



**KEYNOTE ADDRESS BY PRIME MINISTER LEE HSIEN LOONG
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Dr John Chipman, Director-General and Chief Executive, IISS

Your Excellencies

Distinguished guests, ladies and gentlemen,

Good evening

1. Welcome to Singapore and to the 18th edition of the Shangri-La Dialogue.

The view from Singapore and Southeast Asia

2. Our world is at a turning point. Globalisation is under siege. Tensions between the US and China are growing. Like everyone else, we in Singapore are anxious. We wonder what the future holds, and how countries can collectively find a way forward to maintain peace and prosperity in the world.

3. What can the history of Southeast Asia tell us about avoiding upheavals and disasters in our path ahead? This year, Singapore is commemorating our Bicentennial. 200 years ago, Stamford Raffles, an Englishman, landed in Singapore and founded a trading post here. The Dutch had already colonised the Dutch East Indies, so the British were actually latecomers to Southeast Asia. Raffles was Lieutenant-Governor of

Bencoolen, on the west coast of Sumatra. He saw the trade potential of the region, and decided to look for a new outpost for the British East India Company along the Straits of Malacca. He chose Singapore, and that changed our destiny.

4. The Dutch protested Raffles' action furiously, but in vain. To preserve their monopoly, the Dutch had either prohibited foreign ships from operating in their ports, or imposed high tariffs. Raffles took a different approach. He set up Singapore as a free port. Trade boomed, and the settlement prospered. The more open approach of the British delivered superior results.

5. Over the next century, Southeast Asia was divided between the British, Dutch, Spanish, French, and later the Americans. Their rivalry was intense. No single colonial power dominated the whole region.

6. In the 20th century, the interests of big powers continued to intersect in Southeast Asia. In 1941, Imperial Japan invaded French Indochina. The US retaliated with an oil embargo on Japan. This was the immediate trigger for the Pacific War. On the same day that Japan bombed Pearl Harbour, they also attacked Malaya and Singapore. There followed for us the Japanese Occupation: three years and eight months of oppression, fear, and misery.

7. During the Cold War, Southeast Asia was again on the frontline. The region was split between communist and non-communist states. Vietnam became the battlefield for a proxy war between the two camps. Meanwhile, China supported communist insurgencies and promoted armed revolution in the non-communist countries, including Malaysia and Singapore.

8. This was the backdrop when the five non-communist countries in Southeast Asia – Indonesia, Malaysia, the Philippines, Singapore and Thailand – came together to form ASEAN in 1967. It was a remarkable act of statesmanship. Several of the partners had a recent history of conflict with one another, and the wounds had yet to heal fully. But with ASEAN, the five countries eschewed conflict, and took the path of dialogue, cooperation and

friendship. We integrated into the world economy, linked up with advanced countries, and thrived. Meanwhile, the communist countries in Indochina were held back for decades by successive wars and the rigidity of their command economies.

9. After the Cold War ended, the US became the sole superpower. Southeast Asia entered a new phase. The Indochinese wars finally ended, and the communist countries opened up. Earlier, Vietnam had invaded Cambodia, thus posing a serious threat to its non-communist neighbours. But now Vietnam joined ASEAN, together with Cambodia, Laos and Myanmar. It was a case of beating swords into ploughshares.

10. Over the next decades, Southeast Asia benefited from a favourable external environment. The US was the dominant power in the Asia Pacific, and a stabilising security presence. International trade was expanding rapidly. Trade barriers came down, often led by the US. The ASEAN economies prospered through export-led growth and foreign investments. International frameworks like the World Trade Organisation (WTO) and the UN Convention on the Law of the Sea (UNCLOS) established rules, managed conflict, balanced competing interests, and fostered cooperation between countries big and small. Initially China played only a minor economic role, but as its economy took off, it became a growing partner of the ASEAN countries, and a major participant in regional affairs.

