

REGIONAL OUTLOOK FORUM 2020

Disruptions, Competition, and Collaboration

9 January 2020, Raffles City Convention Centre

Session 1: Great Power Relationships: Choices for the United States and China, Consequences for All

The first session centred upon the Great Power Rivalry between the United States and China. The moderator, **Professor Joseph Liow Chin Yong** (Dean of College of Humanities, Arts, and Social Sciences, Nanyang Technological University, Singapore), opened the panel discussion by highlighting the pressing need for countries in the Southeast Asian region to constructively manage differences in order to avoid conflict or hamper the pursuit of mutual interest, stability and growth, especially in the wake of the ongoing Sino-U.S. tensions.

Professor David Shambaugh (Gaston Sigur Professor of Asian Studies, Political Science & International Affairs, George Washington University) observed that we are again living in an era of Great Power Rivalry, with the Sino-U.S. bilateral tensions looming large and casting long shadows over the Asian region and the entire world. This has led many to believe that a new Cold War between the U.S. and China is emerging. Professor Shambaugh explained that Sino-U.S. competition is multifaceted and not limited to the military-strategic domain, as it also extends into issues of diplomacy, economics (including trade, investment, aid, and standards), technology, political influence activities, ideology, competing models of development and governance, as well as culture and soft power. Although he carefully noted that there remains elements of cooperation and interdependence between the two powers, Professor Shambaugh argued that the “predominantly competitive” Sino-U.S. relationship will be the “new normal” for the foreseeable future.

For many other countries, the Sino-U.S. rivalry has caught them in the middle, as they would prefer not having to choose between the two powers and to instead maintain positive relations with both. This is particularly true for Southeast Asia, which Professor Shambaugh identifies as “the epicentre of the U.S.-China competition”. However, most countries in the region are too preoccupied with their domestic affairs to properly acknowledge this geopolitical reality. Furthermore, while Southeast Asia has had the experience of navigating great power rivalries in the past, Professor Shambaugh predicted that present dynamics may pose a more significant challenge for the region. He explained that while neither Beijing nor Washington are explicitly asking countries to choose one over the other, both powers have applied considerable implicit pressures and inducements to sway individual countries to their side. Most of these efforts have been directed at Southeast Asia, suggesting that the region is functioning as a smaller-scale “petri dish” for the global competition between the two powers.

In the contest for Southeast Asia, Professor Shambaugh stated that the U.S. may have had an initial advantage as a multi-dimensional power, while China, though rapidly growing, is still primarily an economic power. Moreover, although China’s trade with Southeast Asia twice exceeds the U.S.’s, the latter’s total stock of investments in the region far outstrips China’s. However, this gap may narrow as China scales up its investment presence through the Belt and Road Initiative. Professor Shambaugh

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also acknowledged that China is ahead in terms of diplomatic and political influence in Southeast Asia due to American neglect of the region. He also highlighted how a forward deployment of Chinese air and naval assets in the South China Sea (as well as rumours of a Chinese air and naval base being developed in Cambodia) will prove to be a “game changer” for regional security. He further stated that American strategic influence in the region has been on the decline, particularly since the U.S.’s withdrawal from the Trans-Pacific Partnership (TPP). The U.S. has also returned to a pattern of “episodic parachute diplomacy” under President Trump, in which American officials “fly in” and “fly out” of the region without any sustained engagement. This is exacerbated by the fact that the Trump administration has not staffed its embassies in key regional states and has no evident coherent strategy for the region.

According to Professor Shambaugh, the sum of such American “inaction” has left a strategic vacuum in the region. However, he cautioned against assuming that China has thus been able to comprehensively take advantage of the situation. He explained that while all Southeast Asian countries have shifted towards China in recent years, albeit to varying degrees, accompanying this general gravitation in China’s direction is a deep sense of ambivalence and discomfort about this outcome. Professor Shambaugh indicated that regional surveys have revealed that China is viewed with growing suspicion in the region, while highlighting how even Cambodia—a major Chinese client state—is showing evidence of discomfort over its dependence on China. Given these circumstances, he recounted how, in 2011, the government of Myanmar halted the construction of the Myitsone dam in a symbolic effort to distance itself from China. This was however not easy to achieve, which reflects how “China’s tentacles run deep in the region”.

Professor Shambaugh noted that no country would want to be overly dependent on China. Instead, they would seek to maintain their independence while diversifying their external relationships. This means that it is vitally important for the U.S. to be steady and supportive of ASEAN, to provide a positive example, and to avoid compelling countries to “choose” Washington over Beijing. The U.S. should also continue to provide security and peace, while respectfully promoting and practicing its liberal values at home and abroad. He also argued that ASEAN and its member-states should exercise their agency and have their voices heard in Washington, as Southeast Asian silence is a recipe for American neglect of and Chinese dominance over the region.

Professor François Godement (Senior Advisor for Asia, Institut Montaigne, Paris) contextualised the current U.S.-China trade war in terms of a more general retreat from the post-war international order. Highlighting the increasing economic fragmentation and greater emphasis on sovereignty and self-sufficiency in countries across the world, he warned that the global order could “sputter and stop” if such trends were to take hold. He also expressed his scepticism about early predictions about the impact of the trade war. The trade conflict was supposed to hurt U.S. consumers and companies due to the loss of low-priced imports while China’s export sector was expected to be adversely affected.

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However, this has not proven to be the case. President Trump will be able to claim that the U.S. has managed an economic victory in cutting the trade deficit by more than USD 60 billion in 2019. Meanwhile, China has increased its share of global exports over this period. In sum, while both countries have weathered the trade war differently, they were able to do so without sustaining as much damage as predicted. As such, Professor Godement argued that the challenge against globalisation and commitment to trade liberalisation is much wider than the U.S.-China trade conflict.

