

**TALK TO FORUM OF SMALL STATES
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“SIZE IS NOT DESTINY”

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Introduction

Singapore is one of the world's smallest countries, with a population of 5.1 million, consisting of 3.7 million citizens and permanent residents, and 1.4 million foreigners, a territory of 714 square kilometres, and no natural resources. If the power of a State in international relations is to be computed on the basis of the size of its territory, population, economy, military and natural resources, as conventional wisdom would suggest, Singapore should be an insignificant and powerless actor in the international arena. I suppose this must be the reason which led *The Economist* to write that Singapore is a country which has long punched above its weight. The purpose of this talk is to ask: (i) what is Singapore's weight in world affairs; (ii) how can small countries exert an influence in world affairs which is disproportionate to their sizes; and (iii) what should small countries do in order to succeed in the 21st Century. I hope you will forgive me for talking about Singapore. I do so, not to boast about its achievements, but to use it as an example of how a small country can overcome its limitations.

Westphalian System of Nation States

The present system of nation States is often said to be about three and half centuries old. The Peace of Westphalia of 1648 has been cited as the pivotal event which gave birth to the modern system of nation States. In the past 250 years, a corpus of scholarship has

developed in the West, about the power and behaviour of States in the international system. Hans Morgenthau, in his magnum opus, *Politics Among Nations*, sought to define the power of States and the nature of international politics. According to his theory, the power of a State is derived, inter alia, from: (i) the size of its territory, (ii) the size of its population, (iii) the size of its military, (iv) the size of its economy, (v) the size of its natural resource endowment, and (vi) its national character, morale, government and diplomacy. The Morgenthau worldview is often referred to as the Realist theory of international politics. It has dominated thinking about the nature of international politics for many decades.

Concept of Territorial State

I will call the Realist concept of the State the “territorial State” concept. It emphasizes the importance of geography, size, military power and a State’s war-fighting capacity. It is a concept which was useful in explaining the world when national boundaries were sacrosanct, when economies were relatively self-reliant, and before the advent of multinational corporations, information technology, a global capital market and the revolution in military affairs. In that simpler world, geography was destiny. The power of a State was, roughly speaking, commensurate with its size. In the totem pole of nations, a country’s place in the hierarchy was determined primarily by its size. In that world, a small country, such as Singapore, would rank very low on the totem pole. The editors of *The Economist* probably had such a concept in mind when they wrote that Singapore is a country which has long punched above its weight.

We live in a world radically different from the worlds of the Prussians and of Hans Morgenthau. It is a world transformed by the revolutionary forces of economics and technology. Consider the following developments.

Trading State

First, the world has been transformed by the force of international trade. Propelled, on the one hand, by the universal wisdom

that free trade brings benefits to all nations; that economic autarchy equals poverty; and by the fact that tariff barriers and non-tariff barriers to international trade have been progressively reduced over the past 50 years. This has brought benefits to consumers all over the world, expanded the markets for producers of goods and services, and enabled many developing countries to export their way out of the poverty trap. In his pioneering book, *The Rise of the Trading State*, Richard Rosencrance makes a powerful argument for his thesis that the concept of the territorial State should be replaced by the concept of the trading State. The world's five largest trading States are: the United States, China, Germany, Japan and France. This is not a surprise since they are big States. However, the WTO index does contain some surprises. For example, we find that Singapore is the world's 14th largest exporter and the world's 15th largest importer, out-ranking such big States as India, Indonesia, Brazil and Nigeria. I will not go so far as to say that the concept of the territorial State should be replaced by the concept of the trading State, but I will venture the more modest opinion that the concept of the power of a State should be disaggregated and that one component of State power is economic power. Free trade has enabled small countries, such as, Singapore, Belgium, Luxembourg, the Netherlands and Switzerland, to increase their economic power beyond the size of their domestic markets. The Netherlands is, for example, the world's no. 6 trading nation.

Borderless World

Second, the world has been transformed by the forces of information, technology, and global business. In his international bestseller, *The Borderless World*, Japan's management guru, Kenichi Ohmae, describes the impact of information, technology, and global business on the world. He argues that we are living in an increasingly borderless world, one in which the economies of the major regions of the world, North and South America, Western Europe and East Asia are interlinked. To prosper in this new world, governments and corporations must discard the old paradigm and embrace a new paradigm recognising the necessity to compete in a global marketplace and an interlinked economy. Therefore, countries which are outward-looking, open to the world and willing to compete in the global marketplace, will thrive. Countries which are inward-looking, protectionist, and afraid to compete in the global marketplace, will stagnate. It is not surprising that many of the countries which fall into the second category are big

countries and countries blessed with abundant natural resources. In this increasingly borderless world, it is possible for the companies of a small country, such as Singapore, to become world class either by being one of the best in the business, such as Singapore Airlines, or by a policy of acquisition or strategic alliance, such as the acquisition of the American President Lines by Singapore's Neptune Orient Lines or the acquisition of the Australian company, Optus, by Singapore's telecommunications company, SingTel. After acquiring American President Lines, Neptune Orient Lines became the world's 7th largest container lines. SingTel has subsidiaries or strategic partners in Australia, India, Thailand, the Philippines and Pakistan. Switzerland has many global champions in the world of business and industry and is a role model.

