justify early strikes against Iran – to prevent them from developing enriched uranium and from deepening their nuclear capabilities. Better to hit early and delay the bomb, they say.*

A: There is a lobby that is in favour of that, but that does not solve the problem. Can you eliminate the whole of Iran? Before long, they will develop a second bomb, and you will have to do a second strike. But this time it will be deep underground.

Q: *So you do not believe it is possible for Israel to stop Iran from developing a nuclear bomb?*

A: No. The knowledge is there.

Q: *What then is the best way forward on this problem?*

A: That is a question 2,000 Jews in America must answer. The best solution is to find a permanent resolution to the Israeli-Palestinian conflict. But it is today an unsolvable problem.

Beyond the implications for world peace, what happens in the Middle East also matters for businesses, including those in Singapore. Singapore companies are cautious by nature, but they are starting to make inroads in the Middle East. It is a new market for them and they are relative latecomers. They have been more comfortable doing business in other parts of Asia – China, India and Southeast Asia, where there is a clear competitive advantage for them. The culture, language and geographical proximity of the Middle East have made the region less of a natural choice. But they are finding their way around, partly by working with Arabic-speaking Indians. It may also be useful to try to revive the Arabic language among Singaporean Arabs. The Middle East is an up-and-coming market and one that Singapore should not miss out on. Better late than never.

In many emerging markets, you have to put in money and work at your investment for years before you start to see returns. Compared to these markets, the Middle East is attractive because it is flush with cash and the returns could potentially come faster. The difficulty is in finding the right opportunities that are a good match with your expertise and capabilities, as well as having the connections to be able to pull off the deal. Singapore companies are making headway in the smaller Middle Eastern states, such as Qatar and Abu Dhabi, which have clearer hierarchies. Saudi Arabia is harder for newcomers to navigate because of the complex structures consisting of hundreds of princes and princesses. Even then, when the Saudis wanted to develop King Abdullah Economic City, a 168 million square metre metropolis, they invited us to partner them in the planning stage and to get involved in projects in the finance industry. They had visited Singapore quietly over the years, often unannounced, and were impressed by what we had built here – a clean, safe and efficient city.

But the Middle East is also a competitor in the international arena. Dubai especially is proving intense competition for Singapore in such industries as aviation, tourism, finance and conventions. Under the leadership of Sheikh Mohammed Rashid Al-Maktoum, the city has transformed itself. It is clear that the United Arab Emirates are prepared to spend a great deal of money

developing the city into a hub that will rival what we are trying to do in Singapore.

Their airlines have been known to intentionally price their tickets slightly cheaper than Singapore Airlines (SIA). Amid the financial crisis, Emirates Airlines ordered 32 Airbus A380s in a demonstration of how cash-rich it was. When all their orders are delivered, Emirates looks set to have over 90 A380s on its fleet. SIA, by comparison, has just 19 A380s at present and five more on order.

When a deal was up for tender to develop the London ports, Dubai again outbid Singapore. We did our sums and stopped increasing the stakes after a certain point. They showed a greater willingness to take on risk in order to win the bid. But we decided that the world was big enough and that there were other opportunities for us to explore.

Markets like the Middle East and Russia are of strategic importance to Singapore. Being so exposed to the world, we must make it a point to spread out our bets to ensure a regular stream of profits. By investing in both oil-rich and oil-poor economies, we insure ourselves against the cyclical nature of international markets.

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[1] President Mohamed Morsi was removed from power by the Egyptian military on 3 July 2013.

8

GLOBAL ECONOMY

What next?

GLOBAL
ECONOMY

The capitalist system is not fundamentally defective. Despite the growing rhetoric in some quarters, it does not need to be overturned or rebuilt.

Given the intensity with which the global financial crisis of 2008 hit the world economy, it is not surprising that we have seen in its aftermath deep contemplation about its causes and what the world needs to do to avoid another such situation. After emerging from a catastrophe, some level of reflection is natural and understandable.

However, we should not overreact. There is a tendency for people to assign too much weight to events that occurred recently, especially if they were shocking or emotionally very distressing, such as the 2008 crisis. To reject the capitalist system due to what happened then or to propose that we henceforth impose stringent controls on the free market are examples of wrong-headed, even dangerous, conclusions. We would be throwing out the baby with the bathwater.

The vagaries of capitalism are not unfamiliar to us. They have been well-documented from the time of Karl Marx. We accept its tendency, given the nature of business cycles, to go to excess because the benefits greatly outweigh the costs. The alternative to it is the straitjacket – as socialist systems have learned quite dramatically, over the past century, and, to a certain extent, social democracies as well.

Our experience during the global financial crisis of 2008 was not a substantial deviation from our earlier understanding of the free market. There was a build-up of imbalances in the sub-prime mortgage market. America suffered a setback, sending shockwaves through Europe and Asia, because of the interconnectedness of the global economy. But America has bounced back, and the world economy has recovered along with it. The crisis has exposed underlying problems in Europe, which will take longer to

recover. Those problems are related to the continent's currency union and social spending and have nothing to do with capitalism. In the long run, the world is better off and will grow much more quickly under capitalism because the free market is the most efficient way of organising the productive forces in any society, as history has clearly proven.

One key factor that deepened and lengthened the financial and economic crisis for America had nothing to do with the market: mounting public debt. Because government debt had been allowed to build up steadily over the years, there was a loss of confidence in the market after the crisis. This negligent, even cavalier, attitude towards public debt and spending was a failure of political leadership, not a failure of the free market.

"Too big to fail" is another criticism levelled at the capitalist system as we know it. Can big corporations, especially banks, really hold their host countries hostage because governments are afraid their collapse will have wider repercussions on the economy? Critics say this induces moral hazard – the taking on of unacceptable risk by these large firms because they know failure would be underwritten by the taxpayer, while success would rake in enormous profits.

Although there might be some truth in this line of criticism, the financial crisis of 2008 demonstrated that no company is too big to fail. Lehman Brothers was allowed to fail, despite being the fourth largest investment bank in the United States at the time. There is a federal deposit insurance over funds in individual accounts, but no blanket assurance that all banks will be saved.

Would a bigger bank with a more important role in the financial system have been allowed to close shop? What if it had not been Lehman Brothers in distress, but, say, Citibank? I am not convinced that any bank – even Citibank – has a blank cheque to take unlimited risk. Whether a bank like Citibank gets government help depends on how deep a hole it has dug for itself, whether other banks are in a healthy state, as well as the political climate of the time. The uncertainty over whether the stars will line up in favour of a bank rescue is probably significant enough for bank managers to act responsibly in most cases.

That is not to say that the government has no role to play whatsoever. From time to time, human greed gets the better of corporate bosses, prompting them to skew the system in their favour. The challenge for governments is in identifying instances of that happening and taking

decisive action against it. Its role is to level the playing field as much as possible so that free competition is also fair competition. The scandal surrounding the fixing of the London Interbank Offered Rate, better known as Libor, is one relatively recent example. It involved attempts by banks to manipulate interest rates, compromising the integrity of the banking system to the detriment of other market participants. The chairman and chief executive of Barclays Bank were forced to resign, and the bank was fined hundreds of millions of dollars in America and Britain. This case demonstrates clearly that governments and regulatory authorities cannot afford to let their guard down or to assume that corporate executives will behave ethically when nobody is looking and when huge profits are at stake.

Many governments have also been reviewing the regulation of commercial and investment banking after the financial crisis. On this issue, I agree in principle with the former chairman of America’s Federal Reserve Paul Volcker, a very perceptive and experienced man on financial and banking matters: that if we were to draw a line between regular commercial banking and the more speculative and dangerous forms of investment banking, we would have a safer banking system. This has come to be known as the Volcker Rule. In practice, however, it is extremely difficult to implement the rule. Banks would probably move their operations to other countries, and money would flow from countries with the Volcker Rule to countries that do not have it. Britain, for instance, would certainly want to keep regulation on their banks light, given the country’s high dependence on London as a financial centre. Would other countries want to dampen their competitiveness vis-à-vis Britain? I doubt it.

When it comes to stabilising the economic system as a whole, however, government intervention can be both desirable and feasible. The Americans tried to stave off recessionary pressures by pumping liquidity into their economy – essentially, printing dollars. A looser monetary policy has been the standard way to fight downturns, although more non-conventional approaches are used this time, and the size of the latest American monetary infusion has been large by historical standards.

Not everyone, however, favours this approach. Critics who subscribe to the views of the Austrian economist Friedrich Hayek believe such policies prevent fat in the economy from being trimmed, prolongs the life of inept companies and industries, and ultimately do nothing more than kick the can

down the road. Natural adjustments to the economy must come eventually, they say, and blocking that through quantitative easing at best prolongs the necessary adjustment process and at worst builds inefficiencies into the system that will ultimately result in long-term sluggishness, if not a bigger recession later on.

I believe having supportive policies, monetary or Keynesian, to deal with crises is the lesser of two evils. Many countries tried the Hayekian approach of basically doing nothing during the Great Depression – with disastrous consequences. Thanks to the highly integrated global trade system we have in this day and age, the risk of a worldwide tightening with knock-on effects for every continent was a terrifying prospect for all. Nobody, therefore, wanted America to experience a hard landing.

The US is able to carry out quantitative easing because its dollar happens to be the world's reserve currency. They are allowed to run a deficit for a long time with very few consequences. If other countries were to do that, they run the risk of capital outflow and exchange rate collapse. The cost is low to the Americans because some of what it would have cost a regular country has been transferred to the rest of the world. The Americans can borrow at more favourable interest rates because of a greater willingness by people elsewhere to hold cash reserves and assets in US dollars. That is the advantage of being the reserve currency.

The British used to enjoy the same benefits because the pound was once the currency with which international trade was settled. They have lost that status. Perhaps the Americans will one day lose the status too. I find that difficult to imagine, but it is possible. For now, there is no alternative to the US dollar as the world's reserve currency. The euro is still in peril and the Chinese yuan is not ready.

I do not believe the Chinese are out to displace the Americans. They have larger considerations. If you open your capital account, it means you allow free flow of money. That makes the country vulnerable to, say, a sudden rush in or a sudden exodus that could destabilise the economy. The American system is mature enough to withstand that. I am not sure the Chinese will want to take such a risk. What for? They are growing quite well without being the reserve currency. The advantages are not great enough to justify such a risky move. I would not do it if I were them.

The French economist, Jacques Rueff, had been a strong proponent of moving back to the gold standard because he could see the unfairness of a

system based on the US dollar. The Americans refused to cooperate, saying: "You either take my dollar as it is, or reject it as you wish." Because America remains the strongest economy, people accept it. An assurance that the present set of arrangements will persist for the foreseeable future also infuses stability and certainty into the international trading system. Any change in reserve currency will probably be marked by at least a brief period of confusion, even if – and this is a big if – the question is settled amicably among the leaders of all the major economies.

For now, the bigger short-term threat to the health of the global economy is a clampdown on free trade. We will always be just one protectionist wave away from a slowdown. We must never forget that the Great Depression of the 1930s was worsened by the isolationist tendencies among several countries. If America's politicians, for example, decide, perhaps out of electoral calculations, to impose a prohibitive tax on the Chinese for selling their goods under cost price, there will be some form of retaliation. Once you go down that route, it would not be long before other trading partners, including Europe and Japan, find themselves pulled into the conflict and having to consider similar measures. Then the whole trade system goes down by several degrees. The world will end up poorer overall. In many cases, it is the poor countries that will be hardest hit. Starting from lower bases, they stand to gain a lot more from trade, proportionally.

Free trade agreements are the way forward. As long as countries can come to agreement, these deals invariably benefit all signatories. The Doha Round of trade talks would have been a great boon for all countries, including Singapore, if they had ended in agreement. Unfortunately, the talks bore no fruit for more than a decade since they started, with agricultural subsidies proving the greatest obstacle to progress. Political will to grant the concessions necessary to make Doha a success is lacking. Some American workers have suffered from offshoring, and the politicians have found it difficult to make a case to them that more adjustments would be beneficial. Of course, if the American companies do not offshore, the Germans, French, British and Japanese will, placing them at a disadvantage.