Professor Godement mentioned that Europe shares many American concerns about China, particularly regarding China's behaviour in trade and economics. There is also a fundamental disagreement between Europe and China about human rights and values, which is becoming more pronounced and visible in recent years. However, unlike Southeast Asia, Europe is not in direct physical proximity to China. This means that even with talk of a potential "conjunction between Russia and China", Europe does not have to deal with a rising China as an immediate neighbour.

He also explained that Europe believes the U.S. has "the wrong solutions to the right problems". For instance, Europe would have preferred if the U.S. had adopted a coherent approach to global trade and economic arrangements (such as the World Trade Organisation) and other multilateral institutions. Hence, while Europe agrees with U.S. complaints about Chinese behaviour, there is some hesitation about the American approach towards resolving these issues. This is accompanied by concerns about "the change in political psychology in the U.S.", which has become "more ideological and identity-based".

Professor Godement was circumspect when it came to attributing responsibility to the Chinese for the recent conflict. He recognised that China adopted a moderate response (at least in deeds, if not in words) to American measures, limiting itself to "remarkably moderate" sanctions and reciprocal tariffs. China has also started to grant "transactional concessions" to certain foreign partners and companies. Professor Godement however does not think that this stems from a more general flexible Chinese posture. Rather, this is an expression of China's strategic realism, which suggests that China is "more likely to go softer on its tougher partners and to go harder on its softer partners". To support this contention, he shared how European economic negotiators have privately complained that talks with China are "going nowhere" and that "China is not actually engaged in negotiations while it pretends to talk about investment agreements". In similar vein, he cited how the Republic of Korea is facing a "difficult time" with China, while Japan, which have been among the most supportive of the Trump Administration's tough approach towards China, is enjoying a thaw in their bilateral relationship with China. According to Professor Godement, this seems to confirm that the Chinese leadership responds to expressions of strength.

Professor Godement also argued that while the trade conflict will not turn into a war, it will not end easily since it has brought some benefits to both sides. He was also sceptical about the possible

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decoupling of the two economies, mentioning how the Trump administration is concerned about trade limits on technology only insofar as national security could be affected.

He also insisted that the two countries were not heading towards a Thucydides trap, as both the U.S. and China are “extremely complex systems with balances”. The biggest danger, according to him, is the “melting down” of international rules, but this is not the same as outright conflict.

Professor Jia Qingguo (Professor and former Dean, School of International Studies, Peking University) suggested that despite the recent conclusion of the Phase One trade agreement between China and the U.S., the bilateral relationship remains in deep trouble, and is likely to get worse before it can improve. He explained that because confrontation will serve neither Chinese nor American interests, both powers should thus avoid confrontation while seeking to engage in cooperation where they can. However, while China has invested significant effort to stabilize the relationship, this has not been reciprocated by the U.S.. As such, Professor Jia argued that it is necessary for China to resist American pressure and defend its national interests.

Professor Jia explained that China’s strategic ambition is to rejuvenate itself, rather than to challenge the U.S.. However, the U.S. has perceived China to be a threat and rival. This has led to the deteriorating relationship between the two countries, including the trade war. Professor Jia predicted that a second phase agreement on trade might prove difficult despite China’s best efforts due to the “excessive” demands by the U.S.. For the Chinese, American demands on trade are “not about money but about life”, and this is not something that China can accede to. He also highlighted the technological war over 5G and artificial intelligence that resulted from the U.S.’s “excessive securitisation of technology”. There are also heightened military frictions in the South China Sea due to the U.S.’s freedom of navigation operations (FONOPs) near Chinese-held islands, which have prompted the Chinese navy to be more assertive in defending the country’s “legitimate interests”. Despite these tensions, Professor Jia stated his belief that the two countries are not yet in a Cold War. However, the risk of one breaking out is increasing, especially in the wake of the arrest of Huawei’s Chief Financial Officer Meng Wanzhou in Canada at the U.S.’s behest.

Professor Jia insisted that China attaches great importance to its bilateral relationship with the U.S., describing how the country goes out of its way to ensure that ties remains non-adversarial. For instance, China has made considerable concessions in trade negotiations, which includes agreeing to the “unreasonable” demand to import significant amounts of American products. China has also “downplayed its reactions” to legislative developments in the U.S., including bills pertaining to Taiwan that “threaten to reverse the previous U.S. commitment” to the One China Policy. However, these reconciliatory gestures have not been reciprocated. Describing how “China’s patience is wearing thin”, Professor Jia spoke of the increasing frustration of the Chinese leadership about the prospect of cooperating with the U.S., since the latter seems intent on “toppling the Chinese government or containing China”.

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Professor Jia predicted that, in the short run, the coming U.S. election is likely to accelerate the deterioration of the Sino-U.S. relationship. However, in the long run, the two countries will have to find a way to manage their differences out of sheer necessity. Because China is “a huge country with nuclear weapons”, the U.S. will eventually have to change its currently antagonistic policy and seek cooperation.

In terms of implications for the region, Professor Jia highlighted that the first phase trade deal may lead to the diversion of Chinese trade from Southeast Asia to the U.S. as China increases its imports of American agricultural and semi-finished products. There is also an “increasing security risk” for the region as a result of the growing military friction in the South China Sea and the possibility of clashes arising from “accidents” between Chinese and U.S. naval forces. Professor Jia also suggested that the region will “face pressure from the U.S. to take sides”. This has already partly happened with U.S. demands for countries to avoid using Huawei’s technology. He argued that the best strategy for Southeast Asia is “to unite and resist taking sides”. The region can also work with China to improve regional security by rapidly concluding the negotiations over the Code of Conduct on the South China Sea. This would remove one major source of confrontation between China and the U.S. in the region.

