

ISEAS MONITOR is a socio-political survey of Southeast Asia which examines current events to identify trends in specific countries and in the wider region.

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KEYNOTE SPEECH

EAST ASIA IN TRANSITION

Mr Bilahari Kausikan

*Ambassador-at-Large and Policy Advisor,
Ministry of Foreign Affairs, Singapore*

In his analysis of East Asia in transition, Mr Bilahari Kausikan assessed the changing equilibrium in the U.S.-China relationship to be the central strategic issue of our times. While the United States initially created the conditions that facilitated growth in East Asia following World War II, there is now a consensus across the region that the United States will remain a necessary but insufficient player for a stable regional architecture. The current regional order needs to be *supplemented* by a new architecture. Mr Kausikan stressed that in their process of finding a new equilibrium, conflict between the United States and China is not inevitable. While China is rising, the United States is not in obvious decline. The changes in the distribution of power that are occurring are therefore relative, not absolute. Both the United States and China face serious challenges but neither country

should be underestimated. Mr Kausikan emphasized that the United States, China and Japan are all substantial powers and will remain so in the future.

Even so, Mr Kausikan made it clear that deep strategic distrust persists between the three powers, particularly in U.S.-China and Sino-Japanese relations, for which all three must share responsibility. At the root of this distrust is what may be termed the “psychological factor”. For example, China’s rise has been disquieting to many Americans because Chinese capitalism flourishes without liberal democracy, undermining the western myth of the universality of certain political values. Consequently, the United States remains unable to endorse a key element of the Chinese-proposed “new model of major power relations”, which would lead to mutual respect for each other’s core interests. This is because China’s core interests include the preservation of communist party rule which the US would find difficult to accept. And unless Chinese concerns on core issues can be assuaged, strategic trust will not be established. At the same time, Chinese leaders do not quite understand how China’s sense of destiny in reclaiming its historical place in East Asia can be a reason for distrust and anxiety amongst its neighbours. The Communist Party of China (CPC) is also increasingly relying on nationalism to legitimize its rule by primarily focusing on Japan, particularly regarding the CPC’s role in the defeat of Japan and Japan’s wartime record. It has not been lost on ASEAN that China’s attitude towards Japan’s wartime record has undergone several shifts according to China’s political needs. Difficulties in the Sino-Japanese relationship undermines Japan’s wish to become a ‘normal’ country and attain a more active role in Southeast Asia.

Mr Kausikan also addressed the impact of major power politics on Southeast Asia. Today, ASEAN finds itself at the intersection of major power interests. Maritime disputes in the South China Sea have increasingly become proxies for larger forces at play. Mr Kausikan stressed that in the South China Sea, the primary risk is conflict by accident, not war by design. Rules of engagement between the United States and China, and between China and Japan are still rudimentary. All ASEAN member states want the best possible relationship with all major powers without having to choose between them, and the formation of the East Asia Summit (EAS), along with other forums, was meant to channel great power relations into more predictable directions and promote the kind of omnidirectional balance that would enable ASEAN to maintain good relations with all major powers. These major powers in turn have found such forums useful as a supplementary means of ordering their relationship with each other and with ASEAN. However, ASEAN can only continue to play such a role if it remains neutral. Mr Kausikan emphasized that even as economic and security imperatives pull ASEAN member states in different directions, it is crucial for ASEAN to continue its own economic integration project. Without economic integration, the centrifugal forces generated by China’s growth could loosen the nascent development of a Southeast Asian identity, which in turn would adversely affect the development of a new regional security architecture. Integration can also be affected by rigidities that have emerged in ASEAN’s processes; and as domestic situations in individual ASEAN states become more complicated, consensus will become more difficult to reach. Mr Kausikan concluded that continuing integration efforts in the future will require a sustained exercise of political will.

SESSION I: U.S.-CHINA-JAPAN RIVALRY – IMPLICATIONS FOR SOUTHEAST ASIA

U.S. Perspective

Mr Dan Blumenthal

*Director of Asian Studies,
American Enterprise Institute, United States*

Mr Blumenthal acknowledged the rising importance of the Asia Pacific and the gradual shift in the centre of power towards Asia. He highlighted U.S. interests in preventing the rise of any one hegemonic power in the Asia Pacific. This would not only serve U.S. interests but also attend to a shared concern among Southeast Asian countries. The United States seeks to support its allies and partners in the region, most notably Japan, and ensure free maritime commercial access to the Asia Pacific.