In the meantime, most countries have, quite understandably, been busy working towards bilateral free trade agreements – the second prize, but a prize nonetheless. To date, Singapore has signed 19 regional and bilateral FTAs, including FTAs with major economies such as the United States, China, Japan, India and Australia. As it turned out, these FTAs have been

drivers of trade liberalisation in light of the Doha impasse. Our strategy paid off.

The Trans-Pacific Partnership (TPP), a high quality trade agreement among countries surrounding the Pacific Ocean, is also a welcome development. If the 12 countries presently engaged in talks can seriously commit to opening up their domestic markets, the agreement will help bring trade to the next level, deepening benefits to tens of thousands of companies and hundreds of millions of consumers. With the Americans agreeing to participate, the TPP will certainly be a worthwhile proposition for all countries involved.

Q: *Would it be accurate to say that you accept what happened during the global financial crisis as part and parcel of the way the capitalist system works?*

A: It is part and parcel of the way the American capitalist system works. The European capitalist system works differently because they have got their social economy – more social security and therefore less dynamism all around. The British have free healthcare. The best of them are the Germans, but even they have a lot of weight to carry in health and unemployment benefits and so on. I do not think the Europeans are as competitive as the Americans. So the system goes to excess, something goes wrong, and then it recovers. The alternative is that it does not go to excess, but it lacks that competitive edge.

Q: *But there are economists now who are asking questions about the capitalist set-up as a whole. It appears to some that business cycles are shortening and recessions are deepening, pointing to the possibility that the system is in need of fundamental reform. The American economy did not fully recover for five years after 2007 – making it one of the longest downturns in recent times.*

A: I am not able to say what the American system should do. But I do not believe the majority of Americans would support the kind of welfare state the British have. That is the alternative. You are unsuccessful. I give you homes, I give you free medical services, you pay very few fees to go to university. That has not produced scintillating results for the British. But they cannot get out of it now.

Q: *Given that the US dollar is likely to be the world's reserve currency for the foreseeable future, unchallenged in this respect by the Chinese yuan, what should Singapore's strategy be in investing our reserves?*

A: I will keep our reserves in US dollars. And if the demand for resources remains high, I will keep part of it in the Australian dollar. So long as the Chinese require enormous quantities of resources – iron, coal and others – to keep their economy going, it will push up the Australian dollar, because the Australians have got wide open spaces, lots of resources and a small population. What other countries have got resources that China will require? Brazil, a major producer of soya beans. The Chinese require so much soya beans that they have gone to Brazil. Because the Brazilians do not have a Pacific coast, they have made arrangements to go through Colombia and export to China, rather than go via the Panama Canal. The largest consumer of resources for the next few decades will be China because it is growing. It has a huge population and income per capita is still very low. It has to buy these resources because it has not got them all. It has huge vacant lands in Xinjiang and Tibet, but much of that land is barren.

Q: *Moving on to the regulation of the movement of money in and out of the country: What is your view on this subject?*

A: As a small country, the fewer regulations there are, the better off we will be. But at the same time, we must maintain a high level of reserves in case the likes of George Soros attack our currency. He has not attacked it, but perhaps that is because he knows we have got too much reserves and that he may lose the battle.

Q: *Why would a freer system work in favour of a small country? Is there not a danger that, being small, we might be overwhelmed by massive inflows of capital?*

A: Massive inflows will not overwhelm. When people invest in our companies and our new building estates, it is a sign of confidence.

Q: *What about the risk of an asset bubble?*

A: They stand to lose if they go too far, especially if too many of them are not buying property to stay in it but to make capital gains.

Q: *So you are saying there will be a self-correcting mechanism?*

A: In the long run, yes. Although there could be glitches.

Q: *Will that not be terribly destabilising in the short run, from a political perspective?*

A: For us the choice is either we go global or we stay isolated. We are not China. China can stay isolated because of its huge domestic base. We cannot. Our GDP per capita was US$500 in 1965. Today it is about US$52,000. We would not have reached that figure in five decades if we had not opened our doors. If we cut ourselves off from the international economy, we will shrink.

Q: *In the case of Malaysia, then prime minister Mahathir Mohamad instituted capital controls during the Asian financial crisis of 1997. It was a controversial decision at the time, but there are scholars looking back now and saying it may have been a necessary decision to stabilise the system.*

A: I do not want to get into an argument with the Malaysians over whether or not they made the right decision. We kept our financial system open and our managed float exchange rate regime intact. We

have gained. Each country has to decide, based on its own set of circumstances, whether free movement of capital and investments in and out of the country is good for them. In some countries with less mature financial and banking systems, it may cause problems. In our case, we believe it is good for us. In view of its less-developed financial system, China has decided that it is premature to allow free capital mobility, because it believes it will be destabilising for its economy. Although the Chinese have done well, over the longer-term there is a price they have to pay for stability, which is the inability to take full advantage of their economic potential, because once you close your capital account and allow inflows and outflows to happen only on approval, you dampen activity. Fewer investments are coming in.

Q: *There is a concern here that hot money flowing into properties might price Singaporeans out of the market.*

A: We either have our borders open or we close them. Who is to say the properties bought by foreigners are overpriced or underpriced in five to 10 years? We leave it to the market to decide. They invest believing that it is a safe haven, but there are risks. If something happens, the value goes down. Properties are not liquid. You cannot cash in and cash out in an instant. Money in banks is liquid. You can tap the computer key and say: "Transfer my money into pounds or euro." But you cannot do that with property. In any case, we have made rules so landed properties are not open to purchases by non-citizens, without prior approval. We have also imposed a higher rate of Additional Buyers' Stamp Duty for purchases by non-citizens.

Q: *It used to be argued that property prices should not be allowed to run too far ahead of salary increases, otherwise your average worker would not be able to afford those properties. That is true if the market consists primarily of the domestic population. But when you open up the property market to foreigners, you are delinking*

property prices from wages, with the former possibly going up a lot more than the latter. Is there not danger when that happens?

A: But Singaporeans have also made great gains from their properties. If they believe their property is overpriced and that prices will eventually go down, the option of cashing out is available to them. You can sell your house, rent in the interim and wait for prices to fall. If you believe prices are going to stay up, then you hold on to it. It is ultimately a question of confidence in a particular country or in the political system that it is run on.

Q: *But you can only unload if you already own property. The local new homebuyers have no such option. [Note: "unload" means selling off a property to cash out; "local new homebuyers" refer to Singaporeans who do not already own a property.]*

A: For Singaporeans who do not yet own property, they can buy HDB flats at subsidised prices, if they meet HDB's eligibility criteria.

The centre of gravity of the world economy has shifted decisively from the Atlantic Ocean to the Pacific Ocean. The latter is today the arena of the greatest trade network in the world. It wasn’t such a long time ago when Adolf Hitler’s Germany was the dominant world power, both politically and in industrial terms. But they were defeated in war and the Americans became pre-eminent for many decades. In 30 years’ time, the biggest economy will probably be China. Europe combined may be second, but Europe uncombined will be 27 economies which cannot control their own destinies. By then, China and America will be the economic powerhouses whose decisions will matter most. They will be closely watched for the ripples they are likely to cause far and wide.

On the Asian side of the Pacific, even though growth will be robust, it will be many decades before consumption comes close to the levels seen in the United States. There are cultural reasons for this. The Chinese have lived through natural disasters, wars and great uncertainty, when the individual or the family had to be self-reliant, falling back on whatever had been saved up during the good times. It will not be easy to convince them to become free spenders. Singapore, similarly, has set aside large reserves because of a cultural affinity towards staying prepared for rainy days.

Nevertheless, Asia will be a major engine providing much of the momentum for GDP growth worldwide, even if a relatively large share of what is earned by the Asian worker will continue to be set aside for future generations. We should increasingly expect to see stock markets rise and fall less on the central bank pronouncements or economic data releases of America and Europe and more on those of China, India, Japan and South Korea. China’s buoyant economic performance, driven by a growing domestic market, was widely credited with aiding Asia in achieving a speedy recovery after the downturn of 2008 and 2009 – a harbinger of things to come. Asia will not necessarily be decoupled from the US economy in a jiffy. A large share of Asian exports is still bound for America’s shores. But the relationship will evolve into a much more

balanced one, with greater confidence among Asian governments that they can generate decent growth rates even when America is not booming.

Even as the shift towards the Pacific takes place, technological advances in communications and transportation will continue to change the nature of the world and the way we live and work. We now have instant communication with anyone, anywhere in the world. Through the Internet, you do not have to be somebody of means to be able to keep yourself fully updated with accurate and deep knowledge of what is going on in other parts of the world.

When I was a child in the 1920s, it took me one hour on a bullock cart to travel from Bedok, in the eastern part of Singapore, to my grandfather's rubber estate in Chai Chee, just two miles away. In the 1930s, as a student, I used to wait for ships to come in on Thursdays or Fridays. They would have been sailing for five or six weeks from England, bringing periodicals for boys which I would devour. It took me three weeks to go to London for my university studies on board the *Britannic*, a Trans-Atlantic liner that was carrying troops back from the Far East to Britain. Once in Britain, the fastest and most cost-effective way for me to communicate with my family was via air letters, which cost 50 Singapore cents or 1 British shilling. These were thin sheets of blue paper that folded up at the ends. One could write on both sides of the paper.

Today, a flight between London and Singapore takes 12 hours, not the four to five days it took a seaplane in the early 1950s, which would land in Cairo, Karachi and Colombo, before reaching Singapore. But for a sonic boom objected to by countries whose land they fly over, it could be a six-hour flight. For a time, the Concorde jet aircraft was able to get passengers from London to Singapore for lunch and back to London for dinner. It was supersonic. No civilian aircraft today exceeds the speed of sound. Nevertheless, the advances have brought profound change. We can move from place to place today with relative speed, ease and safety. Air letters sent in the morning can be read by loved ones at night. But few even bother. It is easier to send email or phone messages, which travel at the speed of light. Even in Africa, farmers are using iPhones to receive the latest information on the trading prices of maize.

With the technological advances, everybody today knows how everybody else lives. The poorest in Asia and Africa are keenly aware of just how poor they are compared to the Americans, Europeans as well as well-to-do

Asians and Africans. This has encouraged legal and illegal migrants to try to cross national boundaries to get better jobs and living conditions in the countries that are wealthier and offer them more economic opportunities. The flow of these migrants is relentless, with professional middlemen helping to sneak them through by ingenious means. Sometimes, these backfire with tragic consequences – migrants packed in a container may die of suffocation, for example. The desire to move is strong. It is like water that naturally flows to the lowest valleys, where everything is greener and more fertile. It will pose a huge challenge to the future of inter-state boundaries.

All these changes extend unprecedented opportunities to emerging economies, especially those in Asia. Countries that organise themselves well – through market-friendly policies, education, hard work and the rule of law – can grow very quickly thanks to the opportunities available to them in a globalised world. On the other hand, the dizzying pace at which everything moves today is not without its negative aspects.

Our first real encounter with globalisation's frightening ability to seriously harm nations was during the Asian financial crisis of 1997. The trigger was the unsustainable exchange rate regime maintained by Thailand and – to a lesser extent – by Indonesia and South Korea. Thailand borrowed short in dollars and other currencies and invested long – in plants and properties, among other things. When it became apparent to the markets that Thailand's export earnings were not sufficient to meet its repayment obligations, a run on the Thai baht by investors and speculators began. The Bank of Thailand made a valiant attempt to fight the markets, but soon found its reserves lacking.

When the Thais appealed for help, the United States did not respond decisively. This was a mistake, as it sent a signal to the markets that the Americans were not willing to stake their prestige or clout to suppress the crisis. It precipitated the credit crunch. The crisis spread to other Asian countries in a matter of days and many central banks, including Singapore's, found their currencies under attack. International money managers grouped the Asian economies under the same category – "emerging" – and even the countries with good fundamentals were shaken.

One of the lessons learned by Asian countries in that crisis was that the liberalisation of capital should not be done hastily, especially if the financial system is still fragile or if supervision by the central bank is still inadequate.