In the ensuing Q&A session, Mr Nor Rizal (Rajaratnam School of International Studies) asked about the Sino-Japan economic rivalry in the region, especially in the domain of infrastructural investments. Professor Jia explained that there is now “less competition and more cooperation”. While there was an economic rivalry between the two countries around five to six years ago over development projects in the region, both countries have recognised that such competition is not viable and have instead sought to cooperate in their investments in third countries.

In light of the mood in Washington D.C. for a hard-line stance against China, Professor Kishore Mahbubani (National University of Singapore) queried whether there are American voices calling for moderation. Professor Shambaugh replied that while there is a strong bipartisan consensus against China, there are still a few moderate voices. He cited the example of the July 2019 open letter in the Washington Post which was signed by 100 former officials and China specialists that was highly critical of Trump administration’s approach to China. However, Professor Shambaugh shared his reservations about the open letter since it neither attributed responsibility for the situation to the Chinese nor did it flesh out an alternative strategic approach to China. He was more approving of the report produced by the Asia Society’s Task Force on China-U.S. Policy which systematised how the U.S. should engage China in “smart competition” in different various sectors, while distinguishing competition from containment or confrontation. He also highlighted the existence of a pro-engagement U.S.-China Working Group in Congress headed by Representative Rick Larsen, as well as the prevalence of more positive views about China outside the D.C. beltway, especially in the states in the West Coast and the South.

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Professor Jia added that, for China, “normal competition” consists of a “shared understandings of the rules”. He however argued that the U.S. is currently asserting that “our rules are the rules, and your rules are not the rules”. Moreover, competition should be about “doing your things better” rather than “playing down the other’s practices”. He was critical of American efforts to condemn China instead of trying to raise its own standards.

Professor Liow questioned whether it was true that China was “soft on tough states but tough on soft states”, as claimed by Professor Godemont. Professor Shambaugh stated that it is difficult to generalise since China has adopted a “highly coercive” approach against countries such as Denmark, Sweden, and the United Kingdom when it perceives that its “core interests” are being threatened. Professor Jia agreed, although he stated that the U.S. might be an exception since the latter is “too big to be treated the same way”.

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Session 2: Edging Ahead: Vietnam's Leadership Transition And Economic Potential

Moderated by **Dr Le Hong Hiep** (Fellow, ISEAS – Yusof Ishak Institute), the second session of the day focused on Vietnam's upcoming leadership transition and the ongoing U.S.-China trade war's economic impact on the country. With Vietnam's economy expanding by more than seven per cent in the previous year, Dr Hiep noted that the country is commanding increasing attention from investors across the globe and becoming one of the most vibrant economies in the region. 2020 is also set to be an important year for the country politically, as preparations begin for the Vietnamese Communist Party's (VCP) 13th National Congress, which would set the direction for the country for at least the next five years.

Dr Thaveeporn Vasavakul (Lead Specialist, Governance Support Facility Initiatives) argued that corruption remains the key political challenge facing Vietnam today. Corruption in Vietnam has evolved into multiple, mutually-enforcing forms consisting of bribery, appropriation of state property, and privatisation of state power. Corruption also manifests in the use of state management powers for personal or group benefit, especially in the arenas of law enforcement, policy making, and personnel management. These are present across multiple sectors and administrative levels.

Corruption in Vietnam is systemic, Dr Thaveeporn noted, having emerged with the country's transition from central planning and becoming an integral part of the *doi moi* process itself. It has resulted largely from the concentration of state management power within the party-state institutions, the slow development of the rule of law, decentralisation, and weak accountability. These factors have interacted to give rise to sustained patronage networks based on vested economic interests within the party-state apparatus.

Dr Thaveeporn also noted that Vietnam's attempts to fight corruption are not new. The country's National Assembly passed the Anti-Corruption Ordinance in 1998, followed by the promulgation of Vietnam's first and most comprehensive anti-corruption law in 2005. In 2007, it endorsed the Office of the National Steering Committee for Anti-Corruption under the Prime Minister to carry out corruption prevention and handling. Despite these legal and institutional frameworks, however, progress on combating grand corruption cases has been limited due to a lack of commitment and means.

Under General Secretary Nguyen Phu Trong, the VCP adopted a "party-centred" approach to fighting corruption. Through what Dr Thaveeporn described as "four pillars of action" – detection and prosecution, organisational restructuring, personnel rejuvenation, and preventing position-buying – the VCP has disciplined over 70 retired and incumbent high-ranking party officials, dissolved six central bureaus and reorganised more than 1,500 district- and grassroots-level units, created a comprehensive set of criteria for political appointments, as well as passed new regulations which strengthen internal control mechanisms.

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Dr Thaveeporn also outlined three challenges to this party-centred strategy. Firstly, the ability of the VCP's Central Committee to consistently implement such a strategy; secondly, the lack of a comprehensive and standardised approach to organisational restructuring; and thirdly, the variation in the political economy of corruption both across and within different sectors. Dr Thaveeporn also noted that while General Secretary Trong's party-centred approach is a positive start, the VCP's new leader will need to devise a full-fledged strategy that cuts across sectors and administrative levels in order to sustain its current anti-corruption momentum.