On China's rise in power, Mr Blumenthal commented that the international system is flexible enough to accommodate this as can be seen by its accommodation of the Asian tiger economies. However, China's usage of coercive power has made its bid for regional leadership more competitive and destabilizing for the region.

The U.S. grand strategy leverages on supporting Japan, strengthening diplomatic alliances and providing leadership so as to bring other countries into the general international system. The United States has also sought to maintain its military pre-dominance in the region.

With regard to future trends, Mr Blumenthal projected that China's economy may stagnate over the next few years due to internal issues even as the U.S. economy revives with an expanding energy sector. The growing wealth gap in China is also a potential hot potato issue for the future.

He summed up by predicting that Southeast Asia is in the very early stages of regional order building but said that it was different from the way the European regional order was derived; in that it would not necessarily rely on collective security.

In response to a question made on the commitment of the United States towards Asia through its foreign policy, Mr Blumenthal acknowledged that U.S. emphasis has been on Europe and the Middle-East and more needed to be done to address issues in Asia. One of the key considerations was that even as Asian countries have increased economic ties with China, the United States does not want the region to be dominated by China.

Chinese Perspective

Professor Shi Yinhong

Counsellor, State Council of People's Republic of China

Director, Centre on American Studies, Renmin University of China, China

Professor Shi described present-day China as a “re-awakening lion”, a nation-state that has experienced dramatic increases in economic, financial and military strength accompanied by a growing intense desire for “geopolitical strategic rights” and national glory. China’s foreign policy is in the midst of a substantial transformation, which has resulted in contradictory and confusing messages at the international level.

On the one hand, China’s posture towards the United States and its associates in East Asia and the Western Pacific region has become unusually assertive. On the other hand, Chinese foreign policy has since the 18th Party Congress in November 2012, taken a more moderate approach, reflecting a sense of “strategic conservatism”. For example, President Xi Jinping has repeatedly emphasized the “great resurgence of the Chinese nation”, while articulating a vision of a “new type of great power relationship” between China and the United States. Conditioned by trends in both the domestic and international spheres, Professor Shi emphasized that Chinese foreign policy will continue to be uncertain in the future. Even so, it has become increasingly clear that President Xi’s aspiration for China is for it to play an important or even preponderant role in Asia and the Western Pacific, at the expense of U.S. influence in the region.

In order to achieve this objective, Beijing has employed two major policy instruments: “strategic military” and “strategic economy”. Strategic military broadly refers to strategic or military rivalry and competition with the United States, confrontation with Japan and an assertive approach to the South and East China Sea territorial disputes. However, while the “strategic military” tool has allowed China to extend its strategic presence, it has also damaged China’s reputation internationally. Therefore, China is more likely to focus on the “strategic economy” element of its foreign policy in the near future.

Professor Shi concluded that China’s strategic rivalry with the United States and its allies in Asia will become less “hot” in the future but more profound and widespread, leading to a more complicated regional geopolitical environment. He stressed that a “moment of truth” is coming when the United States will have to make a decision to either recognize or resist China’s position in the Western Pacific.

Japanese Perspective

Professor Satoshi Morimoto

*National Security and Defense Policy Specialist
Professor, Takushoku University, Japan*

Trilateral ties between the United States, Japan and China is the key to developing peace within the region. Professor Morimoto expressed concern over China's push to expand control in the seas, cyberspace, outer space, and over its selective interpretation of international law concerning its Exclusive Economic Zone and disputed territory in the South China Sea. To resolve this, he urged Japan and China to maintain a reciprocal relationship in areas such as investment, trade, culture, environment and technology, including nuclear power strategies. To this end, Prime Minister Abe had been speaking to Chinese leaders to improve communication on maritime issues. Japan also emphasizes the importance of China's adherence to the rule of law, including the United Nations Convention on the Law of the Sea (UNCLOS).

He disagreed with the Chinese notion that the United States and China are creating a new type of major power relationship, saying that the two countries do not share the same values and goals, and that the U.S. approach to China is still an engagement-oriented one. However, Japan views U.S. presence in the region as contributing to peace and stability, and supports the United States in playing a stronger role in the region.

In response to a question on how change in Chinese policies will affect Sino-Japanese relations and what can be expected of the four-point agreement between the two countries, Professor Morimoto replied that communications with China have been very encouraging for Japan. He explained that Japan hopes for diplomatic dialogue and an open exchange of views from the four-point agreement.

