

Fireside Chat with Minister Vivian Balakrishnan

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Speakers

- Vivian Balakrishnan, Minister for Foreign Affairs, Singapore
 - **Moderator:** Demetri Sevastopulo, Financial Times
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Sevastopulo

Thank you very much. And Nick, it's embarrassing that your Greek pronunciation is better than mine, but thank you. Vivian, it's a pleasure to have you here.

Balakrishnan

Great to see you too.

Sevastopulo

I think if you put both of our countries together, we'd have the population of the size of a mid-sized city in Guangdong, but Singapore and Ireland both punch above their weight. As Nick said, You've been in this role for 10 years, roughly as long as Wang Yi in China. You've...

Blalkrishnan

A bit longer. He's been there a bit longer.

Sevastopulo

Bit longer. Okay, you have dealt with the Trump administration the first time, obviously, the Biden administration. Now we're back with Trump again. So I want to start off by asking you, how is Singapore navigating Trump 2.0 and just to put a little bit of context, you have a trade deficit with the US. You have a free trade agreement with the US. You haven't received one of Trump's trade love letters yet. Not yet. Not yet. Are you is Singapore in the safe zone?

Balakrishnan

Singapore is a tiny city state, an island 1/5 the size of Rhode Island, and we are not yet 60 years since independence. So just put things in context, small place, part of Southeast Asia, but our trade volume is three times our GDP. So I say all this so you understand where I'm coming from. Next point is because it's only been 60 years of

independence, we have, in a sense, had a turbo charge to our economy from two large factors, Pax Americana and the reform and opening of China from Deng Xiaoping. And just to give you again some context, some sense of the numbers involved. When we were made independent, and I say made independent in 1965 because we were divorced by from our northern neighbor, our per capita GDP was 500 US dollars. Today, if you check ChatGPT or whatever your favorite search engine, you'll get a figure somewhere between 80 to 90,000 US dollars. So not bad for six decades. But the point is that it was Pax Americana and China. Let me just... What Pax Americana did was that the US, which was the ultimate victor of the Second World War, and actually the ultimate heir of the Industrial Revolution, was a very unusual victor, because it usually victor, collects the spoils, imposes its will, life goes on. The US in 1945 embarked on a unique, historical, unprecedented action. Rebuild those, vanquish Japan, Germany, Marshall Plan for Europe. It actually envisioned and underwrote in blood and treasure what we today call rules based multilateralism, globalization, the UN, the WTO, the World Bank, the IMF, in a very ironic sense, a hegemon, but a magnanimous hegemon actually created multilateralism, and because that set the stage for globalization, do you see how a tiny city state in Southeast Asia with no hinterland, no resources, and in fact, very much like Ireland, by making ourselves relevant, hospitable, and to facilitate the expansion of multinational corporations. And today, I think, in Singapore and Ireland, we both have more than 5000 American companies, and that has been a turbo charge to our economic development. So when we say we kind of like the Americans to be around, we even like even better, the American investments. And we believe in free trade, because Singapore's trade volume is three times our GDP. Can you understand it's not a negotiating point, it's life blood. So just to give you some context of where I'm coming from, and I think that quite a lot of parallels with Ireland.

Sevastopulo

So I can't let you escape without answering the question, which is, is Singapore safe? Are you in a safe zone, or do you expect that life is going to get more difficult?

Balakrishnan

History is replete with the carcasses of small states. Well, let's be realistic about it. And the thing that Mr. Lee Kuan Yew always reminded all of us, take the world as it is, not as how you wish it to be. So no, a small city, state is never safe, and what is happening now in the world is in fact, that magnanimous hegemon has changed its posture. But that change, and I don't want to personalize this, but think about it, what has really changed is domestic politics in the United States, because at the end of World War Two, American GDP was 40% of global GDP. At that rate, It is entirely worth America's, in its own enlightened national interest, to underwrite in blood and treasure the global system, because for every additional dollar generated in the world, 40 cents came back to

America. Today, it's 26%. Now in nominal terms, the US is still the largest GDP in the world, but at 26% it is an entirely legitimate question for the American voter to say, "Excuse me, why are we shedding blood and treasure underwriting this system? Shouldn't there be a fairer distribution of the burden?" Shouldn't there be less free riding and all this thing about the peace dividend, right? The US spends 3% on defense. What about the rest of the world? And you know, there was a speech that my good friend Josep Borrell, who was the Vice President of the European Commission, and he's in charge of foreign investors. One speech where he said, "Look, in Europe, we outsource security to the US, outsource energy to Russia and outsource trade to China." Is that sustainable? The point I'm making is that this is the end of an era. It's not just because of one man or one country, but that these 80 years have been historically unprecedented, and now we just have to grow up and realize it's the end, and now we have to look forward.

