



**KEYNOTE SPEECH**  
**2005 TFWA AP Conference**  
**The Rt. Honourable Lord Christopher Patten of Barnes**  
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Chairman, thank you very much indeed for those extremely kind and generous remarks which my father would have much enjoyed & which my mother would have believed.

It's a great honour to be asked to address your conference this morning and a great pleasure to be in Singapore again... a remarkable city, which is itself a considerable tribute to the philosophy of Adam Smith and to the political leadership of Lee Kuan Yew. I guess that I am best known not for arriving in Asia but for departing from Asia, as the Chairman said, the last colonial oppressor of the British Empire. I have always been struck by how many people saw those events, the drama, the theatre of the occasion, the fireworks, the presidents, the princess, the royal yacht, the extraordinary scenes as we left Hong Kong in the driving rain in 1997.

The other day I was getting into a taxi in New York and the Bangladeshi cab driver said to me, 'has anybody ever told you how like Chris Patten you look?' But it was also, I think, remarkable that it was regarded as not just a British but a very European event. I have a house in the South of France and I came back from Hong Kong to there and was taking a walk with my dogs a couple of valleys away from where I live, about a fortnight or so after I'd come back. We bumped into an extremely old French gentleman moving along the lane at a pace barely sufficient to sustain human life. We stopped to talk to him and he said 'where do you live?' So I told him that we live in this nearby village and so he said, 'ah there's a great man who has moved into that village. Have you met him yet?' So I said, 'no. Who are you talking about?' So he said he is a great man, he comes from Asia. He is the Governor of Saigon!

You will recall the way in which we left on what I suppose is the ultimate luxury good, the royal yacht. On its very last voyage we were accompanied by the largest fleet that the British Government had assembled since the closure of the base here in Singapore in the mid 1960s. And for the very last time in the history of the British navy we had a royal yacht sail thru the fleet. The 17 ships of the line, including an aircraft carrier and the nuclear submarine, formed a double file and the royal yacht sailed up the middle with the crew of each vessel drawn up on deck to give us three cheers. We sailed on like that to Manila with the flying fish and the dolphins and in Manila we were greeted by elements of the Philippine navy which welcomed us with a 21 gun salute (we subsequently discovered using live rounds!) It's true. And then my wife and I and our 3 children and luggage got on a plane at Manila and flew back to Heathrow and tried to get a cab at terminal 3. And that's how the British Empire actually ended! It's quite frustrating being a European politician and spending some time, as I was fortunate enough to do, in Asia.

When I was in Hong Kong the population of 6.5 million, had a GDP which was about 22% of China (those figures would have changed now) but it was an extraordinarily successful economic powerhouse with 35 years of economic growth. I've been, in British politics, among other things, Secretary for the Environment, responsible for land use - planning and one of the decisions I took in 1989 was to establish a public inquiry about whether or not there should be a 5th terminal at Heathrow. In 1992 I went to Hong Kong and I remember standing on a hillside looking down at the water, north of Lantau where it was proposed we should build a new airport. During the five

years that I was there, we pretty well completed that airport on a man-made island. We built 2 bridges, several tunnels and a new railway line. I left Hong Kong (true story), got back to the UK, I am lying in bed my first morning in London and turned on Radio 4 and the first item on the news is that the Government have established a public inquiry to decide whether or not to have Terminal 5 at Heathrow. And I think that anybody who has worked in Asia would have the same experience, working in an atmosphere which is optimistic, working in an atmosphere where you can get things done very rapidly comes as a happy change for most European politicians.

What I have been asked to do this morning in 35 minutes or so is to try to put what's happening in your own industry in a context of what I think is happening in Asia and beyond. And the point I want to make at the outset is that what we are witnessing is the re-emergence of China and India as global heavyweights. And I say re-emergence deliberately, because if you look up the work of the great economic historian Angus Madison you see that China and India before the industrial revolution transformed North America and Europe. China and India in 1820 represented 50% of the world's GDP that had fallen steadily through the 19th century so that by 1890 it was down to 25%. And then not least because of the turbulence in China, in the first half of the last century, it fell to 7% or 8% by 1950. Since then the figure has been climbing steadily since the death of Mao Zedong and the arrival of Deng Xiao Ping, so that the figure had doubled to about 17% by 2000. And it's predicted to increase by 2030 to 30% or maybe higher. But we are used to living in a world which has been shaped and led by the transatlantic community, by America principally but also Europe and I just think we should sometimes consider how much longer that is going to be true.