Lastly, on the question of how far Prime Minister Abe will go to build up the military considering the fact that the recent reinterpretation of the constitution has the support of less than half of the Japanese population, Professor Morimoto replied that it depends on the Prime Minister himself. He explained that the majority of the public supports revising the constitution but not the amendment of Article 9.

SESSION II: DEVELOPMENTS IN THE CHINESE AND JAPANESE ECONOMIES: IMPLICATIONS FOR SOUTHEAST ASIA

China's Economic Rebalancing and Implications for Southeast Asia

Professor Danny Quah

*Professor of Economics and International Development
Director,
Saw Swee Hock Southeast Asia Centre,
Institute of Global Affairs,
London School of Economics and Political Science*

Professor Quah pointed out that China, today, is seeking to rebalance its economy towards a model more focused on the consumption level of its people. The slowdown in China's consistent double-digit economic growth rate in recent years has been generating concerns over its implications for Southeast Asian economies which are known to be heavily dependent on exporting to China.

Citing changes in eastern economies that have continued growing despite the Global Financial Crisis and increasing intra-regional Asian exports, Professor Quah is of the view that the region should not worry about China's growth levelling off. In the immediate future, China's economy may slow because of the reindustrialization of the United States, and China's industrial rebalancing process towards its own western region.

However, these need not bring risks for the Southeast Asian region. He argued that if China's growth crashes to only 7 per cent in 2015 compared to 12 per cent a decade ago, China would still be adding three times its GDP to the global economy than what it did in 2005. While sharing thoughts on China's over-investments, its financial and debt issues, and the fear that China would grow old before getting rich given its demographic characteristics, Professor Quah also spoke of China as a stable economy which still has room for foreign investment. Thus, for the long-term, a middle-income trap will be unlikely. He highlighted that in the long run, the true driver for sustainable economic growth in China would be technology.

Professor Quah argued that in moving from a manufacturing and export-based economy to one of a higher domestic consumption system, China will experience growing domestic demand for a system that takes care of people, similar to the European social welfare system. The different economic landscapes across Southeast Asia are also a good asset. He suggested for example that the expertise in providing low-cost housing in Singapore and medical tourism in Malaysia could be exported to China.

Abenomics and its Implications for Southeast Asia

Dr Naoyuki Yoshino

Dean, Asian Development Bank Institute, Japan

Dr Yoshino provided an overview of Abenomics and the financing of small and medium-sized enterprises (SME). The first two arrows of fiscal consolidation and monetary policy have started Japan on the path of economic recovery. However, this recovery is inhibited by an excessive capital requirement ratio of 8 per cent, which discourages banks from providing business loans. Furthermore, the first two arrows alone cannot boost economic growth because they do not address Japan's key problems — an aging population and a large budget deficit. Thus, Abe's third arrow of providing a "growth strategy" is crucial; one significant policy need is that of increasing Japan's labour force, by encouraging female participation and raising the retirement age to increase elderly participation. The latter can be realized by changing the present seniority-based wage system — which inhibits elderly employment because of high labour costs — to a productivity-based wage system. This structural change is "politically possible" as there is wide support for it.

Another important policy stemming from Abe's third arrow is that of increasing SME access to financing. Dr Yoshino highlighted the growing importance of "hometown investment trust funds" in alleviating the shortage of risk capital for SMEs in Japan — a problem that Asia also faces. Furthermore, SMEs typically struggle to secure funding due to poor credit ratings due to their poor accounting practices. Making the financial accounts of SMEs more accessible through the creation of large databases — such as the "Credit Risk Database Association" in Japan — can solve this problem and spur SME growth throughout Asia. In response to a question, Dr Yoshino stated that Abenomics will enhance mutual capital flows between Japan and Southeast Asia. Additionally, it will be "better for Asia" if long-term financing is kept within the region to provide much-needed infrastructure funds and insulate Asia from financial crises.