Sevastopulo

So I want to ask you about trade. Singapore has been one of the loudest voices over time, over the last number you're calling, for the US to be more engaged, not just security in the region, but trade. Trump abandoned the Trans Pacific Partnership. Biden attempted something called IPEF, which essentially flopped. Now you have US tariffs on countries all across Southeast Asia, although Indonesia has done a deal, and Vietnam may have done a deal. What opportunities is this providing for China?

Balakrishnan

Well, let's back up a bit and look at some numbers US trade with Southeast Asia. I think it runs at somewhere about half a trillion dollars. You look at China's trade with Southeast Asia runs at about a trillion US dollars, so a factor of two. But beyond trade, let's look at investment. And if you look just in the year, say, 2024 you'll find that, in fact, the flow of FDI from US to Southeast Asia is four times that of China. And these are things which people don't delve into.

Sevastopulo

Is that gap shrinking? Or is it fairly constant?

Balakrishnan

Well, if you look at in terms of stock of FDI, of FDI the US stock of FDI in Southeast Asia is something like half a trillion dollars because China came on later. I think the ratio is about 10, 1/10th of the US. So my point I'm making is that, yes, look at trade. These are significant numbers. But look at investments, because you can trade with anyone, but investment requires a certain belief, a certain optimism, a certain confidence in the future. So in Trump 1.0, whenever I met the president, is to tell him, "Sir, you have a

trade surplus against Singapore.” Initially, he didn't believe me, and I said, No, but these are figures from your own BIS. I made a point that...

Sevastopulo

And he still didn't believe them.

Balakrishnan

Well, he came round to it. The next time I met him, I said, I repeated it. He said, “You must be the only one.” I said, “No, no, no, we're not the only ones.” So for us now to be subjected to a 10% baseline when we in fact, have had a free trade agreement at the US since 2004 and the US is a trade surplus against us. Obviously, as far as we're concerned, doesn't quite compute. But actually the problem goes far deeper than this, because you could say, well, 10% and if 10% is baseline and universal, this is just a revenue raising measure on the part of us, and after all, the US does have a deficit, you could say, not such a big deal, but it goes far, far more than that, because it, in fact, is a repudiation at a very fundamental level, of this principle called MFN, most favored nation, which is Article One of GATT, a foundational article of the WTO. And if the US of all superpowers abrogates this, it gives ideas to make everyone else in the room. So my point is, instead of a rules based global system that promotes trade, you now have a system where every trade agreement becomes a bilateral arm wrestling match. And can you see how hostile that would be to a tiny city state we trade three times our GDP, so we're worried at that level. But there's another level in which what's happening now is deeply worrying, because if you impose tariffs, this will be a strong temptation from the other side to impose reciprocal tariffs, and you end up in an escalatory spiral. So far, not there yet, but if things really get off the skids, we're back in the 1930s and we all know that was not a glorious period for economics, for globalization, and for peace and stability. So yes, we are deeply worried. We'll have to see what happens now and obviously the real big contest in the room is actually China and the US, right? And, well, I've been in Washington, a month ago, two months ago, I was in Beijing a month ago. Actually, let me let you in on a not really a secret, but the Chinese are in a confident mood. Why? Because number one, you say, Look, these trade tensions just turbo charges our efforts at self reliance. It is a spur to our people that you can't be complacent. You can't take the world for granted, and we need to speed up this journey for self reliance. So making virtue out of a necessity. Number two, and I think that's become clear even to the US now, China has leverage. Take rare earths critical minerals, for instance. So it's not as if your counterpart has no agency. And third China has a much higher threshold for pain than others. And whatever the criticisms you may have on political systems, China has a system which is capable of a long term outlook, so it's in a state of confidence. Now, that does not mean that China actually wants to wreck the global trading system, because I mentioned Singapore as a beneficiary of

PAX Americana and the other Asian tigers, but actually the biggest beneficiary of the last 80 years has been China, especially after reform and opening. So China is not a revanchist power from an economic perspective, so they would still much prefer a modus vivendi with America, and that does require respectful, candid, constructive conversation in the room.