Dr Thaveeporn concluded her presentation by outlining four developments that Vietnam observers should look out for in 2020: first, whether the VCP is able to successfully implement its personnel and organisational frameworks and whether leadership renewal and rejuvenation actually occurs; second, whether the structure and social composition of the 13th Central Committee will reflect continued decentralisation or a return to the centralisation of the party-state; third, the naming of candidates for the VCP's four top leadership positions and whether personnel guidelines will be followed; and lastly, whether the preparation of congress documents will provide opportunities for party members and the public to air their views freely.

Dr Nguyen Dinh Cung (Senior Advisor, Central Institute for Economic Management), on the other hand, focused his presentation on the relationship between Vietnamese economy and the ongoing U.S.-China trade war. Dr Cung pointed out that there has so far been no evidence of any negative impact from the trade war on Vietnam's economy, with Vietnam's GDP growth remaining high and its macroeconomic stability strengthening. The Vietnamese economy also appears to be resilient overall.

Dr Cung however noted that Vietnam has been experiencing a declining export growth rate since 2017, particularly in its FDI exports. Its domestic sector exports, nevertheless, have increased significantly – four times higher than its FDI exports. This is the first time Vietnam's domestic sector export growth rate has outperformed that of its FDI counterpart. Export growth in Vietnam has thus been largely maintained through the growth in domestic sector exports.

The U.S. remains as Vietnam's largest export market, receiving 20 per cent of Vietnam's total exports, while China is third at 16 per cent. China, however, is Vietnam's largest import market, with 28 per cent of Vietnam's imports coming from the country. U.S. imports comprise only five per cent of Vietnam's total imports. Dr Cung also noted that the increase in Vietnam exports in 2019 was largely dependent on the US market, with exports to the U.S. increasing by 28 per cent while exports to China decreased by 0.6 per cent. ICT products account for a third of Vietnam's exports, with the sector dominated by South Korean and Japanese investors, particularly Samsung.

Dr Cung argued that there has been no evidence of Vietnam benefitting from FDI reallocation as a result of the trade war. As of November 2019, newly registered FDI decreased by 7 per cent, while supplemented FDI decreased by 20.7 per cent. Dr Cung also pointed out that manufacturing accounted for more than 70 per cent of Vietnam's total newly registered FDI, particularly the ICT sector. This sector, as Dr Cung noted earlier, is dominated by South Korean and Japanese investors.

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A new phenomenon that has emerged recently, Dr Cung added, is the increased importance of China as an FDI source. In 2019, China became Vietnam's fifth largest investor in terms of stocks, and second largest in terms of flow. Mainland China, Hong Kong, and Taiwan also collectively account for half of investment flows into Vietnam last year.

Dr Cung concluded his presentation by arguing that the impact of the ongoing trade war on Vietnam has largely been mixed, despite the general optimism of Vietnam observers. Economic growth in 2019 was fuelled largely by domestic reforms, particularly the promotion of the private sector, and not FDI or an increase of exports. FDI in general has declined, with only investment from China increasing significantly. Dr Cung also cautioned that, despite optimism from observers that Vietnam's ICT sector is set to take off due to a reallocation of investment from China, investors will face a shortage of both high- and low-skilled labour in Vietnam, leading to an increase in labour costs. Dr Cung also expressed doubt that the Vietnamese government would provide robust incentive packages to incoming investors, like those given to Samsung.

Dr Hiep kicked off the Q&A session by asking Dr Thaveeporn what the Vietnamese government has done to root out "low-level corruption" – corruption experienced by businesses and citizens in their interactions with local governments and agencies – as opposed to the more visible, high-level, grand corruption cases involving the prosecution of Politburo and Central Committee party members. Dr Thaveeporn replied that the Vietnamese government has paid a lot of attention to corruption in the form of "grease" or "speed money, where businesses and citizens have to pay informal fees for service delivery. As early as 1994, an expansive campaign was launched by then-Prime Minister Vo Van Kiet to simplify and reform administration procedures. This has since developed into a two-pronged strategy to combat "petty corruption" – firstly, the setting up of 'one-stop shops' for the provision of governmental service in order to enhance the transparency of governmental administration; and secondly, promoting the simplification of procedures among government agencies.

Dr Hiep then asked Dr Thaveeporn, that with General Secretary Nguyen Phu Trong due to step down in 2021, what can be done to make the country's anti-corruption drive more effective and less dependent on the influence of a single politician. Dr Thaveeporn replied that leadership change has to go hand-in-hand with the reform of the public management system, as having good leadership does not automatically guarantee that the government machinery will work effectively. Dr Thaveeporn added that Vietnam's new leadership will need to think technocratically when formulating public administration reform.

When asked by Dr Hiep what reforms Vietnam could undertake to emerge as a 'winner' in the trade war, Dr Cung replied that it is important for Vietnam to be a winner not only in the trade war, but also a 'winner' in free trade. This includes providing more opportunities for private domestic investors. Dr Cung observed that foreign investors had been able to better capitalise on the opportunities resulting from Vietnam's free trade agreements, compared to their domestic counterparts. The Vietnamese government and the VCP should thus prioritise domestic market reforms and help domestic

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businesses mature. Such reforms should include liberalising the economy, ramping up anti-corruption efforts, and simplifying state bureaucracy. Dr Cung also added that courts in Vietnam should be more independent, so that citizens, businesses, and investors would have more confidence in bringing their cases to court. An efficient and effective judiciary would stimulate larger and more long-term investment in the country.