Opening up to the world should happen only after a certain level of maturity and robustness had been attained. Also, upon opening up, you need to back your currency with reserves. In the global financial crisis of 2008, Asian countries managed to emerge relatively unscathed because the scares of 1997 had taught them well, prompting them to place special emphasis on the need for strong fundamentals, including substantial reserves, limited indebtedness and healthy banks.

Another downside of globalisation is the tendency for inequality to breed. The most talented individuals are mobile and can make a good living in many parts of the world. The drive to pay these individuals very high salaries therefore becomes impossible for companies to resist if they want to retain them. Conversely, those working in low-skill, poor-paying jobs find themselves competing with hordes of hungry workers in China, India and other emerging economies, often willing to work at a fraction of their pay. Wages in this segment of the economy naturally become depressed. Some even fall out of their jobs because of outsourcing.

These forces pose very serious challenges to national governments.

While tackling inequality is important, there has to first be a recognition that some inequality is always going to be an inevitable part of globalised capitalism. There will be disparities, partly because there are disparities in human intellect, in effort, and in pure luck, and partly because of the cross-border nature of competition today. If you want smaller differences, you have to switch to socialism or try to wall your society off from the rest of the world – neither of which will result in a happy outcome. Enormous executive pay packets and Christmas bonuses seem grossly unfair. But without the spectacular brilliance that these executives show, would the companies have made the money for them to be paid that sum? If they would, or if there is an equally good man willing to do the job for less, the shareholders can always turn up and vote down the pay package. But if the shareholders find that their shares have gone up, why should they take action?

At the same time, society has to maintain a sense of proportion. Pure, unbridled capitalism is dangerous because it would lead to riots and a breakdown in the social compact. A fine balance has to be treaded. Ways must be found to make sure even those at the bottom can maintain a decent standard of living and feel a sense of belonging to their community.

When I was chairman of the Government of Singapore Investment Corporation (GIC), there were investment managers in the organisation who were paid five times what I was paid. Is that reasonable? If we did not pay him that salary, he could quite easily quit the next day and find an investment bank that would do so – because he had the intellect and the skill to justify it. Supposing I say to myself: “Okay, if he is getting that amount, I should be making much more than he is, because I settled the whole system.” There would be no end to it. In order for society to stay cohesive, we have to make sure there is some sense of equity and fairness. Singapore has done this by providing the less well-off with utilities savings, income supplements – what we call Workfare – and subsidies when they buy public housing, among other things.

There is no going back to the way the world was in the past. We cannot dis-invent the aeroplane, the Internet, the iPhone and iPads. You accept the world as it is, and find the best way of maximising your fortunes as a society, or you are left behind by the relentless pace of change found everywhere else. The world cannot possibly stop spinning for your sake.

Q: *With the shift in economic activity towards Asia, could you, in 30 years' time, conceive of a Chinese head of the International Monetary Fund or the World Bank?*

A: It is possible, but the Chinese are not pressing for it. They are growing confidently and swiftly under the present system. It is no disadvantage to them that there is a French woman at the head of the IMF, or an American at the World Bank.

Q: *If they do press for it, what do you think the response from the West will be?*

A: By that time, China will be in a strong credit position vis-à-vis the Western powers. They will be debtor countries and I do not think they will have the strength to block China.

Q: *Might the Chinese one day tire of investing their reserves in US dollars and making less than normal returns?*

A: Maybe. They may gradually divest, perhaps on the quiet. But I do not see them attempting to replace the US dollar.

Q: *You flagged inequality as one of the problems brought on by globalisation. Should more be done to tackle this?*

A: Within an economy, each country has got to rebalance the rewards between the top and the bottom by way of taxation and subsidies, to keep society together. But across countries, it is a bit more complicated. You must have a world government, with all countries

agreeing to hand over some of their surpluses to a world treasury or central bank to support the poorer countries. That will not happen, of course. The Chinese with the huge reserves they gathered will not say, “They were poor like we were, now we help them.” They have worked hard to get to this point. As it is, questions are being asked about aid flowing to poorer countries with ineffective and even corrupt governments, because the money is often not being used on ground projects to improve lives but to line the pockets of politicians.

Q: *But as an ideal, do you believe it is laudable for countries to help each other out in this way?*

A: As an ideal for Singapore? Our income per capita will probably fall from US$52,000 to US$30,000. Why should we do that? Why should we subsidise other countries? Surely the Singapore electorate will vote out the government.

Q: *But for the stability of the region and the world?*

A: No. We have to take care of our own problems first. Stability is provided for by a strong military, to ensure that we are left alone. Otherwise, there is nothing to prevent hordes of people marching across the Causeway. In the two years when we were part of Malaysia, the whole railway track was filled up by squatters from Malaysia. They built shanty huts because it is an urban area and facilities are good. So, when we broke off, we cleared the Malaysians out. It is not our burden.

9

ENERGY & CLIMATE CHANGE

Preparing for the worst

ENERGY & CLIMATE CHANGE

I am persuaded that the earth is gradually warming up because of human activity. This appears to be the broad consensus among the scientists who have studied the problem.

There are dissenting perspectives, including one arguing that the rise in temperatures may be part of a normal cycle that the earth goes through from time to time in its 4.5-billion-year history and would therefore be unconnected to mankind’s carbon emissions. If that were true, we ought to do nothing but sit and wait for the temperatures to come down again as we move along the cycle. But on balance, I believe there is strong evidence to suggest that there is nothing “normal” about what we are experiencing today. The heating up is happening far too rapidly. Ice caps are melting away before our very eyes. The Northwest Passage along the coastline of Canada, Alaska and Russia, previously blocked by ice, is now being opened up for sea travel during the summer months. This has never happened before.

Global warming and climate change threaten human survival. This calls for governments to act together to cut total emissions significantly. Unfortunately, it is very unlikely that this will happen. In 2009, the United Nations Climate Change Conference in Copenhagen ended without a binding agreement, despite the gathering of the leaders of all the important players. Subsequent conferences have not achieved spectacular results, nor would I hold my breath for future ones to do so.

At the heart of the issue is the perceived unavoidable trade-off between cutting emissions and growing the economy. When a government comes to the negotiating table, it knows it cannot move too far ahead of its domestic population when it makes concessions. If the pain inflicted on incomes and jobs is too much to take, it risks getting booted out of office.

Some societies are more worried than others about the effects of global warming and are more willing to pay a price for being green. The Europeans tend to fall into this category. I lived in Britain for four years immediately after the Second World War. It had a relatively equable and predictable climate, as was the case on Continental Europe. But that has changed. From the Mediterranean to Scandinavia, people who had been used to relatively moderate climates are now being confronted by floods, storms, strong winds and heat waves causing death and destruction of property. The Europeans have therefore developed a greater sense of urgency in tackling the problem.

The Americans have traditionally been less intimidated by bad weather. They have always had tornadoes and hurricanes, even if these have increased in recent years. It is no big deal to them: you declare it a disaster area, federal resources are brought to bear, the insurance companies pay up and you buy a new home. America's ratification continues to be conspicuously absent from the Kyoto Protocol. President Barack Obama has declared that climate change is a priority but his administration is not pushing for comprehensive climate change legislation. Nevertheless, I sense the Americans starting to come around slowly. It will take a long time for them to reach the European position, but they are moving in that direction gradually. The shale gas revolution in the US is encouraging a shift away from coal, which is the dirtiest fossil fuel. The Americans are one of the biggest consumers of energy in the world and that places a certain weight of expectation on their shoulders. They have to show the way.

The Chinese, the Indians and the other emerging economies have put forward the defence that the carbon emissions they are responsible for is actually low compared to the industrialised nations when measured on a per capita, rather than a per country basis. They are also hungrier for growth, and point out that it is somewhat disingenuous for the wealthier countries, having arrived at their present levels of development through environmentally unfriendly means, to now seek to impose onerous emissions targets on those seeking to catch up with them. Much of the pollution up until the present time has been accumulated through the activities of the developed countries, not the developing countries, they point out. Given these positions, I am not hopeful that the issue can be resolved.

To make matters worse, the total population of the world continues to climb steadily. It exceeded 7 billion in 2012, and is expected to hit 9 billion by 2050. While it may be true that technological advances can improve our capacity for food production and our ability to house more people in compact spaces, at some point we will surely reach a limit. The earth can only hold so many people without serious damage to our habitat and to biodiversity. How do we put a stop to the relentless growth? The key, in my view, lies in educating women – which causes them to want fewer children. The sooner we are able to do this, the sooner we will have a less populated world.

What is to be done in the meantime?

First, it may be wiser for countries to devote time and energy to bracing themselves for the human catastrophe that would probably hit us in a matter of decades, instead of getting others to cut emissions. Are there plans in place to deal with a rise in sea levels, more extreme weather, scarcer food and water, and other problems? If the glaciers of Central Asia and China melt, for example, cities living downstream may first experience floods, then droughts as the water supply falls when there is no more ice to melt. River basins will no longer be able to support as many people.

Furthermore, as sea levels rise, people living in low-lying areas will have no choice but to move. A one-metre rise could displace as many as 145 million people worldwide and contaminate drinking water for millions more, according to one study. Large swathes of land – indeed, entire cities – may be submerged under water. Livelihoods will be at stake, since in many cases, moving to higher terrain will involve forsaking alluvial soil that people need for farming.

Richer countries will find ways of dealing with this. In London, for instance, there is already a Thames Barrier, so water can be blocked out when the tides are higher. It will not be too difficult to raise the barriers further. But for cities banking the seaside, or for islands like Singapore and the Maldives, the solution will be much less straightforward. Migration within a country is also less problematic than cross-border migration. If the coastal areas of China are affected, for instance, people have the option of moving inland. There will be economic consequences, but the political fallout is less serious. However, in the case of Bangladesh, which occupies a low-lying area, people may be forced to move into India. The long and porous borders mean it will not always be possible to keep them out. In any

case, you cannot stop the flow of human beings when they are running away to save their lives. The implications, then, are enormous. If massive waves of people move, the risk of conflict increases significantly.

Second, it is worth noting that some action is possible despite the dilly-dallying at international conferences because being green is not always a matter of altruism. Reducing pollution improves the local environment and the lives of ordinary people within your own country. Cutting carbon emissions can also be economically sensible in some cases, especially when the emissions result from energy inefficiency or wastage. The Japanese spend a lot of time studying how they can minimise the amount of energy that goes into the making of each product because they understand how that translates into a cost saving. Another example is fuel subsidies. When you subsidise, people tend to consume more than is optimal. There is waste. Eliminating subsidies – and, indeed, possibly even taxing fuel use to reflect its true costs to the rest of society – would therefore be the right thing to do both economically and for the sake of the environment.

For these reasons, many countries are already acting unilaterally. That explains the rise of environmental consciousness in China. They know that if they continue to produce at current energy efficiency levels, they will never hit America's GDP per capita because there simply isn't that much energy available to them. Furthermore, they can see their own people suffering from air and water pollution and their own environment changing in frightening ways. Respiratory diseases are on the rise. Sandstorms are becoming more frequent. The glaciers of the Tibetan plateau are receding every year. During the Olympic Games in 2008, they halved the number of cars on the road and put a stop to some of the surrounding factories – and the outcome was very visible. Once people see what is possible, then over time, as standards of living go up, the government will come under pressure to make the changes necessary to improve the environment.

India may take a slightly longer time to develop a green movement because it is less urbanised and industrialised than China is and they have fewer problems with the environment – but they are not far behind. But for each country, the penny will drop when people see the consequences of global warming themselves and feel a real threat to their way of life – just as Europe has. Until it hits you, it is merely a theoretical problem.

Meanwhile, developments in how we obtain energy may buy us some time. New technology that allows shale gas to be harnessed has unlocked

huge reserves in America and elsewhere. This has rightly been described as a revolution and has changed the game considerably on many fronts.

Shale gas is a cleaner form of energy than, say, coal, and could help reduce overall emissions significantly. The world's total fossil-based energy reserve has also been increased by several decades, maybe even longer. In particular, shale gas promises to make the North Americans energy-independent – an unprecedented feat. LNG terminals and ports that had been built in the United States in anticipation of import demand are going to be used for export instead. Shale gas will not displace oil in all areas. You will still need oil for aeroplanes, for example. But the demand for oil will be relieved partially by some switching over to shale gas. As a result, the Middle East will become less important as an oil producer and will lose power. The threat of a global recession triggered by spiralling oil prices that confronted the world on so many occasions in the past is much reduced today.