Sevastopulo

I want to come back to China specifically in a minute. But before that, I'm going to do something very unfair. I'm going to ask you something that your former boss, Lee Kuan Yew son, Prime Minister Li said in 2018 Yes, I think at the Shangri La dialog, if I'm not mistaken, he said it would be better or desirable if ASEAN countries did not have to choose between the US and China, but the day may come when it has to. So my question is, are we closer to that day?

Balakrishnan

Let me give you a Southeast Asian view when we look at Europe, and I know there was discussion of the war in Ukraine just now, it seems to me, and Nick can correct me, that the fundamental strategic question in Europe is, where is that line, the Iron Curtain, the Warsaw Pact, the eastward expansion of NATO, where is Ukraine? And where does Russia fit into Europe? Where is that line? And unfortunately, that question still results in ongoing bloodshed in Southeast Asia. We don't want to be trapped in that same paradigm of where is that line? The preferred strategic model for all of us in Southeast Asia is to make sure that the two superpowers, the United States and China and the middle powers, including India, Australia, the Middle East, have skin in the game and have a stake in our continued peace and prosperity, and that we do not want Southeast Asia to become again an arena for proxy wars. So can you see we are on a completely different operating on a completely different paradigm. What my former Prime Minister said in Southeast Asia, we believe in overlapping circles of friends, which means your circle may be different from mine, but there are overlapping circles. And we truly believe in win-win arrangements. We are champions at negotiating free trade agreements, some from a Singapore perspective, over 90% of my trade is covered in some free trade agreement or the other. We are strong proponents of the WTO. We engage in multilateral, plurilateral arrangements, but we still make all these stepping stones to ultimately a free trade area for the world. So it's a completely different paradigm. So and you pose the question, do you want to be forced to choose sides? Of course, we don't. That goes against our organizing principle. But having said that, we don't control the agenda in Beijing and Washington, what I can say from direct experience over a decade is that so far, both sides reassure us we're not forcing you to choose sides. Now I will take that at face value, but it is a delicate balancing act.

Sevastopulo

But do you feel like it's becoming harder to do that delicate balancing act? It will become, let's put it this way, in a period where you've reached the end of an era and the rules are no longer underwritten. And you know, any student of history will know the most dangerous phase is the interregnum between one world order and an inch COVID New World Order. Are we in that interregnum?

Balakrishnan

Yes we are. Are we witnessing hot wars in Europe, hot wars in the Middle East? Yes, we are. Are we anxious about potential rising tensions in the Pacific, in the South China Sea, in the straits. Yes, we are so I am concerned, and on a macro level, that this is a very dangerous time. Geopolitically, this is a very uncondusive time for trade because of the profound damage to an architecture which has served us well for 80 years, and I may add, the United Nations and Security Council is essentially paralyzed so there are enough reasons for amber lights to be going off, and it's not just because of Washington and Beijing. I'm trying to take a broader, you know, a broader and longer view of what's happening in the world.

Sevastopulo

So I want to ask you on China, one of the interesting slight differences of opinion last night between Nick and Zannie and their talk...

Balakrishnan

Yes, I replayed his session twice last night twice, you deprived me of an hour of sleep.

Sevastopulo

So the one area where they had a slight disagreement was China and the US have been essentially in a game of economic chicken over the last few months, I think Zannie's view was that China came out on top. Nick's view was not necessarily, actually the US had measures it used. How do you see it?

Balakrishnan

I don't think China sees it as a chicken. I think their posture right now has been to stand firm, as I said earlier, they have a high threshold for pain. They have a longer term perspective. They have leverage, but at the same time, they would still much prefer the system continues with appropriate reform, so they're still holding up. And it's not just China. Frankly, the rest of the world still holds out hope that a reformed global architecture, politically and economically will emerge. And maybe, let me answer what we are trying to do in Southeast Asia. For Singapore and my Southeast Asian neighbors, we have ASEAN, and within ASEAN, we are focused on bringing down