Dr Hiep then asked Dr Cung if he, in his capacity as advisor to the Vietnamese prime minister, had an insight into the government's decision to revise GDP numbers upwards by 25.4 per cent, and the implications of such a move on policy making and the business community at large. Dr Cung replied that internal conversations leading up to the GDP revision were centred on whether some segments of the economy were properly accounted for in existing GDP figures. For instance, there was concern that some 76,000 companies, which makes up 15 per cent of the GDP, were unaccounted for. Dr Cung pointed out two key implications of the revision: first, the new figure will give the government significant room for more borrowing; and second, that there will be added pressure for an increase in wages. The latter is bad news for investors.

Ms Linh Nguyen (Control Risks) asked Dr Thaveeporn if the VCP's anti-corruption drive has affected the country's economic growth, as the anti-corruption measures have been cited as the reason for the delay in Vietnam's privatisation process. Dr Thaveeporn conceded that Vietnam's anti-corruption drive has affected the country's economy in the short-run, slowing down economic decision-making and economic activities, particularly in wealth-generating bigger cities. While government officials have been blamed for being too afraid to make decisions because of the anti-corruption campaign, Dr Thaveeporn pointed out that the delays are also the result of the large number of time-consuming inspections that are being carried out. Dr Thaveeporn argued that this can be seen as an adjustment period, and that it is more important that the government develop clear legal frameworks so that officials are able to make effective decisions.

Ms Linh also asked Dr Cung if, in light of the growing anti-China sentiment due to developments in the South China Sea, the VCP would be forced to move closer to the U.S. Dr Cung replied that anti-China sentiment has been growing in the country due to two reasons. First is China's growing assertiveness in the South China Sea that has led Vietnam to feel that its national interests have been violated by China. Second, Chinese projects in Vietnam have proven to be inefficient, although Dr Cung argued that this has mostly been due to poor management by Vietnamese partners. Dr Cung concluded by pointing out that Vietnam does not have to choose between the U.S. and China, and that doing so would not be good for the country.

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Session 3: Revert Or Reform: Indonesia Under Jokowi's Second Term

The session captured the challenges and opportunities under President Joko Widodo's second term of administration. Moderated by **Dr Siwage Dharma Negara** (Senior Fellow and Co-Coordinator, Indonesia Studies Programme, ISEAS – Yusof Ishak Institute), the panel discussed the government responses to the current economic challenges and the rising conservatism facing the country.

Professor Mari Elka Pangestu (Professor of International Economics, University of Indonesia) started the panel with her analysis on main economic challenges and priorities for Jokowi's second term. Given external uncertainties and disruptions, Professor Mari argued that the administration faces the challenge of attracting investments as well as making structural reforms a priority. This is necessary to achieve the next level of development, which would not only take into account economic growth, but also climate change.

Some of the external uncertainties that Professor Mari highlighted include the global economic slowdown, weak trade demand due to Sino-U.S. trade tension (which is not likely to be resolved soon), technological transformation and climate change. These uncertainties create both threats and opportunities in trade and investments for Indonesia. She explained that the evolving global value chain in Asia has created opportunities for cross-boundary production and trade relations in the region. A regional trade agreement (such as the Regional Comprehensive Economic Partnership, or RCEP) to regulate these transnational economic relations is therefore needed. Professor Mari also asserted the importance for member-countries of RCEP to undertake reforms in order to foster a long-term regional framework that can effectively facilitate the flows of goods, services, investment, people, and data.

Domestically, the Jokowi administration is seeking to avoid the middle-income trap and establish Indonesia as a top five economy by 2045. To overcome structural constraints and bottlenecks, the administration has established five priority policy domains: infrastructure, human capital, de-regulation and de-bureaucratization, simplification and reform, and economic transformation. In terms of infrastructure, Professor Mari assessed that the country has been relatively doing well, although it is still catching up on the missed opportunities as a result of the Asian Financial Crisis. She added that the plan to move the capital from Jakarta to Kalimantan and build special economic zones was meant to address Jokowi's concerns about reducing the Java-centric national economy and spreading economic growth to the other islands. However, these plans are currently facing legal challenges and concerns about its environmental impact.

Regarding the issue of human capital, Professor Mari pointed out that underemployment remains a big challenge due to the low levels of educational attainment. She described the appointment of Nadiem Makarim as the new education minister as an innovative move by the President that can help to improve human capital and broaden job creation. Additionally, she mentioned that the president has been frustrated by the delays in streamlining the country's regulations and policies, including the

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current attempt to simultaneously amend 82 national laws and 190 local laws through an omnibus bill. To conclude, Professor Mari stated that the legal framework, bureaucracy and other state institutions have been prominent challenges hindering the creation of a favourable investment climate.

The second speaker of the panel, **Dr Zainal Abidin Bagir** (Executive Director, Center of Religious and Cross Cultural Studies, Universitas Gadjah Mada), began his presentation by discussing how the image of Islam in Indonesia has been generally moderate and democratic, even though it was internally diverse and has a contentious political history. The post-New Order democratization in 1998 marked the beginning of the rise of ethnic and religious identity politics, which is now becoming an increasing fixture in Indonesian politics following Jokowi's 2019 election victory. During his presentation, Dr Zainal surveyed the historical background of religion and politics in Indonesia in order to assess the challenges that Jokowi had faced in his first administration as well as those that he will face in the coming five years.

Historically, religion and politics have been intertwined since Indonesia's independence in 1945, functioning as an ambivalent force in the development of democracy. In Jokowi's first term, his administration pursued a simultaneous policy of repression (against religious groups regarded as "radical") and accommodation (of moderate groups which supported the government's fight against "radicalism"). The repressive measures include banning *Hizbut Tahrir Indonesia* (HTI), the frequent use of the information law by the police, and regulating the freedom of civil servants and grassroots religious movements (*majelis taklim*). Meanwhile, the government sought to accommodate moderate religious groups through the Ministry of Religious Affairs, courting prominent religious organisations such as the Nahdlatul Ulama and Muhammadiyah, as well as the *Majelis Ulama Indonesia*, the country's top clerical body. While the mixture of repressive and accommodative policies have successfully secured short-term stability for the country, Dr Zainal argued that it has however strengthened religious polarization (particularly during the elections) and weakened democracy in Indonesia.