Clearly, China has become the workshop of the world. China produces 2/3 of all DVDs, photocopiers, microwave ovens, shoes. China produces about half of all digital cameras and about two-fifths of PCs. It's also a big new market for what the rest of the world produces.

When I went to work in Hong Kong in 1992, average tariffs in China were 41%. With the Chinese entry into the WTO, those tariffs have fallen to an average of 6%. China has the lowest tariff protection of any developing country in the world. Over the last 5 years China has been responsible for about 1/3 of the total increase in world import volumes. Within a decade China will almost certainly be the world's largest exporter and world's largest importer.

There is a story on the front page of the Asian Wall Street journal this morning which says China's exports growth falls. What they actually mean is the growth had fallen from 32%+ to 31%+. Some collapse! So China has fit remarkably well into the world economy, particularly as far as America and Europe are concerned. I will come back to the present protectionist sentiment in Europe and America about textiles in a few moments but it does seem to me that America and Europe have nothing to grumble about. What's happened in the textile area has been predicted for years, it was certainly inevitable given the scrapping of quotas at the beginning of the year. And it's not Americans and Europeans who have been most affected, it's actually other Asian producers and Mexico.

People very often say that going to Shanghai gives you a good example of what's happening in China and to some extent it is true. I first went to Shanghai in 1979 and in those days walking to the Peace Hotel to listen to its ageing jazz band you would almost literally after 8 or 9 o'clock in the evening count the electric lights as you walk along. Any of you who have been to Shanghai recently will know that that is not the case today. There are glitzy neon traffic jams at 10-11 o'clock in the evening. But what I find most extraordinary is not what's happening in Shanghai but to go to other cities and see the Shanghai affect there as well.

I was in Xian not very long ago. Xian is the gateway to the poorer, west of China. But opening one's bedroom curtains in the hotel in the morning you saw exactly the same scene that you would have seen in the Shanghai or Hong Kong 10 years ago--cranes everywhere, building taking place everywhere. It's a very manifest reflection of China's 9% or 10% growth rate which is one of the reasons why China attracts such a large proportion of the world's foreign

investments. Is it all sustainable at 9% or 10%? I rather doubt it. The IMF thinks it's sustainable at 7.5 %, 8 % and that would be my view as well. And I think the Chinese Government themselves would like to rein back the growth a percentage point or two, and of course we know what the problems are. A fragile banking system, with the politicisation of credit and too much money going into the loss-making state sector, pervasive miss-government, partly because of corruption which is still a problem, and government to government leads to fraud, tax evasion, smuggling and counterfeiting, all of which make it difficult to develop e-commerce, cheques, credit cards. So there is plenty that can go wrong in China but there is also a huge upside. And I just want to mention four examples of that.

First of all, China's economy, as I've indicated, is remarkably open to trade investment. To take exports and imports together they represent about 75% of China's GDP, which is a figure far higher than most other large countries which would typically average about 30%. Secondly, China has access to an almost unlimited supply of cheap labor with a large part of the population still living in the countryside. Thirdly, if China's real income continues to grow at 8% or thereabouts a year, an income distribution remains unchanged. By 2020 the top 100 million households in China will have an average income equivalent to the current average in the European Union. It's a remarkable size for a middle class and a tremendous potential market for you and for all who are involved in the travel business. Fourth, as the state sector declines so more investment inevitably will be available for the private sector, which is responsible for the most growth in China. So I think the prospects for the Chinese economy are extremely good. As you know and the Chinese among you would confirm, there is a Chinese adage for almost everything.

Going back to when I was leaving Hong Kong I recall one of my diplomatic advisers talking to some journalist. I could hear him say, 'well of course, (just as the rain was sluicing down) there is an old Chinese saying, when a great man leaves the heavens weep.' And I said to him afterwards, 'you made that up didn't you?' He looked rather sheepish about it but there is a Chinese saying which I think, at the very least should define our attitude to what is happening and it is this, what you cannot avoid, welcome. I think we should also welcome what is happening in India. The Indian population is, according to the demographers, likely to outstrip the Chinese by the middle of the century. India is poorer than China. It's got a cheaper labor market, cheaper workforce though not as productive. It lags behind in investment in telecommunications and investment in infrastructure. It has a very small manufacturing sector but is still growing at 5 to 6% a year and it's been gradually opening up the economy. You know the spectacular situation in the South of India, in Bangalore which is home to over 300 software companies and 150 high technology multi-nationals and 130 of the fortune 500 companies which have offices in Karnataka.