systematically and comprehensively, not just tariff barriers, but non tariff barriers, because, in fact, intra ASEAN trade can and still should expand. We are also members of overlapping multilateral free trade agreements. So for instance, we've got the Regional Comprehensive Economic Partnership, which is the 10 ASEAN countries, plus five, China, Korea, Japan, Australia, New Zealand, Singapore, and I think another three more ASEAN states are also members of the CPTPP. Now the TPP, which is its predecessor, is worth unpacking. The predecessor to the TPP was the P4 in fact, it started off as Singapore, Brunei, New Zealand and Chile three, four little minnows. It is only after Japan and the US got interested that the TPP became a Trans Pacific big deal. Now I know you said earlier on that President Trump pulled out the TPP, but it is worth remembering even before the election, Secretary Clinton also backed off the point here is, again, not to personalize it, but to understand that within domestic politics of America, there has been a pushback against globalization, free trade, impact on industrialization and so on and so forth. What we are now trying to assemble is the CPTPP and the EU, which makes quite the natural partner for globalization, rules based trade integration, to explore whether we can do some sort of partnership between the EU and the CPTPP, and there are others, you know. I mean, for instance, the CPTPP had 11 because America pulled up, but we now have 12 because the UK has joined. And there are others in the queue. So can you see what we're trying to assemble is a coalition of the willing who still believe in globalization, economic integration and free trade, and we but we still hope that America will come back in some form or the other, and we're leaving that door open.

Sevastopulo

So I'm going to ask one final question, and then I think we'll have time for one question from the audience. On Taiwan. Admiral Paparo, sadly, is not here this week, but he has said over the last few months that the Chinese military exercises around Taiwan are not just exercises. There are rehearsals for an attack on Taiwan at some point in the future. Does Singapore share that view?

Balakrishnan

Singapore has a long and complicated relationship across both sides of the streets. You need to understand that Singapore is the only political entity outside China and Taiwan, where 74% of us have Chinese ancestry. This gives us both a special vantage point, a special understanding, but also puts us sometimes on it adds additional stress to us. Let me put it to you this way, we have long standing friendships across both sides to answer your question. Specifically, we do not believe that kinetic action is inevitable. We don't believe that, and I do not believe that that is China's first choice, either. But having said that strategic ambiguity, which prevailed now for 53 years, America did enough to deter China from embarking on kinetic action, but it also projected enough ambiguity to deter

Taiwan from declaring independence. But over 53 years, the relative power has shifted. And also, although everyone proclaims that they are maintaining the status quo, you know, as well as I do, everyone is alarming, slicing slowly but surely. So that's why this is a moment of danger. But if you accept my hypothesis that kinetic action is not inevitable, then the question becomes, well, how are you going to get how are you going to avoid that, and how do you reduce the chances of accidents and miscalculations spiraling and escalation? And again, the standard diplomatic answer, which I think Nick and I will simply agree, you need to sit down and talk, arrive at a modus vivendi. You need to make sure you deploy forces in a way that they don't even accidentally get into collisions. And mind you, there was a collision. I think it was in 2001 I think the Chinese plane crashed with loss of life. The American plane was severely damaged, but managed to land in Hainan, and there was intense negotiation. I don't know whether Nick was involved at that point. No, there was intense negotiations. And, you know, a solution was found. Can you imagine a similar incident today, and you can't even pick up the phone and be sure that someone on the other side is going to listen? It's far more dangerous. So our hope is that there will not be a war, since it's not inevitable and it's unnecessary, but that everyone can calm down and talk. And there's, you know, there are many situations in diplomacy which cannot be resolved overnight, territorial disputes, for instance, and I know something about that in Southeast Asia, and sometimes diplomats need to understand, you need to leave it to future generations, but don't prematurely push because sometimes instead of putting things together, you get a rupture, and that's not in anyone's interest. So I'm making the plea for strategic patience and engagement and to organize the prospect of a modus vivendi between the US and China. If that happens, bear in mind the biggest thing that's happening in town now is the technological revolution. AI, quantum, biotech, energy and our greater anxiety looking forward is that for two to three centuries, the world has essentially been working on a common scientific application stack, which means we make a discovery, you publish it, you patent it, you get a temporary monopoly, but the world benefits from it, and others get to work on it. This common stack, planetary has been a formula for rapid advances in science and tech innovation, and we've been beneficiaries of it. If you get a hard attempt to bifurcate that stack, three things happen. You will cause inflation, because you're no longer organized on the principle of comparative advantage and efficiency and sharing and competition. Two, you'll get a more disruptive relations because you have less to lose from just chucking the whole kitchen sink at the other person. And three, you will slow down progress. So again, trying to make the argument, if we are to maximize opportunities for the future, you need a modest advantage. But my final point I wanted to make is that foreign policy, economic policy, technological policy, begins at home. If you don't settle the situation back home, you won't be able to embark on all this. In the case of Singapore, we believe that free trade must be complemented by industrial policy and social security if you don't get this triad settle,