But environmental groups are not likely to cheer. They would like the world to wean itself off fossil-based energy and to develop renewable sources to take its place. I do not believe, however, that any country can realistically depend on renewable sources to meet all or even most of its energy needs. There are areas for which petroleum will continue to be necessary for a long time – transportation by air and by land, for example. You can switch to electric vehicles, but not if you have to travel long distances, and certainly not for trucks that carry heavy loads.

I sit on the International Advisory Board of the French oil and gas company, Total. The company does a regular assessment of alternative sources of energy: wind, solar, tidal and others. The conclusion each time is the same: While pockets of areas in the world may find that they have the right conditions for taking advantage of a particular alternative energy source, the overall contribution will not be significant. These sources can play a supplementary role, but they will never be able to replace traditional sources of energy because they are too small and too uncertain.

A couple of years ago, a friend of mine from China described to me the increasingly common use of solar panels in homes in China, especially for heating up bathwater. I sent a note to our Ministry of the Environment and Water Resources to ask why Singapore did not consider buying these panels from China, if indeed they were available cheaply, as appeared to be the case. The answer I received was that the technology was not yet

economically viable. China was subsidising the panels and pumping money into researching them because it was determined to eventually become the world leader in their production. As a big country, they can afford to do that. Singapore, on the other hand, has to wait for prices to come down – we have to go with whatever comes out on top in a cost-benefit analysis.

That leaves us with nuclear energy, an alternative to oil and gas that does not heat up the earth. After the Fukushima incident in Japan, some countries, including Germany, have decided either to close down their plants or to postpone plans to build new ones. Others, like China and Korea, are going ahead. Japan itself seems to have taken the hard-headed decision of persisting with nuclear. In an ideal world, all countries would probably want to be nuclear-free, because of the risks involved and the unresolved issues related to the disposal of radioactive waste. But in reality, our options are very limited. In the long run, I believe many countries will slowly begin to find nuclear energy more attractive. The shale revolution may have pushed this further down the road, but the share of nuclear energy in the world's total power output is likely to grow.

At the end of the day, though, there has to be recognition by all countries that there are limits to what the world can sustain. We have to live within those limits to live comfortably. We occupy the same planet and our fate is bound together. It matters little, therefore, who wins the debates. If the world is destroyed, we will all be in serious trouble. Of course, by the time the most destructive consequences of global warming are manifested – sometime, perhaps, between 50 and 150 years from now – I will not be around, nor will many people alive today. Nevertheless, we have a responsibility towards our children and grandchildren to pass on to them a world full of hope and vitality, just as it was passed on to us.

Q: *Is it possible that technological advancements might mitigate some of the worst effects of global warming – technological advancements that we may not even have conceived of yet?*

A: It is possible. Scientists may come up with a way of blocking out the sun's heat – maybe a huge bowl that can trap the heat and reflect it back into the sky. But that would be easier over land. How are you going to do it over water?

Q: *Do you see much more intense activity in the South China Sea with regard to oil and gas?*

A: The drilling has not started, so nobody really knows what is underneath the waters. But I don't see the Diaoyu or Senkaku Islands issue as being about oil. It is more about sovereignty and nationalist pride. I believe the dispute will be set aside with no resolution. It makes no sense for either side to allow economic relations to be affected. From Japan's perspective, it is not an issue worth divesting their investments in China over. And the Chinese need the investments, even if they make a song and dance of the dispute. They will not go to war. But supposing oil and gas is found within the exclusive economic zone of the rocks, then it may lead to something very big, because the Chinese are hungry for energy.

Q: *Could Singapore see people turning up at our shores from other countries because of rising sea levels?*

A: We will be turning up at other people's shores. You increase present sea levels by one or two metres, and you see how much land we will lose. Bukit Timah Hill is not much of an area to speak of.

Q: *How seriously is Singapore studying the idea of a sea wall?*

A: *In extremis*, we will have to build them. In fact, we've invited people from Holland to have a look, and they said no dykes were possible. You have to have a sea wall. In Holland, they have low-lying land, but here, we have land that is above water level. The problem for us will be in figuring out a way to have a seaport outside that sea wall.

Q: *Some people have said that Singapore is moving too slowly on environmental protection. We have to consider the cost of introducing some of these measures, of course, but do you feel Singapore could perhaps move faster on this front?*

A: We are such a small player in the international arena that anything we do will make very little difference to the total warming of the earth. We contribute just 0.2 per cent of world emissions. Notwithstanding, Singapore has taken ambitious and domestically meaningful steps, for example, switching to natural gas for electricity generation, capping vehicle growth and pricing vehicle usage, harnessing energy efficiency.

Q: *But if you were in government, would you push for more to be done?*

A: I will have studies made, and a careful calculation of our options. But one must take into account that Singaporeans are cost-conscious. They don't care where the energy comes from, they want to know which is the cheaper one. We have tried to get them to switch to hybrid cars, for example, but the cars cost more, even after a tax reduction, and people have chosen to go with non-hybrids. It may be possible for the government to legislate. Perhaps, when there is a very efficient hybrid car available, we may require everybody to go hybrid or to go electric.

Q: *Do you see green issues becoming important political issues in Singapore, especially among younger Singaporeans?*

A: No. Why should it become a political issue?

Q: *But what about this idea of wanting to preserve green spaces and wanting to protect the environment? Do you foresee the emergence of more groups mobilising and capitalising on that as a political cause?*

A: No, not likely. The government is already as careful about preserving green and open spaces as any NGO.

Q: *There was public outcry in 2012 over the exhumation of graves at Bukit Brown cemetery to build roads.*

A: That was about sentiment.

Q: *One of the arguments put forth by the naysayers had to do with flora and fauna.*

A: No, no. It wasn't just about the habitat. They are graveyards. And the reasons were sentimental – your forefathers being buried there, with the names of the deceased persons and their sons and grandsons, as well as how the place was a reminder of our past. But we dug up Bidadari cemetery and built on it when we needed it. So if we need the land, and we have to dig up the whole of Bukit Brown to build on it, and put the ashes in a columbarium, we will do it.

10

PERSONAL LIFE

Choosing when to go

PERSONAL LIFE

My daily routine is set. I wake up, clear my email, read the newspapers, do my exercises and have lunch. After that, I go to my office at the Istana, clear more papers and write articles or speeches. In the afternoons and evenings, I sometimes have interviews scheduled with journalists, after which I may spend an hour or two with my Chinese teachers.

I have made it a habit to exercise daily. At the age of 89, I can sit up and I do not need a walking stick. When I was in my 30s, I was fond of smoking and drinking beer. I quit smoking because it was causing me to lose my voice at election campaigns. That was before medical research linked smoking to lung and throat cancer, among other things. Oddly enough, I later became hyper-allergic to smoke. The drinking gave me a beer belly and it was showing up in pictures appearing in the press. I began to play more golf to keep fit, but later on turned to running and swimming, which took me less time to achieve the same amount of aerobic exercise. Now, I walk on the treadmill three times a day – 12 minutes in the morning, 15 minutes after lunch and 15 minutes after dinner. Before dinner, I used to swim for 20 to 25 minutes. Without that, I would not be in my present condition physically. It is a discipline.

I continue to make appointments to meet people. You must meet people, because you must have human contact if you want to broaden your perspective. Besides people in Singapore, I meet those from Malaysia, Indonesia, and, from time to time, China, Europe and the United States. I try not to meet only old friends or political leaders, but people from a variety of fields, such as academics, businessmen, journalists and ordinary people.

I have cut down on my overseas trips significantly, because of the jetlag, especially when travelling to the US. Until 2012, I was still travelling to

Japan once a year to speak at the Future of Asia Conference – now into its 19th year, organised by the Japanese media corporation, Nihon Keizai Shimbun (Nikkei). For a time, I was going to China nearly once a year, although I am reluctant to go to Beijing now because of the pollution. But the leaders are there, so you have to go there to meet them. The JP Morgan International Council, which I am on, did me the honour of holding its 2012 annual meeting in Singapore, so did the Total Advisory Board. Going to France is all right. It is a 12-hour direct flight on an Airbus 380, there and back. But to go to New York is much more tiring – especially because of the time change, from night into day and day into night. Travelling overseas helps me widen my horizons. I see how other countries are developing. No country or city stays static. I have seen London and Paris change, over and over again.

Being out of government means I am less well-informed of what is going on and the pressures for change. I therefore go by the decisions of the ministers, by and large. I seldom express a contrary opinion – at least, much less than when I was in government and attended Cabinet meetings, which allowed me to participate fully in the debates.

Occasionally, when I disagree strongly with something, I make my views known to the Prime Minister. There was an instance of this when the government was looking to reintroduce Chinese dialect programmes on free-to-air channels. A suggestion was made: "Mandarin is well-established among the population now. Let us go back to dialects so the old can enjoy dramas." I objected, pointing out that I had, as prime minister, paid a heavy price getting the dialect programmes suppressed and encouraging people to speak Mandarin. So why backtrack? I had antagonised an entire generation of Chinese, who found their favourite dialect programmes cut off. There was one very good narrator of stories called Lee Dai Sor on Rediffusion, and we just switched off his show. Why should I allow Cantonese or Hokkien to infect the next generation? If you bring it back, you will find portions of the older generation beginning to speak in dialects to their children and grandchildren. It will creep back, slowly but surely.

Every country needs one language that everybody understands. It was a difficult enough task integrating the four language streams the British left us with. The Chinese schools, where the majority of Chinese students were enrolled, were proud of their language, especially with the rise of a new Communist China from 1949. I had to fight on many fronts to make English

the language of all schools and the mother tongues the second language. Chinese language chauvinists battled against this policy tooth and nail. The Chinese newspapermen and schools wanted to prop up their student and readership numbers. Because my command of Chinese then was inadequate, Li Vei Chen, my Chinese press secretary at the time, kept the Chinese press, Chinese middle schools as well as Nanyang University and their staff and supporters under tight control to minimise or prevent demonstrations, go-slows and strikes.

Eventually, it was the market value of an education in English that settled the problem. Hence, we have today's Singapore, with English connecting us to the world and attracting the multinational corporations, and the mother tongues as second language keeping us linked to China, India and Indonesia. This was a critical turning point. Had the people chosen the other path, Singapore would be a backwater.

For sentimental reasons and practical reasons of trade and business with China, we need Chinese as a second language. But we certainly do not need the dialects. To undo now what we had spent so much time, energy and political capital achieving – the removal of dialects from the mass media – would be very foolish.

Life is better than death. But death comes eventually to everyone. It is something which many in their prime may prefer not to think about. But at 89, I see no point in avoiding the question. What concerns me is: How do I go? Will the end come swiftly, with a stroke in one of the coronary arteries? Or will it be a stroke in the mind that lays me out in bed for months, semi-comatose? Of the two, I prefer the quick one.

Some time back, I had an Advanced Medical Directive (AMD) done which says that if I have to be fed by a tube, and it is unlikely that I would ever be able to recover and walk about, my doctors are to remove the tube and allow me to make a quick exit. I had it signed by a lawyer friend and a doctor.

If you do not sign one, they do everything possible to prevent the inevitable. I have seen this in so many cases. My brother-in-law on my wife's side, Yong Nyuk Lin, had a tube. He was at home, and his wife was lying in bed, also in a poor shape. His mind was becoming blank. He is

dead now. But they kept him going for a few years. What is the point of that? Quite often, the doctors and relatives of the patient believe they should keep life going. I do not agree. There is an end to everything and I want mine to come as quickly and painlessly as possible, not with me incapacitated, half in coma in bed and with a tube going into my nostrils and down to my stomach. In such cases, one is little more than a body.

I am not given to making sense out of life – or coming up with some grand narrative on it – other than to measure it by what you think you want to do in life. As for me, I have done what I had wanted to, to the best of my ability. I am satisfied.