US-China relations

11. I recount this history to show that Southeast Asia is no stranger to the great game of nations, and to offer some historical perspective to the current strategic situation. The US-China bilateral relationship is the most important in the world today. How the two work out their tensions and frictions will define the international environment for many years to come.

12. The relationship has already altered significantly. China has totally changed since it started opening up forty years ago. Its GDP per capita has

grown by more than 25 times in real terms. China is now the second largest economy in the world.

13. On many counts, China's growth is a tremendous boon, both for itself and the world. China has substantially transformed its backward, centrally-planned economy into a middle-income, market-driven one, even though it is far from being a full market economy. More than 850 million Chinese people have been lifted out of poverty, an achievement unprecedented in human history.

14. China's development and success has benefited the world too. China has become a massive production and manufacturing base, lowering costs for the world's producers, first for labour-intensive goods, and now increasingly for high value and technology-intensive production. It is also a huge market, importing everything from commodities and electronic components to aircraft and fine wines. On the consumer side, billions of people worldwide buy all manner of products, from Barbie dolls and basketballs to drones and mobile phones, made in China, though often incorporating foreign components and technology.

15. Imagine, conversely, that China had remained closed and undeveloped. A failing China would have exported many problems to the world, quite possibly still including armed revolution. Its huge population would have been resentful and restless at being left behind by other countries. A generation ago, when China was still poor, Deng Xiaoping was asked by US President Jimmy Carter to allow more people to emigrate. He answered: "Well, Mr President, how many Chinese nationals do you want? Ten million? Twenty million? Thirty million?"

16. China's success has enabled the world to avoid this disastrous outcome. At the same time, China's growth has shifted the strategic balance and the economic centre of gravity of the world, and the shift continues.

17. Both China and the rest of the world have to adapt to this new reality. China has to recognize that it is in a totally new situation created by its own

success. China can no longer expect to be treated the same way as in the past when it was much smaller and weaker. China may still be decades away from becoming a fully developed advanced country, but it cannot wait decades before taking on larger responsibilities.

18. Having gained much from the international system, China now has a substantial stake in upholding it, and making the system work for the global community. Chinese leaders have spoken up strongly in support of globalisation and a rules-based international order. China must now convince other countries through its actions that it does not take a transactional and mercantilist approach, but rather an enlightened and inclusive view of its long term interests.

19. For example, when China joined the WTO in 2001, its merchandise trade accounted for only 4.0% of world trade. Since then China's share has almost tripled, to 11.8%. This is why the trade arrangements and concessions that China negotiated when it joined the WTO are no longer politically wearable for other countries. It is in China's own interest to prevent the international framework of trade from breaking down, and to implement timely changes that bring about greater reciprocity and parity with its trading partners, and that are more consistent with present day China's more advanced state of development.

20. Similarly, in security, now that China is a major power with the second largest defence budget in the world, its words and actions are seen differently. To protect its territories and trade routes, it is natural that China would want to develop modern and capable armed forces, and aspire to become not just a continental but also a maritime power. At the same time, to grow its international influence beyond hard power, China needs to wield this strength with restraint and legitimacy.

21. Frictions will arise between China and other countries from time to time. The overlapping maritime claims in the South China Sea are an example. China should resolve these disputes peacefully, in accordance with international law, including UNCLOS. It should do so through diplomacy and

compromise rather than force or the threat of force, while giving weight to the core interests and rights of other countries. Then over time it will build its reputation as a responsible and benevolent power that need not be feared. Instead China will be respected as a power that can be relied on to support a stable and peaceful region. In the long term, this will allow China to continue to benefit from a conducive and friendly international environment, and enhance its influence and standing in the world.

22. The rest of the world too has to adjust to a larger role for China. Countries have to accept that China will continue to grow and strengthen, and that it is neither possible nor wise for them to prevent this from happening. China will have its own legitimate interests and aspirations, including to develop indigenously advanced technologies like infocomms and artificial intelligence. As a major stakeholder in the international system, China should be encouraged to play commensurate and constructive roles in supranational institutions like the IMF, World Bank, and WTO. If China cannot do so, it will create its own alternatives.