The Chairman was talking about the size, the growing size of middle class in India. It's difficult to define it exactly but the Indians themselves define as the middle class, first of all in terms of the rich and they argue that there are 6 million be put into that category and then they say they would put 150 million into what they call the consuming class, that is people typically with average incomes of up to \$6,000 a year. So it is, as we said, one of the largest middle classes in the world and growing extremely rapidly and guess what the market research suggests that the thing they are keenest on... travelling. Just one other word about the other economies in the region.

When I was in Hong Kong in the mid 90s my feeling was that some investors, some European and American investors were a bit too bullish about what was happening in Southeast Asia and in East Asia and Korea they overlooked the signs of overheating and overlooked the signs of crony capitalism. So I was one of those who wasn't entirely surprised by the financial problems of '97 to '99. But as a European Commissioner responsible for our external relations, just as I felt that before '97 Europeans had been too optimistic about Southeast Asia, so as the recovery took hold in the 2000s, I felt very strongly that Europe wasn't being sufficiently optimistic about what was happening in the region.

We opened a large number of new delegations across the region in order to try to raise our profile here but I still think that European companies, maybe American ones too, have been a bit slow to come back into the region. Of course, a great deal depends on what happens in Indonesia, but one saw only this morning signs of the efforts that Indonesia's president is making to get on top of the problems of corruption there.

Another economy which I follow a bit is Vietnam which has been growing by 7.5% on average for a decade now as I have seen an extraordinary fall in the number of those living in poverty. What I hope is that other countries in ASEAN, other countries in the region, will follow the advice, the intellectual institutional advice of Singapore. Singapore has been trying to make ASEAN into more of an economic reality, it's been trying to promote economic integration within the region that in my view hasn't gone as nearly as far as one would like. I would like to see a commitment to a customs union in Southeast Asia and a strengthening of the ASEAN Secretariat. And I think those are both aims which are pursued by the Singapore Government.

Against that background I guess we shouldn't be surprised that tourism has become such an important part of the regional economy. As you know from the figures we have shown earlier, it is one of the fastest growing regional industries in the world with an annual turnover of about 100 billion dollars, responsible for 20 million jobs in Southeast Asia and representing about 8 % of employment. Can anything derail these developments? I think it's important to put the rational pessimism which I supposed one should consider in context because your industry has been hit by a series of shocks over the last few years, from all of which it has recovered at a spectacular rate. It recovered from the '97 to '98 financial crash, recovered from the smoke in 1998 with the forest fires in Indonesia, principally, and also in Malaysia, recovered from the Bali bombing in 2002, recovered from SARS in 2003. I can remember coming through Singapore in 2003 and feeling like a leper. I mean, I was the only person. I seemed to be the only person on the plane. And it recovered as well from the tsunami in 2004.

I think the best way Europeans can show their commitment to the countries that were hit by the tsunami is coming back to those countries on holiday as rapidly as possible and I think many of them have recognised that. So after each of those hits the industry has recovered pretty rapidly. So the negative points that I was asked to touch on as well I put in the context of that surging optimistic story.

What are the negative points? They are mostly negative points for the world and not just for the region. First of all what has happened in Europe for the last 50 years has been based on the historic reconciliation between France and Germany, latched together at the heart of the European union. That is what economic and political integration in Europe has been based on. There's been a similar reconciliation between China and Japan in Asia. And we see the consequences of that from time to time, not least in the recent argument about Japanese textbooks which may have actually been more to do with Japan's efforts to get a permanent place on the U.N. Security Council. That's tension-cum-spillover into economics and politics from time to time and it's not surprising perhaps that we've seen a fall in Chinese tourism to Japan and Japanese tourism to China. I think it's a pity that we have also seen a course for boycotting of Japanese goods and at least one Japanese factory industrial action that may have had to do more with ordinary issues than political issues. And other relevant history, which occasionally casts a shadow, is the argument between Beijing and Taipei. I don't want to get into that which will show you just how diplomatic I've become.

All of us in Europe and North America believe in a one China policy, without reservation. All of us discourage Taiwan (if we are sensible) from flirtations with the symbols of independent statehood. We also, I think, recognise that they'll only be changed when there is political change in China but that political change between China and Taiwan will reflect the economic realities as well.