Different societies have different philosophical explanations for life and the hereafter. If you go to America, you will find fervent Christians, especially in the conservative Bible Belt covering much of the country's south. In China, despite decades of Maoist and Marxist indoctrination, ancestral worship and other traditional Buddhist or Taoist-based religious practices are commonplace. In India, belief in reincarnation is widespread.

I wouldn't call myself an atheist. I neither deny nor accept that there is a God. The universe, they say, came out of the Big Bang. But human beings on this earth have developed over the last 20,000 years into thinking beings, and are able to see beyond themselves and think about themselves. Is that a result of Darwinian evolution? Or is it God? I do not know. So I do not laugh at people who believe in God. But I do not necessarily believe in God – nor deny that there could be one.

I had a very close friend, Hon Sui Sen, who was a devout Roman Catholic. When he was dying, the priest was there next to him. At 68, he was young, but he was also absolutely fearless. As a Roman Catholic, he believed that he would meet his wife in the hereafter. I wish I can meet my wife in the hereafter, but I don't think I will. I just cease to exist just as she has ceased to exist – otherwise the other world would be overpopulated. Is heaven such a large and limitless space that you can keep all the peoples of the world over the thousands of years past? I have a large question mark on that. But Sui Sen believed that and it gave him a certain tranquillity of mind as he went through his last moments with his priest. His wife, who died in November 2012, believed they would meet again.

Those around me who may have tried to proselytise to me no longer do so because they know it is a hopeless case. My wife had a friend she knew from school who was very religious and kept trying to convert her. In the

end, she stayed away from her friend, saying: “It is absurd. Every time we meet she wants to convert me into a Christian.” She did not believe in the afterlife – although, admittedly, it is comforting if you believe there is an afterlife even if there is none.

With every passing day I am physically less energetic and less active. If you ask me to go out in the heat of the sun at two o’clock to meet people, shake hands and kiss babies, I will not be able to do it. I could do it 20, 30 years ago, but not anymore. You take life as it comes, with your physical capabilities declining over the years. Sometimes my secretary would see me resting in my office and would ask me whether they should cancel the next meeting. Sometimes, I would say: “No, let’s get on with it.” I need 15 minutes for a shut-eye, so that my mind can concentrate after that. But if I cannot, I would say: “Yes, put it off. Let me have a nap.” You cannot predict what your physical condition will be like. However rigorous and disciplined I am, it will still be a downhill slide.

In the end, my greatest satisfaction in life comes from the fact that I have spent years gathering support, mustering the will to make this place meritocratic, corruption-free and equal for all races – and that it will endure beyond me, as it has. It was not like that when I took office. The Lim Yew Hock government was already going corrupt. Younger Singaporeans may not be familiar with a man by the name of Mak Pak Shee, a member of that government. He was an Indian Cantonese with a moustache, and he was what you would call a fixer – somebody who facilitated the fulfilment of favours for a fee.

Singapore, as it stands, is the one corruption-free spot in a region where corruption is endemic. The institutions have been created to keep it that way, with the anti-corruption bureau. People are promoted on the basis of merit, not of race, language or religion. If we uphold these institutions, we will continue to make progress. That is my greatest hope.

Q: *You have said before that you consider yourself a nominal Buddhist. Would you still describe yourself as such?*

A: Yes, I would. I go through the motions and the rituals. I am not a Christian. I am not a Taoist. I do not belong to any special sect.

Q: *When you say "rituals", what do you mean?*

A: On set days you've got to give offerings to your ancestors – food and so on. All that is laid out by the servants. But it will go off after my generation. It is like clearing the graves during Qing Ming. With each passing generation, fewer people go. It is a ritual.

Q: *Where do you draw your comfort from, if not from religion?*

A: It is the end of any aches and pains and suffering. So I hope the end will come quickly. At 89, I look at the obituary pages and see very few who have outlived me. And I wonder: How have they lived? How have they died? After long illness? Incapacity? When you are 89 you will think about these things. I would advise that if you do not want to be comatose or half-comatose in bed and fed through a tube, do an AMD. Do not intervene to save life. Let me go naturally.

Q: *The number of people who do this in Singapore is still very low, for some reason.*

A: Well, because they don't want to face up to it.

Q: *Are you in favour of euthanasia, which some countries have legalised?*

A: I think under certain conditions where it is not used to get rid of old people and it is a personal decision of a man taken rationally to relieve himself from suffering, I would say yes, like the Dutch. So in my AMD, I am in fact saying: “Let me go.”

Q: *If a grandchild of yours comes to you and asks you what a good life is, what do you say to him?*

A: I have grandchildren in their 20s. They don’t ask me what a good life is. They know what it is. There’s been a change in the physical world they live in, the people they meet, a change in generations and different objectives to what people do in life.

Q: *Are you saying that it is not possible to influence young people these days?*

A: No, you can influence the basic attitudes from the day they are born to about 16 or 17. After that – sometimes earlier – they have a mind of their own and they are influenced by what they see around them and by their peers.

Q: *You spoke about not believing you would meet your wife in the hereafter. Do you not hold out such a hope, even in your quieter moments? Is it not human to do so?*

A: No, it goes against logic. Supposing we all have a life after death, where is that place?

Q: *Metaphysical, perhaps?*

A: So we are ghostly figures? No, I don't think so.

Q: *How often do you think of Mrs Lee?*

A: I have an urn with her ashes and I have told my children to put my ashes next to hers in a columbarium, for sentimental purposes.

Q: *And hope?*

A: Not really. She's gone. All that is left behind are her ashes. I will be gone and all that will be left behind will be ashes. For reasons of sentiment, well, put them together. But to meet in afterlife? Too good to be true. But the Hindus believe in reincarnation, don't they?

Q: *It is in the Hindu creed, yes.*

A: If you lead a good life, you come out in a better shape in the next world. You lead a bad life, you become a dog or something.

Q: *So do the Buddhists.*

A: But they are not so sharp in their conceptions of the hereafter.

Q: *Is your routine these days very different compared to when you were still in Cabinet?*

A: Of course. The pressure is not there.

Q: *But you are somebody who has always coped very well with pressure.*

A: Well, the pressure of office means a decision has to be made. And when several decisions come at the same time, you've got to look at the questions carefully and decide. Once you have decided, you cannot backtrack. It is a different kind of pressure.

Q: *Do you miss having that sort of pressure?*

A: No, no. Why should I miss it? I have done my share.

Q: *And would you say you miss attending Cabinet meetings, and the opportunity to interact with younger ministers?*

A: No, I think the time has come for me to move on. I am 89. Compared to my world and the reference points that I have fixated in my mind, the map of Singapore – the psychological map of Singapore – has changed. I used to visit the housing estates. I used to know people from the residents' committees well. I interacted with them. I had a good feel of the ground. Now I do not have that. I have to go by reports, which is not the same thing. So I have to leave it to the people in charge who do go around.

Q: *Do you regret the decision to step out of government shortly after the 2011 general election?*

A: No. How can I carry on making decisions when I am losing the energy to make contact with people on the ground? It requires a lot of physical energy. The mental effort does not bother me because I have not had a stroke nor am I going into dementia. But I lack the physical energy. Before this interview, I had a light lunch, did my

treadmill routine and then rested for 15 minutes. I did not need that in the past.

Q: *So you have no unfinished business that you had wanted to…*

A: No, I have done what I had wanted to do. I gave up my duties as prime minister to Goh Chok Tong. I helped him. He passed them on to Lee Hsien Loong. It is a different generation now. So my contributions are less meaningful – except when they want to go back on dialects.

Q: *How is your health, if I may ask?*

A: I was recently hospitalised after experiencing what the doctors said was a transient ischaemic attack. But I have since recovered fully and have returned to work. If you take into account the fact that I am in my 90th year… the doctors have told me there is no benchmark for people of that age.

Q: *You set the benchmark. So you are reasonably happy with your physical and mental state at the moment?*

A: No, you have to accept the gradual decline in your physical abilities. So far the mental capabilities have not declined, which has happened to some of my friends. I am grateful for that. I think it is largely due to inherited genes. But the physical ageing – you cannot stop it.

Q: *Your mental faculties – could that be due to your mental habits as well? You are someone who has kept himself mentally very occupied and interested in what is happening.*

A: Yes, of course. And I keep on learning new words and phrases in Chinese, so that I am forced to. It is like playing mahjong.

Q: *Have your dietary habits changed over the years?*

A: Well, I no longer eat to my heart's content. I stop before I am full. I also try to eat more vegetables and less protein.

Q: *At an interview with* The Straits Times *when you turned 80, you said one worry you had was the narrowing window that people who are ageing tend to have, and that if it gets smaller and smaller, that would be the end of existence. Is that something that you still think about – keeping that window open?*

A: Yes. Otherwise I would be sitting alone. Why should I meet you and talk to you?

Q: *Are you afflicted by loneliness sometimes?*

A: You have to distinguish between loneliness and solitude. I had a friend who was one of the brightest students in Cambridge. He is dead now. His name was Percy Cradock. He had a wife who was Danish and had diabetes. She had lost two legs. Percy used to say: "I enjoy my solitude." And I said: "Get hold of the computer and go on Google. You can get all the poems that you have read and enjoyed, purple passages from works of literature. You just type in the keywords. It will come out." And he did.

Q: *What newspapers – or Internet sites – do you read regularly?*

A: I read *The Straits Times* and *Lianhe Zaobao*. I used to read *Berita Harian* also but now I don't. I used to be very good with my Malay but it is not necessary now that most Malays in Singapore speak English. I follow closely on the Internet news on Singapore, the region, China, Japan, Korea, America, India and Europe. The Middle East – occasionally. Latin America – almost zero, because it is not relevant to us. Too far away.

Q: *Which particular Internet sites?*

A: Google. I prearrange for news from the various regions to be automatically passed on.

Q: *What books or movies have you read or watched recently?*

A: I do not watch movies.

Q: *And books?*

A: Usually I read biographies of interesting people. I am not attracted to novels – make-believe, or recreations of what people think life should be.

Q: *Any recent one that you enjoyed particularly?*

A: One on Charles de Gaulle. France was lost. He was a nobody. He went to London and said: "I am France." And he went to Algiers and told Alphonse Juin, who had obeyed the Vichy government and was in charge there: "As a Marshal of France, you ought to be ashamed of yourself." That was a pretty bold man. And he walked back to

Paris, of course, with the Allied troops having cleared the way for him.

Q: *What are your foremost preoccupations these days? What are the things that keep you awake?*

A: I think our changing population. With an overall fertility rate of 1.2 – we have no choice but to take in migrants. It is difficult to get Singaporeans to change their mindsets. The women are educated. They want a different lifestyle, not to be stuck with early marriages and children. They want to travel first, see the world, enjoy life and marry later, by which time they will have trouble having children.

Q: *Any hopes for Singapore?*

A: Well, the hope is that it will keep a steady course and uphold all these institutions which make it different from the rest of the region.

11

CONVERSATIONS

with an old friend

CONVERSATIONS

In May 2012, when I was writing this book, Helmut Schmidt, Chancellor of West Germany from 1974 to 1982, came to Singapore to visit me. He is six years older than me and we are close friends. Our late wives, Choo and Loki, were friends too. I have always known Helmut to be a tough and intelligent leader able to identify the important issues in any given complicated situation. My respect for his insights has grown over the years.

Over three days, Helmut and I sat and talked about a wide range of issues. A moderator – Matthias Nass of the German newspaper *Die Zeit* – facilitated the discussion by posing questions from time to time. We subsequently agreed to include in this book excerpts from the sessions – the first on "Lessons on Leadership", the second on "The European Vision" and the final one on "Parting".

HS: If we have to sum up our lives in office, what would you say, Harry?

LKY: Well, I would first say that I was more fortunate than others. At critical turning points, fortune smiled on me. This place could have easily collapsed but the integration of the world and globalisation allowed us to play a role. We lost the hinterland when we were pushed out of Malaysia.

HS: How many were living in Singapore when you took over?

LKY: Two million. Now we are five million.

HS: If a citizen of Singapore is being asked, “Where do you come from”, or “What is your nationality”, what would be the answer?