23. The US, being the preeminent power, has the most difficult adjustment to make. But however difficult the task, it is well worth the US forging a new understanding that will integrate China's aspirations within the current system of rules and norms. New international rules need to be made in many areas, including trade and intellectual property, cybersecurity and social media. China will expect a say in this process, because it sees the present rules as having been created in the past without its participation. This is a reasonable expectation.

24. The bottomline is that the US and China need to work together, and with other countries too, to bring the global system up to date, and to not upend the system. To succeed in this, each must understand the other's point of view, and reconcile each other's interests.

25. Meanwhile, stresses and strains have built up between the two over multiple issues including cyber-espionage, 5G technology, freedom of

navigation, human rights, and especially trade, where the two countries have reached an impasse.

26. If both sides treat their trade dispute purely on its own merits, I have no doubt their trade negotiators will be able to resolve it. But if either side uses trade rules to keep the other down, or one side comes to the conclusion that the other is trying to do this, then the dispute will not be resolved, and the consequences will be far graver than a loss of GDP. The broader bilateral relationship will be contaminated. Other areas will inevitably be affected, including investments, technology, and people-to-people relations. Every action taken by one side will be seen as a direct challenge to the other, and will elicit a counter-action. We will all be headed for a more divided and troubled world.

Hardening of attitudes in the US and China

27. Worryingly, this is starting to happen. Attitudes on both sides have been hardening. The US National Security Strategy and National Defense Strategy documents describe China as a “revisionist power” and America’s “strategic competitor”. The recent Presidential Executive Order on securing the information and communications technology and services supply chain, states that it is aimed at “foreign adversaries”. It stopped just short of naming any specific country, but made quite clear what actions the US intends to take.

28. There is a growing bipartisan consensus in the US: that China has taken advantage of the US for far too long; that China has overtaken, or will soon overtake, the US in areas of advanced technology, such as artificial intelligence and some aspects of military technology, through underhand means; that instead of opening up and becoming more like the US, China has regressed in terms of political openness, and hence represents a challenge to American values and leadership.

29. Americans now talk openly of containing China, and to do so soon before it is too late, the way they used to talk about the USSR and the Soviet

bloc. This negative view of China has permeated the US establishment. It is not confined to the White House or the Administration, but is shared widely by Congress, the military, the media, academics and NGOs too. Those inclined to a more positive view of China have been marginalised.

30. Even US business sentiment towards China has soured. American businesses used to be the strongest supporters of China, because they benefited directly from China's growth and economic opportunities. They had strongly advocated China's accession to the WTO. When protectionist or nativist sentiments built up in the US, they were a balancing voice that counselled good relations with China.

31. Now, that goodwill has all but evaporated. US businesses feel let down that China has not adjusted its policies on trade and investments, and in fact systematically disadvantages foreign businesses operating in China, while Chinese businesses operate uninhibited in the US. They want greater access to the China market, and not just to use China for their global supply chains. Many European businesses feel the same. This loss of goodwill on the part of an important constituency is a serious problem for China, which the Chinese have not fully appreciated or dealt with.

32. In China, views are hardening too. There are those who see the US as trying to thwart China's legitimate ambitions – convinced that no matter what they do or concede on individual issues, the US will never be satisfied. They are alarmed by talk of a "clash of civilisations" between the US and China. They reject what they see as efforts by the US to impose its political system and values on China.

33. This is coupled with a strong vein of nationalist fervour. Chinese television is rebroadcasting old movies of the Korean War, known in Chinese as 抗美援朝战争 – the war to resist America and assist North Korea. There is even a "US trade war song" circulating on the internet, based on a musical track from a popular 1960s war movie about fighting the Japanese in the Sino-Japanese War! Hardly anyone in China, whether in government,

academia or the media, can be found who is prepared to speak up for a more positive and benign interpretation of the US' intent.