SESSION III: THAILAND AND THE CHALLENGES AHEAD

Political Outlook in Thailand and the Challenges Ahead

Dr Prajak Kongkirati

*Lecturer, Faculty of Political Science
Head, Southeast Asian Studies Centre,
Thammasat University, Thailand*

The military coup has to be understood in the context of two critical transitions in Thailand — royal succession and the emergence of violent extra-parliamentary activism over the last ten years resulting in bloody street politics. The double objectives of the coup — to smoothen the succession process in the palace and to stop bloody politics in the streets—have had the effect of preserving the power and interests of the Thai Army. A smooth royal succession will safeguard the privileges of the royal-military alliance, Thailand’s single most powerful entity and one that has helped to protect the interests of the traditional elite. The organizational structure of the current military junta enables power to be concentrated in a few hands, above all those of current Prime Minister General Prayuth Chan-ocha.

The Privy Council must also be factored into the power-play of the royal-military alliance. Dr Prajak views the 2006 coup as a “royalist coup” and the 2014 coup as a classical “military coup”. Prayuth appears to have the upper hand against the Privy Council, although tension between the two factions may not give rise to actual conflict. The potential for internal conflict within the Army cannot be ruled out, since the dominance of Prayuth’s faction in the army has led to the side-lining of other factions.

Measures have been taken by the junta since the coup to increase the military’s power. It has brought back the model of “bureaucratic polity”, in which the civilian bureaucracy and military dominate Thailand’s political life. As the monarchy’s power declines, the Army justifies its rule on the basis of its ability to stabilize the country, while power is to be maintained through deliberate constitutional design.

No election date has been announced, although Dr Prajak predicts that polls will not take place earlier than mid-2016. In the meantime, a new constitution will be drafted this year, perhaps allowing for an appointed rather than elected Prime Minister and featuring a fully appointed Senate. Politics under this Constitution will be in the form of a military-guided semi-democracy. The charter will make coalition governments likely, with the aim of weakening Thaksin Shinawatra’s Phuea Thai party.

Regional political differences have been a prominent feature of Thai politics since 1997. This looks set to continue. Thaksin appears to be willing to make compromises with the junta to protect his

family and personal interests. Although Phuea Thai is likely to remain the largest party in parliament following the next election, the coup has blocked political expression on the part of all parties. So it is not only the Red Shirts who have suffered.

The 2014 coup was a coup by the Army, with the goal of preserving royal-military dominance, but the junta has not addressed the root causes of Thailand's political conflict. Instead, it seeks to create a semi-authoritarian regime with weak coalition governments under the control of the military and a polarized and debilitated civil society. The effects are likely to be political stagnation or regression with no effective transition towards a full democracy.

Thailand's Economic Outlook

Dr Santitarn Sathirathai

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Credit Suisse, Singapore*

Industrial production in Thailand has declined for the past twenty consecutive months, causing a significant slump in the country's economic growth. While economists have attributed this decline to a fall in manufacturing and in exports in both the automotive and electronics industries, Dr Santitarn postulated that the loss of Thailand's competitiveness in industrial productivity has other causes, too. This loss of competitiveness remains a key economic issue for its government to address.

In addition to Thailand's increase in minimum wages, Dr Santitarn explained that attractive financial incentives promised by the Thai government's rice-pledging scheme sparked a rise in the transfer of labour from manufacturing to the agricultural sector, thereby increasing the scarcity of labour and driving up wages in the manufacturing sector. Competitiveness in Thailand's services sector — with the exception of tourism and financial services — has also fallen below the ASEAN average. Furthermore, Thailand's aging population will lead to a gradual reduction in its workforce — whose size is predicted to peak in 2017 — and further exacerbate the problem of labour shortages and rising costs.

Poor investment in technological innovations and automated industrial processes, coupled with a lack of relevant labour skills in its shrinking workforce, also explain why Thailand has been unable to supplement its fall in industrial productivity with technology or a highly skilled workforce.

Such productivity issues have resulted in a stark decline in Thailand's industrial productivity, leading to weak economic growth. Consequently, Thailand has become less attractive for foreign investment in manufacturing. However, the implementation of the ASEAN Economic Community in 2015 is expected to further facilitate the movement of investments, both in and out of Thailand.

Dr Santitarn believed that reviving Thailand's economic competitiveness requires a boost in infrastructural investments and regional connectivity to Indochina; promotion of complementarity rather than competition between state and private financial institutions; tackling skill shortages through the growth of human capital; and reforms to Thailand's top-down, bureaucrat-led policy-making process. These reforms will incorporate a bottom-up approach with greater participation in policy-making by private sector actors and allow for increased foreign investment and the stimulation of Thailand's economy.