LKY: I am a Singaporean.

HS: Yeah, since when?

LKY: I would say since 20 to 30 years ago.

HS: Not from the beginning on?

LKY: No. But at the same time, there will be a bracket, I am a Singaporean (Chinese), (Indian), (Malay) and so on. I mean that we cannot erase. That is the reality. There are some cross-marriages, but they are still in the minority.

HS: What have been the most memorable events in the course of your life?

LKY: Well, first the Japanese occupation of Singapore. The collapse of the British Empire. That in less than three months, they were able to demolish an empire which was supposed to last a thousand

years. The second was the shock of having to make an island a nation without a hinterland. We were pushed out of Malaysia because we upset their racial balance.

HS: They pushed you out because of the Chinese element in Singapore?

LKY: Yes. So we had to either do or die, and the globalisation of the world helped us. So we made the world our hinterland.

HS: In my lifetime, the two most important events have been two. Number one, in the close of late 1944, say by September, I did for the first time understand that I had been serving a criminal government. I had been a soldier since 1937, a drafted soldier, but it took me almost eight years until I understood that I was serving a criminal government. This is half a year before the end of the war. And from that moment on, my life was changed. And I never was a Nazi – I was against the Nazis, but I was not doing anything. And the second great event was in 1989, when the sky opened up and the chance for reuniting the country did arrive. Then, I was out of office. During my time in office, I didn't experience any more important moments.

LKY: They were great turning points, especially the reunification of Germany, because many feared the revival of German strength in the centre of Europe.

HS: It does in a way imply that the danger of that has lasted over a thousand years – namely, the danger of a country in the centre of this little continent where the people outside the centre either were threatened by the strong centre or were tempted by a weak centre. Those situations led to a thousand-year-long chain of wars. There is hardly any continent in the world that has seen so many wars as has Europe.

LKY: Very strangely so because you are all Christians and yet you have so different national ambitions.

HS: I couldn't agree more. Well, in your lifetime in office, were there any high points that you are really proud of?

LKY: Well, that I made everybody feel equal. I did not make this a Chinese city. I resisted the Chinese chauvinists who wanted to make the Chinese language the dominant language. I said: "No, we will have English, a neutral language for everybody." And that helped unite the people. We did not discriminate against anybody because of race, language or religion.

HS: If a Singaporean wants to join the transportation system inside Singapore, in what language does he ask for his ticket?

LKY: In English.

HS: He does?

LKY: Yeah, the taxi driver speaks English. It permeates throughout the whole country because we teach English in the schools as the first language.

HS: Am I correct to understand that this fact is about the most important one?

LKY: Yes, had we chosen the other path of each ethnic group using primarily its own language, the people would have been divided. There would have been endless conflicts, no progress.

HS: Are the British aware of this achievement of yours?

LKY: No, but I think we were fortunate in having had them as our colonial masters. Vietnam had the French and the Vietnamese are now trying very hard to push out the French language and take up English because the world speaks English.

M:[1] Is Hong Kong losing this advantage at this time? I have this feeling it is, because English has been…

LKY: Yes, because it is now part of China, and every day, tens of thousands, or maybe one or two hundred thousand people, cross the border to each other. And many Chinese in Hong Kong have second homes in Mainland China, across the border, because the land is cheaper there. So over the years, they have been reabsorbed as Chinese.

M: Is there a lesson that you can draw from 50 to 60 years in public service, some personal lessons that you learned or some moral standards about the profession of the politician?

LKY: I think to be able to achieve anything, you must first gain the trust of the people – that you are not just making promises or pleasantries, that you mean what you say. And while you may succeed or you may fail, you will try and do what you have said. And that was the reason why I was able to succeed, because in several major instances, I carried out what I promised to do in spite of opposition. That created trust and after that, everything was easier. If you are just an ordinary politician making promises, and every four or five years, a new politician comes around, like in Japan where you have a new prime minister every year, you cannot establish the trust and you cannot lead a country.

M: But in a similar meaning, what is the core of political leadership? What does it take to become a leader, as compared to a normal politician? Then, perhaps, what does it take to become a statesman? They are two different things.

LKY: Well, varying degrees between a politician and a statesman. A politician just wants to publicise himself and get into office, and he enjoys the pride of being there. A leader has a mission. You seek power because you want to do certain things. A statesman is one who has not only sought power and done those things but is able to hand over to a good successor. That is my understanding.

HS: Outside Singapore, who was the greatest leader of your time?

LKY: Deng Xiaoping.

HS: I do agree but I might mention in the first place Winston Churchill.

LKY: Well, he was a great orator, he mobilised the British people, when they were alone and facing a stark situation. And he said his famous words: "We shall fight on the beaches, we shall fight on the landing grounds, we shall fight in the fields and in the streets, we shall fight in the hills. We shall never surrender." (Franklin) Roosevelt asked his secretary why his own speeches cannot be like that and the secretary told him: "Sir, he rolls his own cigarettes." And that inspired the people to fight on. It gave them enough time to get the Americans involved.

HS: The Western powers would not have won World War II without Winston Churchill.

LKY: Yes, he defied the odds. Any other person like Neville Chamberlain would have come to some arrangement.

HS: And there was no Frenchman either.

LKY: Yeah.

M: What about Charles de Gaulle?

HS: De Gaulle only came after the war. His great moment came after the war.

LKY: No, but during the war, although he represented nobody, he believed he represented France and acted in London as if he represented France, and made a nuisance of himself depending on British and American support, but insisting that he is French and he represents the soul of France. So in that sense he is a great man.

HS: He certainly was a great man, particularly since the early 1960s – he stretched out his hand to the Germans.

M: The two men you mentioned, Deng Xiaoping and Winston Churchill – they shaped the world, so to speak, for the better. But

could it be also said that there were negative characters, or evil characters, who shaped the world in the last century more than those positive leaders?

LKY: One, I would say in Asia, Mao (Zedong) would have been a disaster if he had lived on because he believed in a state of constant revolution. Here is his romantic idea that if you have stability, you become bureaucratic and lose that urge to reform and change the world. So I consider him a dangerous man and had he lived on, and had Deng Xiaoping not taken over, China would have collapsed, and it would have brought disaster on the whole of the Far East. For Europe, (Adolf) Hitler would have been a disaster. Had he succeeded – supposing he reached Moscow and captured Moscow, and did not go further – I think the British and Americans would have had a very difficult time breaking through a wall he built on the western side of France. But that is history. The Americans became involved not because of democracy and human rights, but because they did not want to see a Europe which was under such a powerful ideology which would threaten them. Yes, Churchill was a good friend of Roosevelt but friendship did not come into the calculations. It was in America's interest that Europe should not be in the hands of a man like Hitler.

HS: I do agree with you mentioning even in passing the outstanding personality of Deng Xiaoping. I think among the people I have known in person from that time, he is the greatest.

LKY: I have written about him. He is five foot tall, but a giant of a leader.

HS: And he was a smoker.

LKY: Yes, he was and he did not suffer from emphysema.

HS: And the spittoon was one yard away from him but he used it frequently and never missed.

LKY: When he came to visit Singapore before the Vietnamese attacked Cambodia and Laos, he wanted to mobilise us against them. He

spoke without any notes because he had rehearsed what he wanted to say in Bangkok and Kuala Lumpur before coming to Singapore, so it was well-presented, polished up. So I sat back and said: "Shall we eat dinner, or shall we start our discussions now?" He says: "Let's have dinner." So we had dinner. The next day, I said: "You told us to unite against the Russian bear, but my neighbours want to unite against the Chinese dragon. It is not the bear that is threatening them, it is your radio station, your money to the guerillas in Thailand, in Malaysia and elsewhere that is threatening them." I expected bluster back from him but there was no bluster. He paused and he said: "What do you want me to do?" I said: "Stop it." So he said: "Give me time." And within one year, it stopped. He is a very big man.

HS: When was this?

LKY: November 1978.

HS: I had a different conversation with him in 1983. It was the anniversary of the People's Republic of China. We were just sitting, the two of us and one interpreter, and we had known each other for ten years or so. So it was very open talk. And I mockingly told him: "If you take the facts under consideration, you are not really honest people. You maintain that you are communists, but in fact, you are much more Confucianist." And in a way he was shocked. And it took him a few seconds, and then he came up with the following answer. Just two words: "So what?" And I do agree he was a great man.

LKY: No, he faced reality, because for me, a leader of a small little island, to tell him it is you we are afraid of – my neighbours and I – not the Russian bear, I expected bluster back. But instead, he paused and asked me quietly: "What do you want me to do?" He is a big man. That night at dinner, because he was famous for his spittoon, I put a spittoon for him.

HS: You put a spittoon in front of him?

LKY: Best Ming blue-glazed one. He never used it. Also, he knew I had told his staff that I had a special air conditioner extracting the smoke, but he did not smoke.

HS: Out of courtesy for you.

LKY: And there was no need for it because I had prepared it for those sessions.

HS: By the way, how did Deng overcome the hesitating Chinese leadership of that time?

LKY: Well, he was being protected by many generals of the Old Guard, those who took part in the Long March. So when Mao died, Hua Guofeng took over. But Hua Guofeng had no real power base. The army was loyal to Deng Xiaoping, whom they trusted. So Hua Guofeng…

HS: How come the trust of the army was transferred onto Deng after the death of Mao?

LKY: Because Deng was part of their Long March struggle, and they knew Deng, and they knew that Deng was a great man, a sincere man for China and they trusted him. And Hua Guofeng was easily pushed aside in a friendly way at first, just made president. So when I visited him, he made me see Hua Guofeng first and him next – correct protocol.

HS: At that time, he didn't have any official office except chairman of the military commission.

LKY: The position didn't matter. He was Deng Xiaoping. And the army and a large part of the administration believed that he could save China.

HS: And it was very interesting for me to look in from the outside – how gradually he built up power and in the end prevailed.

LKY: And he was prepared to learn.

HS: He was prepared to learn, yeah.

LKY: He came to Singapore and found a small island with no resources, prosperous and full of goods. People had money in their pockets. He watched, asked very searching questions, and he concluded that we were open to investments that brought in technology, management techniques and markets. He went back and he started six special economic zones after the Singapore model. That succeeded and gradually opened up China. And Zhu Rongji took China into the WTO and opened up the whole of China and that saved them.

HS: I have at the same time told the Soviet leaders, particularly at the time of (Mikhail) Gorbachev, to do something similar with places like Odessa, Petersburg, Kaliningrad and along the Baltic coast of Lithuania, but they didn't understand. Not that they rejected the proposal – they didn't understand what it would mean.

LKY: It is not because they do not have the insight. They were a closed society, firmly believing in the planned economy and not open to new ideas. Deng knew China was not working because they followed the Soviet model and when he saw Singapore, he said "Ah! This is how it would work."

HS: He must have been a bit prepared by his youth in France.

LKY: Could be, because he was in Marseille and he was working in France and Belgium, so he saw the capitalist world and he saw what was possible with free enterprise, so he gradually opened up.

HS: I think the catchphrase in order to characterise Deng Xiaoping was his utterance about cats – "It does not matter whether the cat is white or black, the main thing is it catches the mice." That is the whole Deng in one sentence.

LKY: He is a big man because he went down on his journey to the south, to Guangdong. I had told him earlier: "You can easily do better than us. We are the descendants of farmers and landless labourers of south China. You have the Mandarins, you have the scholars, you have the scientists, the researchers." He never answered me. He just paused, and carried on with dinner. Later, he went to Guangdong and said: "We must learn from the world and especially learn from Singapore, and do better than them." So he never forgot what I told him. But I am not sure that they can do better because they have no rule of law and no institutions.

HS: Well, they are building up the rule of law gradually.

LKY: It is the rule of the leader. What the leader says is the law.

HS: I am not sure that this kind of exercising the law will prevail. They have inherited it from the imperial system, but they have, to quite a degree, built up a judiciary. When I was in China for the first time, they didn't have any attorney at law. Now they have thousands. They have educated them.