34. The fundamental problem between the US and China is a mutual lack of strategic trust. This bodes ill for any compromise or peaceful accommodation. But to go down the present path would be a serious mistake on both sides. There is no strategic inevitability about a US-China face-off. But at the same time, if such a face-off does happen, it will be nothing like the Cold War.

35. First, there is no irreconcilable ideological divide between the US and China. China may be communist in political structure, but it has adopted market principles in many areas. The Soviets sought to overturn the world order. But China has benefited from, and by and large worked within, the framework of existing multilateral institutions. During the Cold War, the Communist bloc sought to export Communism to the world. But China today is not attempting to turn other countries Communist. Indeed, it is often criticised for being too willing to do business with countries and leaders regardless of their reputation or standing, citing non-interference in the internal affairs of other countries.

36. Second, China has extensive economic and trade links with the rest of the world. It is a major node in the world economy, unlike the USSR, whose economic links outside the Soviet bloc were negligible. In fact, all of the US' allies in Asia, including Japan, South Korea, the Philippines, Thailand and Australia, as well as many of its friends and partners, including Singapore, have China as their largest trading partner. They all hope that the US and China will resolve their differences. They want to be friends with both: to nurture security and economic ties with the US, as they grow their business links with China. In a new Cold War, there can be no clear division between friend and foe. Nor is it possible to create NATO or Warsaw Pact equivalents with a hard line drawn through Asia, or down the middle of the Pacific Ocean.

37. On the other hand, if there is indeed a conflict between the US and China, where will it end? The Cold War ended with the total collapse of the sclerotic planned economies of the Soviet Union and its allies, under the pressure of enormous defence spending. Even then, it took 40 years. It is highly improbable that the vigorous Chinese economy will collapse in the same way.

38. China cannot take down the US either. The US is still by far the strongest country in the world. Its economy remains the most innovative and powerful, and its military capabilities and spending far exceed China's. Americans worry about China catching up with the US, but although China may be ahead in some fields, it will be many years before China can equal the US. And contrary to what some people in China think, the US is not a declining power, nor is it withdrawing from the world. In fact, the US has made clear its intention to compete robustly, though in a different mode than before.

39. Even short of outright conflict, a prolonged period of tension and uncertainty will be extremely damaging. Many serious international problems like the Korean situation, nuclear non-proliferation, and climate change cannot be tackled without the full participation of the US and China, together with other countries. In economic terms the loss will be not just a percentage point or two of world GDP, but the huge benefits of globalised markets and production chains, and the sharing of knowledge and breakthroughs that enable all countries to progress faster together.

40. We should therefore do our utmost to avoid going down the path of conflict, and causing enmity on both sides that will last for generations. Of course, it is the duty of security and defence establishments to think the unthinkable, and plan for worst case scenarios. But it is the responsibility of political leaders to find solutions to head off these extreme outcomes.

41. This is hard, because leaders on both sides are facing powerful domestic pressures. In the US, the political mood is deeply divided and disgruntled. Large segments of American society have lost confidence in

globalisation and multilateralism. According to a Pew survey last year, nearly half of all Americans have an unfavourable opinion of China. As the presidential elections approach, these attitudes will surely deepen, because neither the Republicans nor the Democrats will want to risk being accused of being 'soft' on China. Regardless whether President Trump is re-elected, or another Republican or Democrat wins, these sentiments will not go away.

42. China may not have US-style presidential elections, but their leaders face strong internal pressures too. In fact, the orientation of the Chinese leadership is primarily domestic. They know they have major issues to deal with at home. These include unevenly distributed growth, significant rural poverty, an aging population, and rising expectations for a better quality of life.

43. Both sides are sensitive about being perceived as weak. Out of political necessity, the US wants to show that it has come out ahead in any deal. On the other side, because of China's long history with the West, its leaders cannot afford to appear to succumb to Western pressure to accept an "unequal" treaty. Just a few weeks ago, China commemorated the centennial of the May 4 movement. In 1919, at the Versailles Peace Conference, a feeble China was forced to accept the decisions of the big powers. This caused Peking University students to demonstrate in protest, launching a nationalist movement to modernise and revive the country. This was a seminal moment in modern Chinese history.