Dr Zainal Abidin concluded by outlining the prospects of Jokowi's second term. While Indonesia is likely to be stable politically, there is a possibility for public disappointment as evidenced in the student protests of September 2019. Since Jokowi's recent electoral victory, there has been considerable public disappointment over the weakening of the Corruption Eradication Commission (KPK) and a few proposed pieces of legislation, including draft revisions to the Penal Code. Moreover, Dr Zainal observed that although the economic development of Indonesia might improve, the quality of democracy could decline as a result of more nationalistic rhetoric and anti-radicalism policies. He also predicted the trend of religious polarization to continue in the next election.

The Q&A session drew some interesting questions from the audience. Dr Michael Montesano (Visiting Senior Fellow, ISEAS – Yusof Ishak Institute) touched upon the trend of religious intolerance in Indonesia and posed two questions. First, he asked Dr Zainal about anti-Islamic sentiments among

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Indonesian Christians. In response, Dr Zainal explained that Indonesia has a unique geographical distribution of its religious demographics. Due to the disproportional concentration of non-Muslim religious followers in certain areas, Muslims are the minority in some non-Java islands. Dr Zainal argued that anti-Christian intolerance among Muslims in Java have had an impact on other localities in Indonesia, leading to instances such as the burning of mosques in Papua and the rise of anti-Islamic movements in Kupang and Manado.

Dr Montesano's second question was related to the profile of the protestors in the September 2019 demonstrations. Dr Zainal explained that two groups were involved in the demonstration: students and activists. The students are younger Indonesians born after the New Order era and thus did not necessarily experience the *reformasi* movement in 1998, while the activists consists of an older generation of campaigners who have been involved in the democratic development of Indonesia for the past 20 years.

Mr Raymond Yee (DHL Express) asked Professor Mari, who had previously served as a trade minister, whether there is sufficient political will to embark on ambitious bureaucratic reform. Professor Mari described the passage of laws as a time-consuming exercise because it requires a rigorous process of planning, consulting various stakeholders, and lobbying. She identified parliament as a significant hurdle, especially in securing their support and fulfilling their demands for immediate implementation. As a result of these difficulties, some new laws that have been passed are inconsistent with existing legislation.

Professor Mari also discussed the Jokowi administration's plans to reform the tax law and amend the labour law. The tax reform is almost complete through the collaborative work of the finance ministry and the parliament's First Commission. However, amending the labour law will prove to be more complicated due to the number of political actors involved in the law-making process, which includes eleven different parliamentary Commissions. She suggested dividing the task of amending the legal amendments into different clusters, instead of attempting all of it at once.

Mr Yaacob Ibrahim (Member of Parliament, Singapore) asked Dr Zainal about the responses of Indonesian Muslims to international issues, such as the Uighurs in Xinjiang and Palestine. According to Dr Zainal, Islamist and extremist movements in Indonesia have sought to use the issue of the Uighurs and Palestinians to criticise the government.

Mr Emirza Syailendra (Rajaratnam School of International Studies) asked about the appointment of General Fakhur Razi as the Minister of Religious Affairs and Jokowi's relationship with Vice President Ma'ruf Amin. Dr Zainal explained that the appointment of General Fakhur Razi was flawed due to his background as a military officer, and not his nationalist agenda. He argued that given his previous role, the new minister might have an insufficiently-nuanced understanding of radicalism, which would hamper counter-radicalism efforts. Dr Zainal also described the division of responsibilities between the president and vice president, with Ma'ruf Amin tasked with the development of the halal economy in Indonesia.

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Session 4: Arrested Development: The Cases of Thailand and Myanmar

The fourth session was moderated by **Dr Michael J. Montesano** (Visiting Senior Fellow, Coordinator of the Thailand Studies Programme and Co-Coordinator of the Myanmar Studies Programme). **Dr Prajak Kongkirati** (Assistant Professor and Associate Dean for Research and Academic Services in the Faculty of Political Science, Thammasat University) and **Dr Richard Horsey** (Myanmar Advisor for the International Crisis Group) sat on the panel as the experts of Myanmar and Thailand respectively.

Dr Prajak Kongkirati took the stage to discuss the political and economic performance legitimacy of the current government in Thailand. He began by analyzing the political consequences of the 2014 Thai general elections on the current political landscape. Compared to the 2014 elections, the 2019 election was believed to be flawed and unfree, resulting in online campaigns by the Thai people to disqualify the election commission. During the elections, the commission was also not able to provide an accurate number of voter turnout or the vote scores of candidates and parties in each location. Rather than restoring the legitimacy of the military junta and the coup leader Prayuth, the lack of transparency has instead delegitimized the military government's claim to power.

Dr Prajak then discussed the implications of the 2019 polls on Thai political landscape. The most apparent change is that Thailand's evolution from a two-party system to a multi-party system with two coalitions. There are currently 27 political parties in the parliament, with the government coalition consisting of 19 parties. The coalition government headed by the military-backed Palang Pracharat is fragmented and disunited, unable to implement structural reforms or pursue a coherent policy programme. The constant internal conflict in the governing coalition have also resulted in the loss of public support and declining approval ratings. However, Dr Prajak reminded us that despite the declining popularity of the coalition government, it will not collapse easily due to support from the military-appointed senate, the military, and the monarchy.