LKY: Well, he sent his minister to ask me for our set of laws. I said: "What do you want them for?" He said they wanted to study them and see how they could use them. I said: "Before you have that, you must have independent judges who are prepared to give judgments against the government in a dispute between the citizen and the government, then you have the rule of law." He said: "Never mind. You lend me those laws." So I let him have the laws. They translated them. I don't think they can implement them because the judges will do what the leaders want.

HS: The judges still do what the leaders want, but the judges in the first place had been people who knew how to decide, that means they were the people from the army. Nowadays you have the first judges who come from the universities. There may be some progress. By the way, talking about Deng, I would like to state that in my view he is by far the number one communist who has become successful.

LKY: No, he is really not a communist. He is a pragmatist. What works. Black cats or white cats – that is his dictum, his motto.

HS: By the way, his pragmatism is what joins you and (former US Secretary of State) George Shultz and me.

M: You both can today look back at a very long life, spanning more than 90 years, and the world has changed. And part of this has been changed because of political decisions, political activity. When you compare the world today to the world 90 years ago, what are the changes? Are we living in a different world? Do we live in a better world?

LKY: No, it depends on what you mean by a better world. If you are a European, a Frenchman, I think you would feel that you are not living in a better world because big countries like China are emerging and Europe is becoming irrelevant because it cannot unite. So the Americans will deal with China, in what has been termed a G2 arrangement. But if you mean, by a better world, do we lead better lives – for example, less poverty, more homes for people, more jobs, enough food, I would say yes. There are less hungry people, even in India. And that is not just because of the Indians but because of technology. Research done on rice in the Philippines helps them to grow enough rice to feed the people. So the term "better world" has got to be defined. Better for whom? If you ask me: Better for the people? I would say, by and large, less hungry people, less unemployed people.

M: And a more peaceful world if you take the big picture.

LKY: Yes, that is because of the nuclear deterrent. The nuclear deterrent makes wars between big countries impossible. However powerful the Chinese can be, they will never attack America or Russia so that stabilises the situation. And France has got *Force de frappe*, which may not be enough, but still, symbolically, they can also hit back. If you mean, by a better world, that we are all better governed – not necessarily, depends on the countries. I would say in many parts of the world, in Africa, maybe in Latin America,

they are worse off than before. The corruption is horrendous. And even in India, Prime Minister Manmohan Singh was attacked for allowing corruption. It is endemic now. I am in power. Power means I can make money. So when I am out of power, I would have money and that gives me power, so I grab it. In that sense, the Chinese are also in danger because the corruption is becoming very serious. Not at the top levels. Those at the top are looked after for their lives. After Hu Jintao retires, he doesn't have to worry about his life. His food, his accommodation would be provided. But down below, the developers and the local officials are colluding, grabbing land from the peasants, giving it to the developers to build and make money, and that is leading to a lot of unhappiness in China and will, in the end, be a challenge to the legitimacy of the Chinese government.

M: You basically put all your life into the public service. Not 90 years, but for 50 to 60 years. Looking back, was it worth the effort or sacrifice?

LKY: Well, it depends on what you think life is about. I mean, if I want to lead a happy personal life, then I would have remained a lawyer and a businessman and today I would be very much wealthier than I am. But I did not set out to do that. I saw a situation which I thought was wrong and I sought to put it right and I have the satisfaction of seeing better-fed people, better housing, everybody owning their own home, everybody having children who go to school, better health services, recreational facilities, all they could ask for in life. The problem is they now take it for granted and they believe that we can go on autopilot. I don't think so. I think if the government falls into bad hands, bad leaders, it will gradually regress. There is no such thing as flying at maximum speed, autopilot.

M: Mr Schmidt, sixty years in politics, was it worth all the effort for you, if you draw a balance of your political life?

HS: Yes, it was worthwhile to forgo the chance of becoming rich.

LKY: To be a leader, you must accept other people becoming rich because you are governing well. I once told that to the party secretary of Shenzhen. I said: “If you want to succeed as a leader, then don’t think of yourself. Create a system where the others can make money and become rich. And you will remain an honest official and relatively poor.” I don’t know whether he followed my advice.

THE EUROPEAN VISION

HS: In Europe, if I am trying to see the behaviour of European politicians as a whole, there are quite a few people who think it wise and effective to talk about great visions of which really they have to know that it takes three generations to make them realised. All the great campaigns in Europe – France last year, Germany this year – are about visions which will never come true.

LKY: They paint the pie in the sky.

HS: Yeah. What you've done in this country wasn't the pie in the sky.

LKY: Yeah, but I had the advantage of an immigrant society. It is plastic and has not got ancient histories, ancient feuds, ancient enmities. I gave them a common platform in English, equal competition, everybody appointed according to merit, regardless of race, language, culture. That brought about a national solidarity.

HS: Would it have happened without Lee Kuan Yew?

LKY: Somebody else might have done it, but that was a prerequisite.

HS: None of the others, neither George Shultz, nor Henry Kissinger, nor myself was in the same position.

LKY: But you inherited a lot of people with a lot of history.

HS: Yeah, and didn't you inherit people with history behind themselves?

LKY: But you see, many of them had histories in China, in Indonesia, in India. So I said: "Look, forget that." You make this place work by looking towards and working for the future. If you continue to look backwards into time, we will fail. And having uprooted themselves from their countries to Singapore, they decided they

must make a success of it and that was the strength that made my policies possible.

M: What was at the beginning of your political motivation? Was it the experience of colonial rule? Was that the driving force that made you go into politics?

LKY: Well, British colonialism was in many ways benign. They educated us. I was educated by them and I went to Cambridge. They knew that eventually, power must be handed over. They wanted to create a class of people, an elite, that would be friendly to them. So there is not the same bitterness and angst against them because they realised that they could not hold the country together. After 1947, when India was lost, all the other colonies started to disappear one by one. Ceylon, Burma, Malaya and eventually Singapore. We had the advantage of a colonial power that recognised it was in decline, lost gracefully, and withdrew. So we did not have to fight them very hard. The door – we pushed and it opened.

HS: Were you at the same time already thinking of and talking of Asian values or did it come to you only in the course of the development over decades?

LKY: Well, I think it was innate, inside.

HS: Yeah, I am convinced it was innate but not in your conscience.

LKY: Yeah, so, when I had to mobilise the people, I took advantage of this communitarian spirit where you put the community ahead of the individual and I got them to follow me and said: “Look, this is good for the community.” Individuals may have to give up certain rights, but the whole society will benefit. Had I inherited a fixed society with a long history, bitter enmities, it could not have been done.

HS: When did you become a Confucianist?

LKY: I have asked myself that question and I think I was brought up a Confucianist, by the family, the values.

HS: And would it still be in your conscience whilst you were at Cambridge?

LKY: Yes, I would say that it was innate in me. There's a Chinese phrase which goes: if you look after yourself, you look after the family, you are loyal to the emperor, the country will succeed. So, the first thing to do is to look after yourself and be a gentleman. That's a basic requirement. Every individual should try to aspire to be a gentleman.

HS: I was brought up as a Christian and I end up believing nothing.

LKY: Well, the Europeans are different from the Americans. The Americans still believe that…

HS: Awfully. In a very naive way.

LKY: … that it's creation by God and that Darwin is nonsense. I think Europeans have become very sophisticated as a people as a result of two world wars. They have seen through futile feuds, enmities, hopes of grand ideas, grand plans that have all brought nothing but tragedy. Napoleon tried – Hitler tried – to unify Europe.

HS: The Europeans, more or less all of them, from Kent to Naples and from Istanbul to Lisbon, have been brought up as Christians since almost 2,000 years ago. On the other hand, in their practical policies, they have fought one war after the other despite the Christian ideology. They have done the opposite of what they have been taught and what they have learned by heart. They're ridiculous people.

LKY: Well, it was a period when stronger countries wanted to unify Europe.

HS: No, to conquer Europe. You are much too friendly.

LKY: No, supposing Napoleon had won, French would then have been the language of Europe. If Hitler had won, then German would have been the language of Europe. That was an aspiration. If you put it crudely, it was to capture Europe and build an empire. To give an ideological gloss to it, it was to unify Europe.

HS: But 1,200 years ago, under Charlemagne – that was the last chance.

LKY: Yes, quite right.

HS: Right now, Europe is more divided than it was 20 years ago.

LKY: I believe the integration was stalled by a half-hearted effort and it's bringing about disillusionment, starting with Greece. You either have total integration with one European central bank as a federal reserve and one treasurer and all budgets have to be cleared by them or you have 27 countries, 27 finance ministers, each going his own way but with one euro, which is not possible. How to get out of that one euro I don't know because I think it will cause great confusion.

HS: I do agree it's not possible. On the other hand, to start with a full concept would have been impossible. You had to do it stepwise. This is the great teacher, Jean Monnet, who had the idea of doing it gradually, one generation after the other, and in a way, it is the rationale of the core of the teachings of a man like Karl Popper. And there is no other way than to do it gradually. But how do you then progress gradually to having one treasurer?

LKY: I think it will not work. The divisions are deep, each has its own national history, pride in its own literature, pride in its language, in its culture. Supposing Europeans say, okay, never mind about Rousseau, all the great ideas of the liberal society, we decide that we become a European people. The first thing they need is a common language and the rational choice is English as a second language for everybody. So, a Frenchman, a German and a Czech would meet and speak in English and keep their German and Czech and French. But one language will slowly bind them

together. But the French will never agree to that. You see, each decides his literature is sacrosanct, cannot be given up, whereas when the Americans went to the new continent, they created new literature with great writers and scholars in English. So, Europe is caught in its past and its history.

HS: Europe is caught in its own history, but I am not as pessimistic about the Europeans as you seem to be. I was convinced – I came back from the war as being convinced – that the Europeans must put their backs together and become one entity, which was an illusionary vision. But I was a young man, 26 years old. Then I met for the first time Jean Monnet who was very convincing, explaining how you do it stepwise, one step after the other. You cannot bring about the whole thing in one moment and I believed in this stepwise approach until the great changes of 1989–1990 when, all of a sudden, we were overwhelmed by a barrage. All of a sudden, anybody was free to join the European Union.

LKY: That was a mistake.

HS: Yeah.

LKY: Actually, there was a core Europe.

HS: Yeah, it was a mistake, but we could not tell them: “It’s okay that you’re free nowadays, but we don’t want you.”

LKY: Maybe you should have said: “Wait. Be an associate member and we decide later. The core must consolidate.”

HS: Yeah. When European integration was started by Jean Monnet, we were six countries. France, Italy, Germany, Belgium, Netherlands and little Luxembourg – six.

LKY: That was workable.

HS: It was workable. It did meet some great difficulties. For instance, in the mid-1960s, De Gaulle for some time forbade his ministers to

go for Council meetings, the so-called policy of the empty French chair. But we overcame such difficulties and we remained together. Six states over 20 years, from 1952 into the early 1970s, despite some efforts by the British to join. De Gaulle said "no" to the British and this was okay. But then, in the 1970s, we took in three countries – Britain, Ireland and Denmark – and did not understand that the motivation of the Brits was to have a thumb in the pie but not bake the pie. And then in the next decade came Portugal, Spain and Greece. So, we became 12 and these three countries – Portugal, Spain and Greece – were welcomed because they had just, by their own means, overcome Fascist dictatorships. And the thinking was that they should be rewarded by becoming members of the Community. So, at the time of the Maastricht Conference, early 1990s, we then were 12 members. It was manageable. A number of mistakes were made but it was manageable. But the mistake they made at Maastricht was to invite anybody else, which led, during the next ten years, to an enlargement from 12, up to 27 – more than double the number, which made it totally unmanageable. And some of them thought it was good because the Community was overflowing with money and they would get quite a part of it and others were thinking: "Now, we can for the first time play a role." Some Frenchmen are still thinking the same way. Some Germans also. There is still a hope that, in the course of the 21st century, after 60 years of building up that union, we will not fail. But I don't feel very sure.

LKY: It's too large. Too large and disparate.

HS: Yeah.

LKY: Different from each other, different stages of economic growth and also different ideas about the future. Many of them joined because they wanted to get the benefits of the union.

M: Just for argument's sake, is it also fair to say that the union that we have today, with all its shortcomings and mistakes, is historically a miracle and a big achievement and in a way also an inspiration for other regions in the world?

