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Back to the Future: Singapore, China and Southeast Asia

By Linda Lim

Synopsis

As Singapore and the rest of the world adjust to a rising China, Southeast Asia's unique place in the evolving world order calls for the island state's return to its historical role in global trade and commerce yet anchored in the Malay-speaking world.

Commentary

THE DOMINANT narrative in global affairs these days is that “the West” is “retreating” from globalisation while China is “rising”, with the intimation that this poses a threat to global prosperity and security, including to Singapore.

Western retreat has been implied from a series of significant developments: the 2016 Brexit vote and Trump election; rise of populist-nativist political parties in Europe; increasing trade protectionism and restrictions on foreign investment and immigration; more stringent regulation of tax-and-subsidy arbitrage and competition policy; hints of a revival of national industrial policies; and some high-profile examples of “reshoring” of global business to the United States.

Globalisation Still Alive and Kicking

But while populists have gained some electoral ground in Europe, they have mostly not formed governments, and Emmanuel Macron's 2017 victory in France suggests that an unabashed “globalist” can still get elected. The European Union has reiterated its support of free trade and successfully negotiated free trade agreements with Canada, Japan and other countries.

In the US, despite the protectionist stance of the Trump administration on trade and investment, numerous public opinion surveys show that large and growing majorities

of the American public are pro-trade, pro-immigration and pro-globalisation, while multinationals are continuing with their globalised strategies, including international investments.

The Trump administration aside, most countries support the WTO's multilateral rules-based international order. The recent conclusion of the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP) agreement (without the US), and Brexit supporters' claim of enthusiasm for post-EU bilateral free trade agreements, show that interest in trade liberalisation continues to be strong.

The rise of China as a "leader of globalisation" is inferred from Xi Jinping's recent speeches and actions, such as his 2017 Davos speech defending globalisation, his 19th Communist Party Congress speech saying that China will "move closer to (world) centre stage" in a "New Era", and his promotion of his Belt-and-Road Initiative, the Asian Infrastructure Investment Bank (AIIB), and other new institutions for international investment.

China is already the world's second largest investor, and the government's declared focus on consumption-led growth will make its home market an even bigger draw for other countries. Recent appointments to top economic positions of officials known to be pro-market reforms, and the continued pursuit of financial liberalisation and reductions in debt burdens and excess capacity, also portend more inward and outward globalisation.

China as Leader of Globalisation?

Against this, Xi has made little mention of market reforms or private enterprise, but has said that state-owned enterprises are to be made "bigger, stronger and more efficient". The national industrial policy "Make-in-China 2025" is very much a priority, and the government still controls capital flows and the exchange rate.

The US and EU have refused to grant China WTO "market economy" status, and foreign companies' complaints of restrictive local content, local ownership, intellectual property sharing and technology transfer requirements, motivated the Trump administration's latest sanctions on China for "unfair trade practices".

These do not indicate that China is a "leader of globalisation", and Pew Research Centre's Global Attitudes Survey 2017 found that more publics viewed the US than China as the world's leading economic power, though the gap in favourability ratings of the two countries has narrowed and ratings are declining for both.

Overall, globalisation is slowing for many reasons. The (mostly Western) rich world faces slow GDP and productivity growth, rising inequality, ageing populations, limited capacity for fiscal and monetary stimulus, and social and environmental pressures to buy/hire/invest local and minimize carbon footprints. Tradable manufactures' share of GDP falls as non-tradable services' share increases with rising incomes, while technology encourages production in final markets, shrinking far-flung global supply-chains.

Southeast Asia's Growing Strength

Multilateral trade liberalisation has stalled, giving way to regional and plurilateral initiatives, and rising protectionism, while national or regional tax reform, anti-subsidy and anti-monopoly policies increasingly restrict free capital flows.

Still, over the next 30-odd years, Asia will continue to be the fastest-growing regional economy, with over half of world GDP by 2050. Southeast Asia will outpace all other world regions in GDP growth, except South Asia, with Indonesia becoming the world's fourth largest economy, and ASEAN the size of the EU.