44. This zero-sum dynamic makes it very hard to construct an agreement that is politically acceptable to both parties. But ultimately it is in the interests of both the US and China to reach such an accommodation, and to persuade their domestic publics to accept it. They both need to keep their relationship steady, so that both can focus on their respective pressing domestic priorities, and not be distracted by troubled relations with the other.

Multilateralism

45. What can other countries do collectively, to stem the growing hostility and instability? Small states like Singapore can do little to influence the big powers, but we are not entirely without agency.

46. There are many opportunities for smaller countries to work together to deepen economic cooperation, strengthen regional integration, and build up multilateral institutions. This way, we can strengthen our influence as a group, and advance a collective position on issues that matter to us, be it trade, security or technology.

47. Our multilateral institutions today are far from perfect. The WTO is one of the major institutions in the post-war global order, but now it is almost paralysed, and urgently needs reform. Multilateral global deals like the Uruguay Round are no longer practical, when agreement requires a full consensus among 164 member countries of hugely diverse interests and philosophies. Furthermore, the WTO was designed for an agricultural and manufacturing-based world economy, but the world has moved on to services and now increasingly digital and intellectual property, which need much more complicated rules.

48. The US has lost faith in the WTO. It often acts unilaterally, imposing tariffs and trade sanctions outside WTO rules. It prefers negotiating bilateral deals one on one against smaller countries in tests of strength. It gives more weight to the US' direct benefits in the disputes at hand, than to its broader interests in upholding the multilateral system. This has caused concern to many of the US' friends and allies.

49. Singapore cannot afford to adopt the same point of view. Being small, we are naturally disadvantaged in bilateral negotiations. We need to reform and strengthen multilateral institutions, not cripple or block them. More fundamentally, confining ourselves to a bilateral approach means forgoing win-win opportunities which come from countries working together with

more partners. We need to build a broader regional if not global architecture of cooperation. When groups of countries deepen their economic cooperation, they will enhance not just their shared prosperity but also their collective security. With more stake in one another's success, they will have greater incentive to uphold a conducive and peaceful international order. This will benefit many countries big and small.

50. Thus, short of universal trade agreements, we should at least strive for regional or pluri-lateral arrangements. This may be a second best solution, but it is a practical way to incrementally build support for lower trade barriers and higher standards, which can then be adopted by other countries.

51. This was the rationale behind the Trans-Pacific Partnership (TPP). The US originally came on board the TPP because it saw the strategic benefits, although it ultimately withdrew. Fortunately, the remaining 11 members were able to preserve nearly all that had been negotiated, and so the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) is now in force.

52. I am glad that more countries have expressed interest to join the CPTPP, including South Korea, Thailand and the UK. China is also watching the CPTPP carefully. They are not ready to join now, but I hope that they will seriously consider doing so sometime in the future. Similarly, I hope one day it will become politically possible for a US administration to rethink the US' position, and recognise that it stands to gain, economically and strategically, from becoming a member of the partnership that it played a leading role in designing.

53. Meanwhile, countries in the Asia Pacific are working on the Regional Comprehensive Economic Partnership (RCEP). The RCEP has a different footprint from the CPTPP. It covers all the key countries on the western side of the Pacific, including Northeast and Southeast Asia, and also importantly India, Australia and New Zealand. This inclusive configuration minimises the risk of the RCEP being misperceived as a bloc that excludes the US and its

friends. With such a wide range of participants, RCEP standards are naturally less ambitious than the CPTPP's, and the deal is also much harder to negotiate. Nonetheless, I hope the participants can take the final step to complete the RCEP by this year, or if not, as soon as the domestic politics of the key players allow.

54. Of course, regional cooperation goes beyond trade. In Southeast Asia, ASEAN has provided ten very different countries an effective platform for dialogue and cooperation. ASEAN has deepened ties and kept the peace amongst its members. It has become an effective regional partner of other countries, and enabled its members to project a stronger external presence as a group.