LKY: No, I don't see the European Union as an inspiration for the world. I see it as an enterprise that was misconceived by too fast an enlargement and likely to fail.

M: So, there is nothing that Asia, for example, could draw from Europe's integration?

LKY: Definitely not. We cannot integrate in the same way. We are not all Christians, we speak different languages, we have different histories. What we can have is a growing sense of common interests and free trade areas and gradually build from there. The issue in Asia is the dominance of China. When you talk about Asian solidarity and include China, you are talking about Chinese solidarity with the rest of Asia. That cannot change.

M: So you start with free trade?

LKY: Free trade and a sense of togetherness. We don't fight each other. We settle differences, which is already happening. We meet regularly, we have discussions, not threatening each other.

M: I have a question for Mr Schmidt too: The history of the European Union, or the European Community, was a history of defeat and setbacks and crises and…

HS: And of successes as well.

M: Yes. In the end, they managed to overcome these crises and make a success out of the crises. People now say these crises can also represent opportunities to bring political unification – a big step forward. Is that a realistic possibility too?

HS: Yeah, theoretically speaking, you might be right. Practically, you need leaders. You need leaders like Harry Lee.

M: Some people say (German Chancellor) Angela Merkel?

HS: No.

M: What about Germany as a country? The Polish prime minister (Donald Tusk) said Germany has to lead Europe. Is that a good idea?

LKY: Germany is burdened by two world wars and it has not shaken off the sense of guilt and it does not want to be seen as assertive. But it is the only country in Europe which has the dynamism to bring about a core Europe. But the belief that France is equal to Germany is one which I don't know why Europeans believe, since nobody outside Europe believes it. (Former French president) Nicolas Sarkozy can meet Merkel, Sarkozy can outspeak Merkel, but Sarkozy's France cannot outperform Germany and that is the impression of the world.

HS: This is a new impression, which stems not from the 1990s. It was built up only in the 2000s. In the 1990s, when Germany was unified again, nobody did expect this to happen. Nobody except (former UK prime minister) Maggie Thatcher and except, to some degree, (former French president) François Mitterrand and Giulio Andreotti, who was prime minister in Italy at the same time. They are historically educated people. They understood that there was a certain danger in a united Germany and they argued against it and they were overcome only by the Americans and by the consensus with Gorbachev.

LKY: No, but it would have taken place anyway. The moment the Soviet Union lost control, East Germany had nowhere to go except to join West Germany. They could see the difference between the standards of living. They could watch West German television, but they were kept by the wall from moving from East to West. They were kept prisoners. So how could you have stopped them? They wanted reunification. How could the West Germans have said "No, we don't want you"?

HS: The West Germans could never have said "We don't want you". We were wanting them, but even in so doing, we had no idea that we would become a nation of 80 million people.

LKY: But you had to pay a very big price to support them.

HS: Yeah, and we have, in a way, not done it very successfully. The eastern part of Germany has been, as regards infrastructure, rebuilt better than the western part of Germany, but otherwise, this infrastructure has not been filled by economic activity. All the economic activities are concentrated in the west, not in the east. All the old great eastern firms have never been reborn and the communists have let them go down. I remember a factory which produced machines in Marzahn. This is in the outskirts of Berlin. And in 1990 or 1991, we rebuilt that factory, giving it big halls with cranes and all the machinery you needed to make machinery and they had about 2,000 people. Now, they still have 170 because nobody wanted to buy their machines because their machines were just too expensive or not good enough. In fact, a combination of both. And this is, in a way, typical of the whole industry of the old German Democratic Republic. We united the country with a totally wrong exchange rate. The obvious rate should have been three to one.

LKY: But you made it one to one.

HS: And this was a major mistake which made all their products not saleable because they are not good enough and I was then criticising this. But on the other hand, I believed that over generations, it would work out. But it hasn't. They have now, 20 years later, no chance. Unemployment in the east is almost twice as high as in western Germany.

LKY: That was also because they were indoctrinated by central planning theories and abhorred the idea of free enterprise, of many competing industries and the successful ones growing at the expense of the unsuccessful. It was not in their culture. The 40, 50 years of the GDR had imbued them with a sense that one could predestine certain successes.

HS: By the way, I yesterday told my friends that once upon a time, after a meeting in which both of us did participate, you wrote me a letter in which one sentence was included, saying: "You are as sharp as ever." And the fact is, *you* are as sharp as ever.

LKY: No, I lack the nervous energy. The nervous energy to carry on writing for hours.

HS: Yeah.

LKY: It needs concentration. It needs physical stamina.

HS: Yeah. On the other hand, it makes one live longer.

LKY: That is a debatable question.

HS: But I believe it to be true. I really do.

LKY: No, it keeps your mind alive.

HS: Yeah, it keeps the mind alive – plus cigarettes. They keep my mind alive. But the rest of the body is failing.

LKY: That is a rule of nature you cannot break. Everybody has to obey that rule.

HS: Yeah.

LKY: Our genes are programmed to last a certain time and the cells do not reproduce themselves correctly beyond a certain expiry date.

HS: This is my last visit to this part of the world. I will not travel so long anymore.

LKY: But stay around for a long time. And I wish you good health and a full and rewarding life.

HS: Harry, all the best to you.

LKY: And to you. It's been a pleasure and an honour to know you.

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[1] Moderator

POSTSCRIPT

Lee Kuan Yew first suggested doing this book five months after he had stepped down from the Singapore Cabinet following the 2011 General Election. He wanted to focus on issues outside Singapore, how he saw world events unfolding in the next 10 years. It would enable him to cast his expansive mind far onto the international horizon and into the future, tapping on his experience and insights from his travels and meetings with world leaders.

He asked us to help him do such a book, incorporating the concept in our previous book *Hard Truths to Keep Singapore Going*, which was based on extensive interviews with him. I emailed him a proposed outline of the book, and he replied within two hours, a little after midnight on 15 November 2011: “Good proposals and excellent themes. Gives me scope to sketch my world view of the present, and anticipate the immediate future, 5 to 10 years. Am willing to start any time.”

He was keen to get going. When we took our time to sketch out the book’s chapters and prepare the background material, he emailed me again: “Is your team ready to start?”

We had our first interview with him on 9 January 2012 and the last one in October that year.

What do I remember of these sessions with him now, some five years later? Looking back, it wasn’t anything he said in particular – although he said much, enough to fill the pages of this book, and more. What I remember most was his determination to complete the book and to attend every interview scheduled despite his failing health. The deterioration in his physical stamina was quite marked and visible. In that January session, he was alert and in good form, perked perhaps by the anticipation of starting on another book. But his voice had grown weak and would become softer still over the next 10 months of interviews. In *Hard Truths*, many of the interviews lasted two hours. But this time round we had to wrap it up before the hour was up. Often he would stop to take his medicine. Once he

hiccupped throughout the interview. But always he persevered despite the discomfort.

He was still sharp mentally, though, and he took all our questions.

It is possible now to look back at his answers and say where he was right or wrong in his predictions and analyses. But it has to be a tentative assessment. The political landscape can be very fluid and change dramatically in weeks if not days. Indeed, unpredictability is the new norm with one dramatic event after another – Brexit, Donald Trump's election, the impeachment of former South Korean President Park Geun Hye, to name a few in the past year. Imagine how risky it would be, trying to forecast what might happen in the next 10 years. But when you have Lee Kuan Yew in front of you, how not to resist picking his brains on what is likely to unfold in China, the United States, Europe, Japan, South East Asia and, of course, Singapore?

He was right on the unsustainability of the European Union, pre-Brexit, firm in his view it could not remain for long in its present form and predicting a messy break up.

This was what he said: "I'm not sure it will last 10 years. The only alternative is to make it work by integration. The European Central Bank becomes the Federal Reserve and instead of different finance ministers you have one for Europe and the budgets of all the various countries will be supervised by that one finance minister, then it'll be like the United States. I don't see that happening. So the break-up (will be) messy and they will try and postpone it. For how long? Ten years? I doubt it. Can they save it by having a core Europe? Doubtful but even if it does, the euro has failed."

Could he have predicted Britain leaving? Alas, we did not ask. It seemed so improbable then.

He did not, of, course, foresee someone like Donald Trump becoming President but he was right in believing in the dynamism of the American system especially on the economic front. The interviews were done in 2011 when US economic growth was only 1.6 percent and still struggling to recover from the recession in 2009 following the financial crisis. But he was confident that growth would return. The US is now one of the best performing economies in the developed world.

Mr Lee put it this way:

"Relative to China, they will be less powerful but they are not on the decline. They are a more creative society. Look, even today, iPhones, iPads,

all the Apple products, Microsoft, the Internet, who comes up with it? It's a more creative society. The Chinese civilisation, when the centre is strong, the country prospers. And the country prospers because the centre makes sure that everybody obeys the centre. In America it's different. Nobody obeys Washington or New York. Anybody can start another centre if you've got money."

On China, which we spent the most time on, he was confident the centre would hold. The Communist Party had a strong grip on power, now equipped with "helicopters, the Internet, cell phones and rapid deployment of security forces" and would move only gradually on loosening the political system.

What about democracy and a one-man-one-vote system, which some foreign observers thought could come to China?

"When I read that, I said: 'These people know nothing about China.'"

When we quizzed him on the shifting balance of power between China and America, his eyes would narrow, his gaze fixed on some point unbeknown to us as he scanned the realm of possibilities.

It was the sort of question this book was meant to ask, probing his long-range thinking.

"In time I see the Chinese striving to keep their eastern seaboard free from American spying... But to be able to push the Americans further from their coast, they need to improve the technology behind their long range missiles... So eventually, there will be a balance... in 20 or 30 years.

"The first balance will be pushing the Americans out of the 12-mile limit. The second balance will be pushing them out of their 200-mile exclusive economic zone. And once they can do that, they become the most influential power in the region."

He was always the hard-headed realist.

We spent as much time on Singapore, his lifetime project, but now facing new challenges with a new generation that had just voted the People's Action Party out of a Group Representation Constituency (GRC) in Aljunied, in the 2011 General Election.

How did he see the political winds shifting? Would it result in further changes down the road, perhaps even lead to a two-party system?

He refused to see it in those terms, downplaying the significance of the Workers' Party's victory and rejecting the idea that it signalled a new era for politics here.

That GRC result, he pointed out, was because WP leader Low Thia Khiang left his Hougang ward to lead the fight in Aljunied and introduced a new candidate, Chen Show Mao.

He was telling us, don't read too much into it.

Mr Lee passed away on 23 March 2015, six months before the General Election in which the PAP recovered much of the ground it had lost in 2011 and almost recaptured Aljunied GRC.

Many attributed its better-than-expected showing to the "LKY" effect.

In death, as in life, Singapore had felt his overpowering presence.

Han Fook Kwang
April 2017

Han Fook Kwang is editor-at-large and former editor of The Straits Times. *He led the editorial team behind* One Man's View of the World.

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LEE KUAN YEW was born in 1923 when Singapore was part of the British Empire and came to adulthood when the Japanese invaded and named the island Syonan-to. After the Second World War, he went on to Cambridge University where he got a double-starred First in law. He became Singapore's first prime minister in 1959, when Singapore was self-governing, and led the country to full independence in 1965. He is credited with leading Singapore from the Third World to the First, turning a trading outpost into a global metropolis known for its efficient and non-corrupt system of governance. After stepping down as prime minister in 1990, he stayed on in the Cabinet as Senior Minister and Minister Mentor until 2011. Widely admired as an international statesman, his death in 2015 drew condolences from global leaders past and present.

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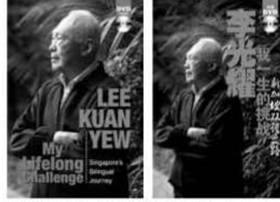

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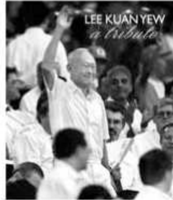

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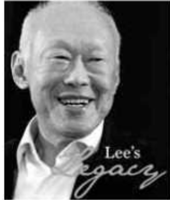

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