

The global outlook for 2013

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Professor Tommy Koh, Ambassador-at-Large from the Ministry of Foreign Affairs, delivered the keynote speech at The Straits Times Global Outlook Forum yesterday. The keynote, which was delivered in his personal capacity, explored themes such as Sino-American ties, the future of the euro zone and the unity of Asean. We provide an edited extract below.



-- ST ILLUSTRATION: MANNY

live at peace with each other for the following five reasons.

First, economically, the two countries have become inter-dependent. China needs access to the US market, science and technology, and know-how. The US needs access to the Chinese market and to China's growing pool of foreign exchange reserves. China is America's largest creditor nation, holding about US\$1 trillion (S\$1.2trillion) of Treasury bonds.

Second, militarily, China is in no position, now or in the foreseeable future, to challenge the US, and China has no intention to do so. The Chinese know that war with the US would destroy China's historic opportunity to achieve modernisation and first world status.

Third, the American people are concerned about China's economic strength and regard China as a competitor. However, the American people do not see China as their enemy. There is, therefore, no domestic support for any American leader who wishes to demonise China as the new enemy. I would also say that if America were to attempt to build an anti- China coalition in the Asia-Pacific, there would be very little support for it. Asean, for example, wants good relations with both the US and China and would not join such a coalition.

AS 2012 is rapidly coming to a close, it is time for us to look to the future. What is the global outlook for 2013? In this preview, I will attempt to answer four questions.

* Will the US and China live at peace with each other?

The people of America re-elected President Barack Obama on Nov6. A week later, the Chinese Communist Party chose Mr Xi Jinping as China's new leader. The leadership of the two countries is in good hands. I believe that the United States and China will

Fourth, at the regional and global levels, China has become America's indispensable partner in the quest for solutions to challenges such as North Korea's nuclear weapons programme, terrorism, proliferation, the Doha Round, climate change and so on.

Fifth, there is more continuity than change in US policy towards China. The modus vivendi has always been a combination of cooperation and competition. They cooperate where their interests coincide and compete when they do not. This policy goes back to President Richard Nixon and has been honoured by both Republican and Democratic administrations ever since.

* Will there be a new Sino-Japanese War?

The current dispute between Japan and China over the Senkaku/ Diaoyu islands reminds us that, unlike Europe, there has been no closure and no historic reconciliation between the former adversaries in North-east Asia.

There are two competing narratives between Japan and China (and Taiwan) concerning the ownership of those islands. There are three ways to calm the situation. The first is for the two countries to refer their dispute to a court of law (the International Court of Justice or the International Tribunal for the Law of the Sea). The second is to put aside the sovereignty dispute and focus on joint development. The third is to revert to the rules of engagement agreed by the two sides in 1972.

The simultaneous rise of nationalism in the two countries is a worry. However, given the enormous economic stake which they share, I am reasonably confident that things will not get out of hand. There will be no war between China and Japan.

I am encouraged by the fact that on Nov20, the leaders of China, Japan and South Korea met in Phnom Penh to reaffirm their commitment to begin negotiating a trilateral free trade agreement (FTA) among them.

Economic integration may eventually bring about the historic reconciliation which has eluded us for 67 years.

* Will the euro zone disintegrate or emerge stronger from the crisis?

It is often forgotten that the current crisis in Europe was made in America. Because of contagion, the crisis spread across the Atlantic and attacked those European and euro zone countries whose public finances were not in good order. As a result, the countries with unsustainable debt levels were punished by the market.

The crisis in the euro zone also revealed that you cannot have monetary union without common fiscal discipline. The subsequent adoption of the fiscal compact treaty was, therefore, a step in the right direction.

First, I believe that the European integration project is on track and will not be derailed. As a result of the crisis, the integration will become even tighter and closer. The United Kingdom may feel uncomfortable and decide to opt out. I believe that although both sides will lose, the UK needs the European Union more than the EU needs the UK.

Second, I believe that the euro will survive the crisis and become an even stronger currency.

Third, it is good to remember that we should not tar all European countries with the same brush. Not all European economies are in crisis. Five of the 10 most competitive economies in the world are European. However, for some European countries, massive unemployment, caused by rigid labour markets and a mismatch of skills between what the education system produces and what the market needs, is a serious challenge.

* Will Asean remain united?

In July, Asean's credibility suffered a serious setback when, for the first time in 45 years, the Asean Foreign Ministers adjourned their annual meeting without adopting a joint communique. This was a wake-up call for both China and Asean.

It reminded China that a divided Asean is not in China's interests. China's interests are best served by a peaceful and united South-east Asia. It reminded Asean that Asean unity is paramount and must not be undermined by differences over the South China Sea or any other issues. Without unity, Asean will be unable to play the central role it does in regional institutions.

I am happy to say that Asean leaders have reaffirmed their commitment to maintain unity and centrality at the just concluded Summit. Asean adopted a Declaration of Human Rights and reaffirmed its commitment to build an Asean community by Dec31, 2015. The Asean+1 summits and the East Asia Summit were held successfully.

There was a frank discussion of the South China Sea issue and the leaders reaffirmed the importance of dealing with it peacefully and in accordance with international law and the United Nations Convention on the Law of the Sea.

We also witnessed an agreement by Asean+6 (China, Japan, South Korea, India, Australia and New Zealand) to launch negotiations for an FTA to be called the Regional Comprehensive Economic Partnership (RCEP). The 16 economies together represent one-third of the world economy.

Conclusion

LET me conclude. I believe that under the leadership of Mr Obama and Mr Xi, the US and China will live at peace with each other. I believe China and Japan will not escalate their dispute over Senkaku/ Diaoyu into a full-scale conflict. I believe that the European integration project has not been derailed

and the euro will emerge stronger from the crisis. I believe that Asean will remain united and will continue to play a central role in the emerging architecture of the region. Finally, while the Doha Round is going nowhere, trade liberalisation and economic integration are alive in our region and are being driven by the Trans-Pacific Partnership and RCEP.

In view of the above, my prognosis is that 2013 will be a more peaceful and prosperous year than 2012.