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The world after September 11

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HIS EXCELLENCY LEE KWAN YEW,*
Senior Minister, Republic of Singapore

THE WORLD AFTER SEPTEMBER 11

Thank you for inviting me to talk about the future challenges to the global economy.

When the horrifying TV telecast of two airliners crashing into the World Trade Centre in New York flashed across the world, I felt that something fundamental had changed.

One immediate concern was its impact on a world economy that was already in a synchronised slow-down. The need for heightened security at airports, seaports and border crossings slowed down the open and speedy flows of people and goods that created the boom of the New Economy. There was a knee-jerk selloff in global stock markets. But the US Fed, the European Central Bank and other major central banks slashed interest rates, kept liquidity high, and the worst did not happen. A recovery is now on the way. Japan aside, all the major economies are expected to register positive growth this year.

Confidence was boosted by the swift initial US success in Afghanistan. However, the fight in Afghanistan is not over. Al-Qaeda and the Talebans cannot be easily eradicated. The war against terrorism will be long and arduous. Terrorists, the existence of weapons of mass destruction, and the continuing Israeli-Palestinian conflict will be threats for many years.

I came to this conclusion because I live among Muslims and have studied how Muslim terrorists operated in the region, including in Singapore.

There are more than 230 million Muslims in Southeast Asia. Nearly all were tolerant and easy

to live with. The majority of the 200 million Indonesian Muslims were “abangans”, Muslims who had fused Islam with Buddhism, Hinduism and other beliefs. They were not the intense and strict Muslims of the Arabs in the Middle East.

But the nature of Islam in Southeast Asia has been changing over the last 30 years. First and foremost, after the price of oil quadrupled in 1973, Saudi Arabia had generously financed the “Dakwa” (missionary) movement by building mosques and religious schools (madrasahs) and paying for preachers (ulamas) throughout the world, spreading the teachings and practices of its austere Wahabi version of Islam. Next, the overthrow of the Shah in Iran in 1979, in a revolution led by Islamic clerics, had made a profound impression on Muslim minds of the power of Islam. Finally, the participation of large numbers of Southeast Asian Muslims in the jihad in Afghanistan during the 1980s and the 1990s has radicalised significant numbers of the Southeast Asian Muslims.

In keeping with a world-wide trend, over the last three decades many Muslims in Singapore and the region are becoming stricter in their dress, diet, religious observances, and even social interaction, especially with non-Muslims. Increasingly Muslim women will not shake hands with men. The generation of convivial and easy-to-get-along-with Muslim leaders in the region has given way to successors who observe a stricter Islamic code of conduct. My original concern was over the growing separateness of our Muslim community, as Singaporean Muslims tended to congregate for their social and extra-mural activities in their mosques, instead of in multi-racial community clubs. What came as a shock was that this heightened religiosity facilitated Muslim terror groups linked to Al-Qaeda to recruit Singapore Muslims into their network.

When Al-Qaeda became big news after September 11, our intelligence broke up a terrorist cell called Jemyaah Islamiah (JI). This was an organisation with branches in Malaysia and in Singapore, led by

* Unfortunately, the Senior Minister of Singapore, Lee Kuan Yew, had to decline his participation in the Munich Economic Summit due to a severe bout of influenza. The following is the speech that he would have delivered on the night of June 7th.

Indonesians based in the Philippines and Indonesia. They had links with Al-Qaeda operatives. One member of JI, Aslam Khan, a Singaporean Muslim of Pakistani descent, left for Karachi on October 4 and went on to Afghanistan to fight with the Taliban. On November 29, we were informed by a friendly intelligence agency that Aslam had been detained by the Northern Alliance. Because the story was about to break in the media, we arrested some 15 members of the network which we had put under surveillance. 13 were found to be involved in various terrorist plots. One of them was a plot to have seven trucks, each laden with three tons of ammonium nitrate, for seven targets, including the US Embassy, its two neighbours, the UK and the Australian High Commissions, the Israeli Embassy and other American assets. Another plot targetted a subway station to which American naval personnel would regularly come by coach. Our information enabled the Philippines to arrest an Indonesian who was a key Al Qaeda member. He was found in possession of one ton of TNT, hundreds of detonators and more than a mile of detonating cord. He was one of two foreign handlers who were instructing the Singapore cell. The other was a Canadian national of Kuwaiti descent whom we have identified. The amir or leader of the JI is Abu Bakar Baasyir, who also heads the Indonesian Mujahideen Council in Jakarta.

What drove these Singaporean Muslims to support such goals? None of them complained of racial or religious discrimination. All had been educated in our English language schools, held steady jobs and owned their homes. All said they had nothing against Singapore. Their target was the US and their aim to Islamise the region. If in the process innocent Singaporeans, including Muslims, had to die, it could not be helped. They were driven by a shared ideology of universal jihad to destroy Americans and Jews whom they consider the enemies of Islam. The leader of the group, a charismatic preacher, was defiant after his arrest, very much like the Al Qaeda captives in Cuba under interrogation by the Americans. He told the judge reviewing his case that he failed because "Allah did not will the attack to happen and predestination cannot be over-ridden." And this man was born and educated in English in the secular cosmopolitan society of Singapore.