SESSION IV: SOUTHEAST ASIA – POLITICAL AND ECONOMIC LANDSCAPE

Jokowi's First Year: The Challenges Ahead

Professor Edward Aspinall

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For the first time, Indonesia has a president who is not a part of the established Suharto-era elite. This has brought about some prospect of a break with established political traditions, but it also poses serious challenges.

Since President Joko Widodo (Jokowi) does not have the backing of the majority of parliament, he faces difficulties controlling the legislative agenda, and potential frustrations from having existing, obfuscated legal clauses used against him. However, instead of appeasing the parliament with the allocation of cabinet posts, Jokowi is likely to rely on one-off deals, potentially combining the carrot of economic resources with the stick of legal action. More than his predecessor, Jokowi is likely to depend on presidential action without parliamentary support, appointing competent loyalists in strategic positions, for example, Luhut Pandjaitan as presidential chief of staff, and Faisal Basri as the head of the task force aimed at eradicating mafia practices in the oil and gas sector.

However, despite such obstacles, the cabinet itself has shown some compromises, with the usual mixture of bureaucrats, professionals, party politicians, and businesspeople, even if the mix of parties is somewhat narrower than the norm. Concessions clearly had to be made to three major powerbrokers in his coalition, particularly Megawati Sukarno Putri of PDIP, Surya Paloh of Nasdem and Jusuf Kalla. For example, Ryamizard Ryacudu — a hardline ex-general — has been appointed as the first non-civilian defence minister in the post-Suharto period. This has raised some

questions about the cabinet's capacity to deliver, and the credentials of some critical cabinet posts, especially with regard to security and legal concerns.

Two policy goals are currently pertinent. Firstly, there is the need to improve infrastructure, particularly in transportation. Jokowi's focus on developing a maritime toll road will significantly alter regional distribution routes. Secondly, there is urgency in improving welfare services, especially in the areas of health and education. The reduction of fuel subsidies — fortunately at a time of falling global oil prices — has produced a huge fiscal space and provided greater resources in hand for other government priorities.

Malaysia: Issues in 2015

Mr Ibrahim Suffian

Co-Founder and Programs Director of Merdeka Centre for Opinion Research, Malaysia

Mr Ibrahim described 2015 as another transitional year for Malaysia as the country continues to move away from a dominant one-party political system to one that hosts two viable (coalition) parties. He cautioned, however, that both coalitions — Barisan Nasional (BN) and Pakatan Rakyat (PR) — will face issues that will test the limits of intra-coalition unity. UMNO's pursuit of Malay support may further alienate its non-Malay allies, including BN's "franchise" parties on Borneo. Greater contestation of Islam in public life and PAS's push to implement a controversial *hudud* (Islamic criminal law) bill in Kelantan state may affect its alliance with its partners: DAP and PKR. He added that PR's survival would largely depend on the outcome of PAS's internal party elections, which are to be held in June 2015. PAS progressives are expected to hold off the party's Islamic agenda if they win these internal elections.

Observers will also be keeping a close watch on intra-UMNO dynamics in the year ahead as the party is due to hold its internal elections in 2016. Mr Ibrahim acknowledged that former Prime Minister Mahathir Mohamad's persistent criticism of Prime Minister Najib Razak's leadership might gradually undermine the latter's reputation in public life and within UMNO. However, Mr Najib's detractors in UMNO appear to lack the structure and the political will to mount an effective challenge. Even if they succeed, the party would be left without a viable successor, leaving UMNO very weak in the lead up to the next general election. Mr Najib will, however, have to concern himself with the impact of the economy on his popular support. 2015 will see the introduction of a new goods and services tax, which will likely test the Prime Minister's and BN's appeal among rural low-income voters.

2015 is also a transitional year for leadership within PKR and DAP, from senior to younger leaders. Anwar Ibrahim's sodomy trial will be observed closely as he makes way for new Selangor Chief Minister, Mr Azmin Ali, to lead PKR and PR. Mr Ibrahim is of the view that Anwar's martyrdom has been sealed — the outcome of the trial notwithstanding. Even as PR successfully graduates

from Anwar's leadership, the coalition will continue to face challenges presented by parliamentary redistricting, to be held in the first two quarters of 2015. Whereas the BN previously enjoyed two-third representation in parliament, and therefore had unimpeded control over redistricting, it may now seek to entice PAS (in exchange for support for *hudud*) to form a new majority.

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