World Class

Third, the world has been transformed by the force of globalisation. Globalisation has been brought about by information technology, communication, travel and trade. Globalisation is an irresistible force. It has already succeeded in tearing down walls and barriers. It has accelerated the pace at which we are progressing towards the making of a global economy and a global community. No one, whether a State, region, city, business, family, or individual, can be shielded from its impact. Whether we like it or not, we have no choice but to compete in a global race. In her book, *World Class*, Rosabeth Moss Kanter has discussed some of the implications of globalisation for businesses, cities and regions. I am fascinated by two of her observations.

The first is that globalisation has brought about the rise of a cosmopolitan elite. The members of this elite are citizens of the world. They feel at home managing businesses all over the world. They possess what Kanter calls the three Cs: concepts, competence and connections. 'Concepts' means possessing the best and latest knowledge and ideas. 'Competence' means the ability to operate at the highest standards anywhere. 'Connections' means the best relationships, which provide access to the resources of other people and organisations around the world.

The second observation is that cities succeed in the global economy if they can achieve excellence in one or more of the following three areas: thinking, manufacturing and trading. Kanter cites Boston as an example of a city which thrives on brainpower; Spartanburg, South Carolina, as an example of a city which thrives on manufacturing; and Miami as a city which thrives on international trade. Singapore aspires to achieve excellence in all three areas. It is also seeking to recruit members of the cosmopolitan elite to work and live in Singapore. We have 1.4 million foreigners living and working in Singapore.

World Money

Fourth, in his essay, *The Global Economy and the Nation-State*, the late American management guru, Peter Drucker, wrote: “basic economic decisions are made in and by the global economy rather than the nation-state”. This observation is particularly true in the area of monetary policy. The Bretton Woods agreements, which established the World Bank and IMF, adopted the gold exchange standard. In 1973, President Nixon abandoned the gold exchange standard and floated the US dollar. The theory was that floating currencies would make for stable currencies, with the market controlling exchange rates through constant small adjustments. Instead, according to Drucker, “there has been no period in peace time, in which currencies have fluctuated so widely and abruptly as since 1973.” Drucker also described the emergence of an enormous mass of “world money” and says “(t)he volume of world money is so gigantic that its movements in and out of a currency have far greater impact than the flows of financing, trade or investment. In one day, as much of this virtual money may be traded as the entire world needs to finance trade and investment for a year ... this money also does not follow economic logic or rationality. It is volatile and easily panicked by a rumour or unexpected event.” Drucker went on to describe the successive attacks on the US dollar, French franc, Swedish krona, British pound, Italian lira, Mexican peso, and concluded that, “virtual money won every time, proving that the global economy is the ultimate arbiter of monetary and fiscal policies.”

Drucker made the point that currency runs are not the most appropriate cure for fiscal irresponsibility, because the cure could be worse than the disease. However, there is no other control on fiscal

irresponsibility. What should a country do? Drucker answered that a country should aim to have a balanced budget and avoid having to depend on borrowing short-term, volatile world money, to cover its deficits. Singapore's record would please Drucker. It regularly runs budget surpluses. It has the world's 13th largest foreign exchange reserves. This is why Singapore was relatively insulated from the financial storm which swept through East Asia in 1997 and 1998.

Land, Labour, Capital and Knowledge

The conventional economic wisdom is that a country's economic resources consist of land, labour and capital. The new economic wisdom is that knowledge is a country's chief economic resource. Gregory F Treverton of the Rand Corporation has written that in this period of technological revolution, the premium on knowledge is high and that of a nation's endowments, only one really matters: the quality of its people. The new economic wisdom is based upon two facts.

The first is that the highest paid jobs are to be found in the knowledge-intensive industries. This is a trend which is likely to become even more evident in the 21st Century. The second is that in the contemporary world, it is possible for a country to overcome the limitations of land and labour by using the under-utilised land and labour resources of other larger countries.

Singapore has positioned itself to take advantage of the new economic realities by investing heavily in educating and training its people. In the 2011 TIMSS Survey of 45 countries, which has just been published, Singapore's students (8th grade) came in second after Korea in Maths, and our 4th grade students also came in second, after Korea, in Science. This shows that the investment is paying dividends. The lesson learnt is that small countries should give priority to the development of their human resource. Unlike big countries, they often have no other resources except their people.