It is necessary to emphasise that the war against terrorism is not a war against Islam. The majority of Muslims have nothing to do with terrorism or

extremism. However, militant terrorist groups have hijacked Islam as their driving force and have given it a virulent twist. Throughout the Muslim world, the militants are out to impose their version of Islam. The majority of Muslims who are moderates are caught in between (1) sympathy for and identification with the Palestinians and anger against the Israelis, and (2) their desire for a peaceful life of growth and progress. To resolve the problem of terrorism, the US, EU and others must support the tolerant non-militant Muslims so that they will prevail.

The US response to the terrorist attacks of September 11 has demonstrated America's pre-eminence. That shock has altered the attitudes of Americans on how to deal with terrorist threats to their society. Washington will not hesitate to use its enormous power to change the rules of the game to hunt down and destroy terrorists and those who give them succour, and to pre-empt the use of weapons of mass destruction. This is their present mood.

Longer-term economic prospects in East Asia

Because of the religious fanaticism of Muslim extremists, their terrorism will trouble the world for several years to come. However, despite terrorist threats, East Asian economies will continue to grow.

A huge transformation is going on. The Asian Development Bank's 2002 forecast for Southeast Asia is positive. For the foreseeable future, China will continue to lead with its growth, fuelled by the increased capital inflows that followed its entry into the WTO. International investors had started to position themselves some years earlier. In the early 1990s, foreign direct investment (FDI) into East Asia (excluding Japan) used to be 50 percent for Asean and 20 percent for China. Now it is the other way around, with 50 percent for China. However, a growing China is good for the region. China is a huge and growing production base for the world. But it cannot and will not produce everything by itself. It will need to import raw materials, intermediate inputs, capital equipment and consumer goods.

This is already happening. Exports to China from ASEAN-5 (Indonesia, Malaysia, Singapore, Thai-

land, the Philippines) rose nearly sixfold between 1990–2001. By comparison, ASEAN-5 exports to Japan, the US and EU increased only two times. China's growth will also have spin-offs for the region's services industry. As income levels go up in China, there will be greater demand for quality goods, mostly imported, besides educational, healthcare and recreational services. Chinese tourists have already made a huge impact on the rest of East Asia.

FDI is also flowing strongly into Korea, Taiwan and Singapore. International investors are still keen to invest in parts of Asia outside China, to diversify their risks and gain market share.

Japan is an exception to this generally promising picture. The problems are as much cultural and political as economic. The LDP has not summoned the will for major liberalisation, deregulation and a restructuring of the Japanese economy. They have no stomach for the wrenching changes and social dislocations which are necessary. Despite a decade of slow growth, Japan is still prosperous and comfortable. It is still the second largest economy in the world, and even in its present malaise, cannot be discounted.

Meanwhile a massive relocation of industries from Japan, South Korea and Taiwan into China is taking place, in the same way as Hong Kong's light industries migrated to China in the 1980s and 1990s, for the massive cost gains. An estimated 7 percent of Japan's manufacturing is already in China. In a decade, half of Japan's manufacturing could be in China. The two countries are one hour apart by plane and their integration would create great benefits for both. Japanese firms continue to expand into the Mainland market and have sought strategic alliances with Chinese firms.

Taiwanese investments in China are hollowing out large parts of the island's lower end electronics and IT sectors. Several hundred thousand Taiwanese families with their children are permanently resident in Shanghai, Xiamen, Guangzhou and other coastal cities. The integration of their economies is progressing. This relocation to the Mainland of industries from Japan, South Korea and Taiwan will integrate Northeast Asia's economies.

In 30 to 50 years' time, most of the countries in Southeast Asia will be part of a value chain stretch-

ing from Japan, China, South Korea and Taiwan to Southeast Asia. China has proposed a free trade area between itself and ASEAN and agreed to "early harvesting" so that benefits can be reaped early. In response the Japanese have proposed economic partnership agreements with ASEAN, similar to the one they have signed with Singapore. The East Asian economies are likely to become a lot more closely integrated over the next 30 years and the region will emerge as the largest economic bloc in the world, surpassing America and the EU.

Europe has been preoccupied in the last decade with the expansion and consolidation of the EU. But European businesses should invest some time and resources to seize the opportunities that this transformation in East Asia offers. The economic landscape of East Asia is changing rapidly, driven by the rapid growth of China and the growing trade and production linkages across the region. The Asian financial crisis had inflicted severe damage to the ASEAN economies. As a result, their growth has fallen behind that of China. However, their economic fundamentals remain strong and many of them are undertaking painful reforms. In time, they will recover and regain their former dynamism. Investors will not put all their bets on China. The US, Japan, and even China are staking out strategic positions for themselves through Free Trade Agreements and closer economic partnership initiatives with ASEAN. Europe should not lag behind.