55. ASEAN works on the basis of consensus. It makes more progress in some areas than others, because ASEAN members are not immune to the strategic forces that pull us in different directions. This is the hard reality of cooperation in a region exposed to multiple external influences. Despite its limitations, ASEAN has contributed much to the well-being of its members and the security of the region, and ASEAN's partners recognise the value of ASEAN Centrality.

56. Amid the geopolitical shifts, new concepts and platforms for regional cooperation have emerged, notably China's Belt and Road Initiative (BRI). Singapore supports the BRI. We see it as a constructive mechanism for China to be positively engaged with the region and beyond. That is why we are active participants. For example, we work with the World Bank to promote financial and infrastructure connectivity, and we provide supporting professional and legal services to BRI countries. We are also partnering China to develop the New International Land-Sea Trade Corridor, which connects Western China to Southeast Asia under the China-Singapore (Chongqing) Connectivity Initiative (CCI-ILSTC).

57. Of course the substance of the BRI, and the way in which the BRI is implemented, are important. The specific projects must be economically sound and commercially viable, and must bring long term benefits to its

partners. This has not always been the case; some BRI projects have run into significant problems. Overall, the BRI must be open and inclusive, and must not turn the region into a closed bloc centred on a single major economy. As Asian countries deepen their links with China, they also need to grow their ties with the US, Europe, Japan and others. In other words, the BRI should help China to integrate with the world. The end result should be to strengthen globalisation, and not to divide the world into rival spheres of influence.

58. I believe China appreciates this. At the recent Belt and Road Forum in Beijing, Chinese leaders stated clearly that the BRI would be “open, green and clean”. China’s Finance Minister set out debt sustainability requirements for Belt and Road projects, which the IMF has welcomed. In the nature of such reassurances, the test will be how these statements of intent are implemented in practice, but these are steps in the right direction.

59. Meanwhile, other initiatives have been proposed for regional cooperation. For example, several countries have proposed various concepts of “Indo-Pacific cooperation”. These ideas are less fully elaborated or implemented than the BRI, but Singapore’s attitude towards them is consistent. We support regional cooperation initiatives which are open and inclusive platforms for countries to cooperate constructively, and deepen regional integration. These initiatives should strengthen existing cooperation arrangements centred on ASEAN. They should not undermine them, create rival blocs, deepen fault lines or force countries to take sides. They should help bring countries together, rather than split them apart.

Conclusion

60. US-China relations will define the tenor of international relations for years to come. It is natural that the two powers will vie for power and influence, but competition should not inevitably lead to conflict. We hope the US and China find a constructive way forward, competing certainly, but at the same time cooperating on major issues of mutual interest.

61. Some people argue that compromise is not possible or perhaps even desirable, because the US and China hold such different values. Indeed, one US official recently defined the clash with China as “a fight with a really different civilisation and a different ideology”. Others observe that the US is a young country that wants everyone to be like them, while China is an old country that believes no one else can be like them.

62. To expect every country to adopt the same cultural values and political system is neither reasonable nor realistic. In fact, humankind’s diversity is its strength. There is much we can learn from one another, from the differences in our values, perspectives, systems, and policies. The story of humankind’s progress has been one of exchange of ideas, and continuous learning and adaptation.

63. Henry Kissinger said last year that “we are in a very, very grave period for the world”. No one can predict which way events will develop. At different times in the last two centuries, Southeast Asia has seen rivalry between great powers. It has experienced destruction and suffering from war and occupation. It has been divided into opposing camps. It has seen how isolation from the world economy led to stagnation and sometimes conflict. At other times, it has benefited from international cooperation that created an open, stable environment where countries could prosper in peace.

64. On a long view, we cannot rule out any of these eventualities. But in our own generation, we must work together to maximise the chances that countries will have the wisdom and courage to make the right choices, opt for openness and integration, peace and cooperation, and so preserve and expand the progress which we have made together.

65. Thank you.