A Multilateral World

One of the trends of the last 50 years is the birth and empowerment of multilateral institutions. This has happened at the global level with such institutions, as the UN, World Bank, IMF, WTO, IMO, ICAO, World Meteorological Organisation, International Telecommunications Union, WHO, WIPO, UNEP, UNHCR, playing leading roles in their respective fields. This has also happened, at the regional and sub-regional levels, as epitomised by the European Union, NATO, NAFTA, APEC, ASEAN, ASEAN Regional Forum, ASEAN+3, the East Asia Summit, etc.

In a multilateral forum, the power and influence of a country is partly determined by its importance in the world and partly by the ability of its delegation. In such a forum, it is not unusual for the delegations of small countries to out-perform those of much larger countries.

The Territorial State and the Market State

We need good intellectual tools with which to understand the world in which we live. Broadly speaking, political scientists favour the concept of the territorial State. Some economists, on the other hand, have argued that the days of the sovereign State are numbered. They have put forward the alternative concept of the market State.

What is a market State? The term was apparently first used by Dr Philip Bobbit of the Rand Corporation. The market State is a State which has successfully taken advantage of the new opportunities of international trade, open borders, globalisation, information technology and human mobility. Such a State would, therefore, be a big player in international trade, be a large recipient and provider of foreign direct investment, act as an important financial centre and communication hub, host a big family of multinational corporations and foreign talent. Singapore is an exemplar of a market State.

I believe that we need both concepts in order to explain the new world in which we live. I agree with Peter Drucker when he wrote that in all probability, the nation-state would survive the globalisation of the economy and the information revolution that accompanies it. But, as Drucker went on to point out, “it will be a greatly changed nation-state, especially in domestic fiscal and monetary policies, foreign economic policies, control of international business, and, perhaps, in its conduct of war.”

The Changing Nature of Power

The concept of the power of a State needs elucidation. I wish to make the argument that the power of a State is not unitary or static. It is multi-dimensional and dynamic. A State can have the following forms of power: (i) political and ideological power; (ii) military power; (iii) economic power (iv) cultural power; (v) intellectual power; and (vi) diplomatic power. Power is dynamic in the sense that it can wax and wane but also in the sense that a State may enjoy more power in some areas than in others.

Weighing a State's Power

It follows from the above that the analogy drawn by *The Economist* of comparing a State and a boxer is not a good one. Weighing a boxer is a simple task. Weighing the power of a small State is a more complex undertaking. A small State may be a flyweight nation State in terms of its geography and size of population but it could carry much more weight when it mounts the scales of economic, cultural, intellectual and diplomatic power.

Conclusion

I shall conclude with a few suggestions on how small States should prepare themselves to succeed in the 21st Century. First, the diplomacy of the 21st Century is likely to have a heavy economic content. Small States should, therefore, redouble their efforts to nurture a new generation of thinkers and diplomats who could play leadership

roles in important economic institutions. The challenge is not insurmountable. After all, we should be encouraged by the fact that small countries are often chosen to provide the leaders of international organizations, including the UN.

Second, culture and communications, in all its modes, will become increasingly important. Small States could develop a soft power which compensates for their lack of hard power. The internet, Youtube, Facebook and Twitter, are tools which empower small States.

Third, the globalised world needs a new architecture of governance. G20 is not the answer as it lacks legitimacy and is not representative of the world's diversity. The world capital market, the world environment, and the new threats to international security, all require institutional responses which have so far been lacking. FOSS can play a positive role. We could help the world to think creatively on how to solve a central dilemma of our time, ie, globalisation without global governance.

Fourth, small countries can come up with new ideas which have a global impact. Bhutan's pioneering concept of gross human happiness has evolved into the concept of human well-being. It has been adopted by France, UK and the UN. Costa Rica's concept of peace with nature is another inspiring idea. Qatar is a force for peace-making and conflict resolution. Finland has the best education system in the world. Switzerland has shown that a small country can produce global champions in business as well as the unique humanitarian organisation, the International Committee of the Red Cross. Oman has shown the world that there is no contradiction between Islam and modernity. Dubai is a global hub for communications, finance and business. Abu Dhabi is re-inventing itself into a knowledge-based economy. Several small African countries, such as Burkina Faso, Zambia, Rwanda, Botswana, have achieved very impressive rates of growth in recent years. I am also very proud of the fact that, in the 2012 Ibrahim Index of African governance, 4 members of FOSS: Mauritius, Cape Verde, Botswana and Seychelles took the top 4 spots. Of the top 20, 10 are members of FOSS. New Zealand is the world's champion in rugby and is both a sporting power and movie power. Rwanda and Timor Leste have shown the world that, after a painful conflict, it is better to forgive and reconcile than to seek revenge

and retribution. The Nordic countries are probably the world's best global citizens. Nauru, as Chairman of AOSIS, has made a significant impact on the world's awareness of the danger of climate change and sea level rise.

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