I was in Shanghai the other day. There were 300,000 Taiwanese living in Shanghai. Half of the major hi-tech ventures in China are joint ventures between Taiwan and mainland investors.

That's a reality which will sooner or later have political consequences. Thirdly, North Korea...I guess I am one of the few people here who have been to Puyong which I don't imagine will be attracting many tourists for the indefinite future.

North Korea, I think without a single doubt is the most difficult, scary problem which the international community has to address. Is North Korea going to turn into a production line for nuclear weapons, the sort of weapons which could get into the hands not only of the more disagreeable failing states but also of terrorist groups? But that is not just the problem for Asia, not just the problem (let's face it) for the tourist industry, it's a problem for the whole of humanity and in coping with it what is absolutely clear—and it's a reflection of the change in political reality that I mentioned—in coping with it the United States is going to have to work very closely with China and the other regional players, but particularly with China. And I think it has to be said that insofar as trying to resolve this problem China has played an extremely constructive role. Just a couple of other problems, leaving aside the menacing fact that there is always the danger of further terrorist attacks in Europe and North American as well. I do have to say that I look at the violence in Southern Thailand with some concern but I hope that can be managed politically, successfully in the months ahead.

Two other things I wanted to mention not in a scary way but just because they both seem to me to be problems that we have to cope with. First is the spread of the bird flu which is now pretty well endemic in Asia. It's led to the slaughter of 120 million birds so far, it's led to 50 deaths and it's done about 10 billion dollars worth of damage. If you look at the forecast of the WHO, I guess you would never go out. The WHO thinks that the prospect for controlling it in Asia are very bleak and there is obviously a real danger of it becoming resistant to drugs and turning into a strain that would produce a flu pandemic among humans as happened after the 1st world war. All that's obviously a real threat. What do we do about it?

The most important thing it seems to me is to be open about it. One of the dangers in the last year or so has been that most authorities, those governments which have covered up what is happening in order to try to protect what is a quite important exporting business for themselves. What happens when you do that is that costing takes place, too late and you contribute to the spread of disease and I think it's incredibly important that governments in the region are very open about the problem. And it's also of course important that we invest heavily in vaccines and in stocking vaccines if we need them. But it's a very good example where transparency and openness are on the side of security.

The other point, the last point I want to make is one of sustainability. Half the world's growth in the last year has come from China and America. We know what it has been based on in China. It's been based on making things and selling them, selling them at a price which consumers find extremely attractive. The consequence of China's success is the world market's success. A consequence of the world market's success is that the real price of clothing and shoes in the United States in the last 10 years has gone down by 30%. So is China's success good or bad for American and European consumers? The other half of the story is, I am afraid, not about manufacturing, it's about borrowing. It's about a pyramid of paper, it's about the United States, because of its current account and physical deficits having to borrow two billion dollars a day. And we live in a crazy world in which the savings of Chinese persons are hoovered into American treasury bonds. Is that sustainable? One of my favourite economists (somebody called Herb Stein) who was the Chairman of Economic Advisers to President Nixon. Herb Stein's first law of economics is this: 'things that can't go on forever, don't'. And I wouldn't be surprised if that isn't written on a piece of paper in Allen Greenspan's in-tray as well. So it's not the sustainability I worry about. It isn't Chinese manufacturing, it's monetary and physical policy in the United States. And I say that without, I hope, any ill will and I hope the American members of the audience will understand that it's said with concern rather than as another example of a European anti-American because that I am certainly not.

One last word and I've got 60 seconds in order to sit down in 35 minutes. (I had an early lesson as a young politician about taking seriously time limits.) I was going into my 31st Rotary lunch in my district, in my constituency aged early 30s and said to the President of the Rotary as we went, and how long would you like me to speak for and he said well you go on as long as you like but we all leave at 2:15.

The last point which I want to make is that there is, in my view every reason for what the economists call 'rational exuberance' about Asia. There is never any reason for irrational exuberance and the people who have made pitfalls in Asia, and the people whose investments have gone wrong are the people who have left their commonsense in the airport when they flew to Asia. So every reason for being optimistic but no reason at all for leaving good sense at home. I am sure that as the Asian economies continue to motor forward your industry will do extremely well. I'm sure that the number of European tourists who come enthusiastically to Asia will continue to grow just as the number of Asian tourists grows and I certainly intend over the next few years to be among those European tourists coming to this remarkable part of the world.

Thank you very much indeed.