Growth will come from technological change, productivity growth and the "demographic dividend" for some countries, with strong consumption demand from emerging Asian middle classes driving global growth as the share of global middle-class demand now dominated by advanced countries declines.

Implications for Singapore

First, our colonial and postcolonial role as a comprador for multinationals will decline as they retrench globally to consolidate in large final markets, are enabled by technology to reach end-clients directly through distributed networks rather than hub-and-spoke arrangements, and as technological convergence reduces less-developed countries' need for more-developed intermediaries.

The rise of China does not substitute for any retreat of the West because China is much more likely to directly engage with Southeast Asia due to its geographical proximity, size and presence, income-level similarity, cultural and political assets, highly entrepreneurial and technologically advanced businesses, and rapid learning.

China does not need us as a bridge (they like to do things themselves) and it is not clear we possess the deep cultural and market knowledge of our neighbours needed to be an effective bridge. As noted by Aimone Ripa di Meana, a co-founder of Lazada: "I don't think knowing how to do (business in) Singapore is in any way relevant to how you build your business in the Philippines or Indonesia."

So to be a bridge for China into Southeast Asia, Singaporeans need to be deeply knowledgeable about our region. We should also aspire to be more than a bridge — rather, part of the destination, by embedding ourselves in the Southeast Asian middle-class consumer market.

Singapore, China and the Malay World

Singapore's per capita GDP is many times higher than that of its larger neighbours, but indigenous GDP is only 55 percent of the total, and unequally distributed. Southeast Asian primate cities typically have incomes two to three times the national average, also unequally distributed. So, mid-to lower-income Singaporeans may be expected to consume at price points similar to millions of big-city dwellers in Southeast Asia. Products and services developed for them can find a market in neighbouring countries, and vice versa.

Geography is destiny—*where* we are matters to how and with whom we make our

living. It also matters who we are, and it is history which forges our identity. Here, cultural hybridity is a unique potential strength Singapore can build on, harking back to our pre-independence days when different races genuinely mingled in schools, marketplaces, workplaces and homes, with Malay and English as the lingua franca uniting where multiple Chinese dialects divided (but connected us with similar populations in our regional neighbourhood).

Since then it is arguable that our turn to the English-only world of (Western, Japanese) multinational business and the mainly-Mandarin world of interactions with China, together with the fossilisation of CMIO (Chinese-Malay-Indian-Other) racial categories, has rendered Singapore's multiculturalism superficial, with little deep understanding of each other's different ethnic and religious traditions and cultures.

As Minister Chan Chun Sing noted: "Businesses from other parts of the world see Singapore as a staging place to the rest of region. However, we will be of very little value if we do not understand the language and culture in our own backyard. Only by learning the Malay language will we continue to remain relevant to the region and the world at large."

Back to the Future?

Cultural understanding is of primary importance to the young Chinese state-owned enterprise executives I teach on going global. When asked, "What does 'thinking internationally' mean to you?" they highlight the need for cultural learning and understanding different perspectives, or as one said, "Think of foreign problems in Chinese way. Think of Chinese problems in foreign way. Think of foreign problems in foreign way."

In international business, one must see the world through the eyes of the other, and everyone is a minority. As Southeast Asia's multicultural local Chinese businesses have shown, there are advantages to being an outsider or minority — chiefly the ability to add value by seeing things differently from homogeneous majority populations.

Singapore can benefit from cultivating this unique differentiating advantage, which will help us to compete with — not just service-businesses from the West, China and other regions as they gravitate toward Southeast Asia's dynamic markets and diverse populations in forthcoming decades.

This will return us to our history of intense involvement in regional and global trade with multiethnic, multicultural partners, even as the world economy transitions from a Western-led international order to one with more distributed sources of political and economic power, increasingly centered on Asia. Back to the future.

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