The return of patronage politics and "local boss"-ism were also observable trends in the 2019 election. What is interesting was the voter demographics. The pro-junta Palang Pracharat was funded by five conglomerate families and gained the support of many of the upper middle-class of Thailand. There was also high level of political participation among youths who mostly directed their votes to Future Forward. Moreover, the unprecedented direct involvement of the royal family through the nomination of Princess Ubonraith (the sister of the King) as a prime ministerial candidate had the effect of unsettling the relationship between the monarchy and Thai politics. Dr Prajak also highlighted how two important developments – the transfer of crown property to the private control of the King and the placement of a key Bangkok army unit under the King's direct command – suggests that Thailand is currently struggling to find a post-Bhumibol consensus on the role of the monarchy.

Dr Prajak also discussed about the slowing economy and rising inequality in Thailand. As GDP growth is set to fall below 3 per cent, the ongoing political uncertainty, saturating domestic demand, and strong Thai baht have led to declining investor's confidence. Thailand's woes are further aggravated

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by the China-U.S. trade war and economic opportunities lost to Vietnam. Moreover, state regulations and oligopolistic control of well-connected large corporations have only served to stifle the growth of small and medium enterprises (SMEs). There is also a lack of effective government policies to combat economic inequality, with household debt in Thailand now ranked as second highest in Asia. The various cash handouts undertaken by the government has not been able to stimulate growth and does not address the deep structural problems underlying the Thai economy.

Dr Prajak concluded his presentation by identifying potential sources of instability for Thailand, which includes a cabinet reshuffle, anti-government political rallies, constitutional amendments, the government's inability to solve economic problems, and the future of military-monarchy relations after the retirement of General Apirat Kongsompong.

Dr Richard Horsey then surveyed the socio-economic and political conditions in Myanmar, as the country gears toward elections later this year. Dr Horsey pointed out that Myanmar faces an uphill battle as it deals with deep structural baggage, armed conflicts in its peripheries, a more open but also more divided society, the Rohingya crisis, and the case against Myanmar in the International Court of Justice (ICJ). Dr Horsey also discussed Daw Aung San Suu Kyi's presence at the Hague, suggesting that her performance was at the higher end of expectations: while she defended military actions, Daw Aung San Suu Kyi also took responsibility for their actions, appeasing some of her Western supporters.

That said, the upcoming elections is likely to place any future plans and the political will to resolve the Rohingya crisis on the backburner. Electoral politics will not only consume much of the National League for Democracy (NLD) government's attention, but also influence Myanmar's priorities and decision-making across a range of key policy areas including the peace process and the economy. Dr Horsey expressed his confidence doubt that the NLD will win sufficient seats to return to government given its continued popularity and the failure of the Union Solidarity and Development Party (USDP) to rehabilitate its reputation. Barring unforeseen dramatic changes, Daw Aung San Suu Kyi will continue to be the de facto leader of Myanmar.

Against the backdrop of the apparent political instability and the huge reputational impact arising from the Rohingya crisis, Dr Horsey stated that Myanmar's economy is performing well with 6.5 per cent growth in GDP. Yet, the next few months may bring record shortfalls in electric power generation, resulting in widespread power cuts. Such disruptions to everyday activities may fan further criticisms of the NLD. In addition, while the country is diplomatically more isolated from the West and countries in the Global South, Myanmar finds itself drawing closer to China. In this regard, President Xi Jinping's first visit to Myanmar is significant as it aligns with the 70th anniversary of Myanmar-China relations. Dr Horsey also stated that Chinese patience with Myanmar's slow progress in the development of the China-Myanmar Economic Corridor (CMEC) has been surprising. However, with the upcoming Myanmar elections and Xi's visit, Myanmar may need or may be pressured by China to speed up the CMEC projects.

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Finally, Dr Horsey argued for moving beyond a parochial understanding of Myanmar. The image of Myanmar has been largely defined by a focus on singular issues. In the 1980s and 1990s, the focus was on Myanmar's military rule and the lack of democracy; today, Myanmar is viewed from the narrow lens of the Rohingya crisis. However, this ignores, for instance, the fact that Myanmar is the largest producer of methamphetamine which has a widespread impact on its regional neighbours. It is thus imperative to understand Myanmar as a multifaceted country with complex socio-political conditions and problems.

The Q&A session kicked off with a question from Robert Fox (Joint Foreign Chambers of Commerce in Thailand) on the role of Western-educated technocrats in the current Thai cabinet. Dr Prajak explained how the political complexity of Thailand and the vested interests of various parties have hindered the passage of effective government policies. Additionally, despite the impressive backgrounds and educational attainments of the ministers, the current cabinet consists of conservative generals and politicians who are not amenable to reforms.

Stuart Job (Embassy of Canada, Bangkok) questioned the extent to which the Myanmar and Thai military are looking at each other for lessons in democratic transition. In reply, Dr Prajak suggested that Thailand needs to learn from Myanmar in allowing for a transition to civilian rule, or at least on the surface. On Myanmar, Dr Horsey suggested that the Myanmar military views Thailand as a warning sign, especially in terms of maintaining control over the constitutional process.

Dr Termsak Chalermpananupap (Visiting Fellow, ISEAS-Yusof Ishak Institute) asked about the personal relationships between leading political figures in Thailand, particularly with respect to General Apirat's support for Prime Minister Prayuth. In response, Dr Prajak reiterated the issues arising from the weak multi-party governing coalition. Prayuth has adopted a policy of appeasement for all in order to accommodate the competing and conflicting interests of the various component parties, which are all equally important in preventing the collapse of the government.