and instead, you get polarized, divided people who feel that free trade has been an exercise in de industrialization, unfairness, greater inequality, you will never generate a political consensus to make the necessary compromises internationally, to put ourselves to be ready for the future. So that's my closing pitch, that if you believe in free trade, globalization rules based you need to pay attention to your domestic factors and the two things, industrial policy and social security. And by the way, our industrial policy, I don't mean picking winners and losers. I mean focusing on education, on infrastructure, on connectivity, and giving your people the skills and the confidence to go out there and harvest the opportunities that the new technological revolution offers. And you need to work on your Gini coefficient. One of the things which we are most proud about you mentioned my former prime minister is that in the last decade of his term, Singapore was able to reduce our Gini coefficient after taxes and redistribution. It fell from 0.4. to 0.36 and we'll hope to continue to work on that. But can you see how these things, social policy, industrial policy and diplomacy, all interlock? And I just want to make this appeal you know that everyone just chill, step back, understand the opportunities of the future and understand the need to get your foreign policy, your domestic policy and your economic policy in sync. If we can do that, we have a second win for another season of opportunity.

Sevastopulo

So if we can take one no question, one super quick one, I'll get in trouble with Niamh and she'll shout at me in Irish and no one else can understand. So one super quick question, lady in the very back. Sorry, it's not a lady. It's Nick Schifrin, apologies.

Schifrin

I've been called worse, it's okay. Thanks very much. Great session. Can I pick up on the security aspect where Dimitri left off, which is that you may believe that conflict is not inevitable, but what seems to be the reality is an expansionist Chinese policy throughout Southeast Asia, whether it's military, economic or diplomatic. For the last decade or so, the US has prioritized things like mini laterals or constellations around the region to try and get at that, including, or in addition to increasing security in the Pacific. So what do you believe is the best way to respond to Beijing's expansionist policy?

Balakrishnan

I used.. every year I used to pay my respects to Henry Kissinger in his office right up to the final year, and the point he kept reminding me was that a war between China and the US must never be fought because the consequences are just too catastrophic. And I think even now, Henry's admonition and reminder to all of us is worth bearing in mind. So if you start with that as the first line, then next is to understand the domestic politics and self image of both China and the US China is a 5000 year civilization, and the

reason we are both speaking English today is because the Industrial Revolution began in England and then went across to Europe. And the ultimate beneficiary, or the ultimate heir of the Industrial Revolution was the United States of America. The last time China had a maritime fleet, you've got to go back to the Ming Dynasty, 1403 or so. Admirals and the rest of it. And then China decided they would stop these fleets. There was a waste of money. Anyway, China had reached the zenith of civilization. There was nothing the barbarians could teach, and China paid a very heavy price for turning inwards and Europe and America won. And what the Chinese remember most now is, if you really want to trigger a Chinese diplomat, talk about unequal treaties. I think Nick is familiar with it. Do you agree that's if you want to press a button? Unequal treaties and China is not short of treaties in the last two centuries, which are highly unequal, including some with its greatest power today. Let's not get into it. The point is that if you look over millennia, every time China was at peace and intact and running a continental size economy, it constituted about 25 to 30% of global GDP. But the trouble is, if you look across two to five millennia, the United States was not there. The United States is what. 240, 49, years thereabouts? So what you have now is two superpowers with no historical memory of ever having to engage with one another. Do you see that? So we are truly in uncharted waters, having said that we have to all hope and pray that these two giants work something out, because war is not inevitable, right? And you can sit down and focus on the future and focus on your domestic.. getting your domestic house in order. And frankly, both China and the US have got a lot of domestic homework to focus on, and for the rest of us, do the same, check our domestic situation and check our fitness for the future. Try to make common cause and when the two big boys have sorted them or this modus vivendi, try to plug them in and give make sure they have a stake in our survival, our prosperity and our stability. And that's why maybe, well, maybe it's just I've been in this post for too long, but diplomats have to be somewhat optimistic, otherwise you can't get up and go to work every day. So anyway, I hope you accept my thesis, coming from a tiny island city-state dependent on the world, but having to take the world as it is, but see, enough hope and vision, that there is a better tomorrow.

Sevastopulo

So on that optimistic note Vivian Thank you very much.