The session closed with final questions from Dr Montesano. On Myanmar, Dr Montesano queried about Myanmar's potential for further economic growth. Here, Dr Horsey argued that the NLD's lack of economic vision has resulted in a less-than-optimal economic growth. On Thailand, Dr Montesano questioned the possibility for an outbreak of political violence and the mode of politics undertaken by young people in Thailand. Dr Prajak stated that while young people are more politically-conscious, they are reluctant to undertake street politics due to past clashes with the military government. Instead, the youths are turning to subversive online political activities. Dr Prajak also highlighted the volatility of Thai politics in order to assert the difficulty of predicting the possibility of political violence, especially since previous protests in Thailand were largely unanticipated.

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Session 5: Beyond the Horizon: Pakatan Harapan's Succession Plans and Economic Challenges

The fifth and final session of the Forum focused on Malaysia and featured two eminent speakers: **Mr Rafizi Ramli** (Vice-President, Parti Keadilan Rakyat, Malaysia) and **Dr Nungsari Ahmad Radhi** (Chairman of Khazanah Research Institute, Malaysia). **Dr Francis E. Hutchinson** (Senior Fellow and Coordinator, Malaysia Studies Programme, ISEAS – Yusof Ishak Institute) moderated the session.

Following Dr Hutchinson's opening remarks, Mr Rafizi began the discussion by highlighting the significant decline in Pakatan Harapan's approval ratings in the eighteen months since the party had been in power, from around 80 per cent in June 2018 to around 30 per cent in December 2019. This has, once again, brought the coalition's leadership transition issue to the fore.

While Prime Minister Mahathir Mohamad has consistently spoken about his willingness to pass the premiership to Anwar Ibrahim, there is no clear timeline nor indication that the handover will begin at any time soon. According to Mr Rafizi, the succession will be decided by a small group of individuals (comprising of Members of Parliament, and members of Pakatan Harapan's Presidential Council) and will most likely take place after the conclusion of the Asia-Pacific Economic Cooperation (APEC) meetings in November 2020. There is also a possibility that the transition may not be very smooth, resulting in a major political fallout. The odds, however, are in Anwar Ibrahim's favour, as he enjoys the backing of the largest bloc of parliamentarians.

Beyond the issue of succession, Pakatan Harapan's greatest challenge in winning a second term is to turn around the economy and the job market within the next two years, given that Malaysia's performance is already lacklustre – even without any global shock. Although the political narratives is bound to become more religious- and ethno-centric in the lead-up to the next general election, Mr Ramli argued that the outcome will be determined predominantly by the economy.

Drawing the audience's attention to Malaysia's economic outlook, Dr Nungsari highlighted that the country has now entered its third year of having less-than-five per cent in GDP growth. He however maintained that this statistic should not matter much. Instead, policymakers should instead focus on the growing economic inequality in the country. The widening disparity between the rich and poor – as reflected by, among other indices, extremely high levels of household debts (around 80 per cent of GDP in 2019) and limited social security nets – suggests that much more needs to be done to help Malaysia attain high-income status in the near future.

Dr Nungsari also spoke about "domestication" of the Malaysian economy. Malaysia has always been dependent on trade, but the last decade has witnessed sources of growth emerging from domestic sources, mostly contributed by household and government consumption, both of which are fuelled by debt. In fact, over the course of the past five years, the country's ratio of overall trade value (combined value of imports and exports) to gross domestic product had fallen from 2 to 1.2. Therefore, the

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tradable sectors of the economy — which are also the more competitive and productive sectors — must be expanded, diversified and strengthened. While the resource-based sector — rubber, palm oil, and oil and gas — has benefited from the recent commodity super cycle, the foreign direct investment-based manufacturing sector has not evolved sufficiently. This means that new types of investments are required and the entry of smaller businesses must be facilitated.

On the external environment, Dr Nungsari said that regional ASEAN-level integration is a promising but very slow process. One proposal to expedite this process is to work towards bilateral customs unions with the Association's individual member countries.

The panel discussion was followed by a dynamic Q&A round. Dr Hutchinson asked Dr Nungsari to shed some light on Malaysia's low labour productivity trend. Dr Nungsari replied that the domestication of sources of growth has made Malaysia a low-cost and therefore low-income economy, which is also reflective of the productivity of Malaysia's labour force. Moreover, the labour market treats women poorly even though they form the higher end of the nation's human capital spectrum. Also, the cost of adopting technology must be lowered and the economics of scale and scope of digitalisation have to be made a key national agenda as a means to improve overall productivity, he added.

Ambassador Chan Heng Chee (Chairman, ISEAS – Yusof Ishak Institute) posed the next set of questions. She first enquired whether the ongoing U.S.-China trade-war has had any positive impact on the Malaysian economy. Mr Ramli replied that the conflict and the resultant diversion of supply chains has not generated any substantial gains for Malaysia, unlike other countries in the region, such as Vietnam. With regard to the domestication of the Malaysian economy, Ambassador Chan asked about the limited success of public start-ups in Malaysia. To this, Dr Nungsari suggested two factors at play: the risk averse culture prevalent in the country and the lack of adequate social safety nets for young entrepreneurs.

Mr Zainul Abidin Rasheed (Non-Resident Ambassador to Kuwait, Ministry of Foreign Affairs, Singapore) asked if Pakatan Harapan would be adversely affected if, as a result of unforeseen circumstances, Prime Minister Mahathir were to step down before the APEC meetings. Mr Ramli replied in the negative, and explained that, in such a scenario, Anwar Ibrahim would come to the helm of the party and navigate the way forward.

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