ASEAN Studies Centre
ISEAS YUSOF ISHAK INSTITUTE
26 ISSUE 1/2019
JANUARY 2019
ISSN: 2424–8045

ASEAN Focus

A BIMONTHLY PUBLICATION PROVIDING CONCISE ANALYSES AND PERSPECTIVES ON ASEAN MATTERS

State of Southeast Asia: 2019 Survey

US-China Trade War

ASEANFocus is published by the ASEAN Studies Centre at ISEAS-Yusof Ishak Institute and available electronically at *www.iseas.edu.sg*

If you wish to receive an electronic copy of ASEANFocus, please email us at *asc@iseas.edu.sg*

Published on 7 January 2019

SUPPORTED BY

KONRAD ADENAUER STIFTUNG

ISEAS-Yusof Ishak Institute
30 Heng Mui Keng Terrace
Singapore 119614

Tel : (65) 6870 4509
Fax: (65) 6778 1735

Contents

ISEAS-Yusof Ishak Institute (formerly Institute of Southeast Asian Studies) is an autonomous organisation established in 1968. It is a regional centre dedicated to the study of socio-political, security, and economic trends and developments in Southeast Asia and its wider geostrategic and economic environment. The Institute's research programmes are grouped under Regional Economic Studies (RES), Regional Social and Cultural Studies (RSCS) and Regional Strategic and Political Studies (RSPS). The Institute is also home to the ASEAN Studies Centre (ASC), the Nalanda-Sriwijaya Centre (NSC) and the Singapore APEC Study Centre.

Editorial Notes

Uncertainties and disruptions abound even in the festive season as 2018 transitioned into 2019. An outpouring of sympathy and compassion went to Indonesia again as another tsunami hit the coast of Sunda Strait on 22 December 2018, leaving in its trail more than 400 fatalities, around 14,000 injured and more than 33,000 displaced people. The region's maritime sphere has also been stirred up by the resurging maritime boundary dispute between two ASEAN fellow members, Malaysia and Singapore.

Further afield, the last month of 2018 has been turbulent for the Trump Administration with an ongoing partial government shutdown, stumbling stocks on Wall Street in early December to surge back later, and the resignations of key cabinet members, especially Secretary of Defense James Mattis who played a critical role in anchoring US presence and commitment to Asia. In an effort to assuage a lot of uncertainty and anxiety over the future trajectory of America's engagement in the region, the Trump Administration signed on the last day of 2018 the Asia Reassurance Initiative Act to add further credence and substance to the Indo-Pacific strategy.

As for ASEAN, there is as much anticipation as anxiety with regard to Thailand's chairmanship this year since the country will also hold the long awaited general election in May 2019. Can Thailand push forward the sustainability theme at the core of the ASEAN agenda while restoring democratic norms and institutions? ASEANFocus is honoured to have the Kingdom of Thailand's Permanent Secretary for Foreign Affairs, Mrs. Busaya Mathelin, outline the country's priorities of its 2019 ASEAN chairmanship.

With a new year upon us, what are the anxieties and hopes of Southeast Asian people about the region? What are their most pressing concerns? Are they cautious or optimistic about the major powers' strategies towards the region, including the Belt and Road Initiative and the Free and Open Indo-Pacific? How do they perceive ASEAN and other important issues facing the region? Which major powers do they trust the most and the least? Which country is their dream vacation destination and where do they choose to send their children for study abroad? In this issue, we present intriguing findings from our Centre's "State of Southeast Asia: 2019" online survey conducted in November and December 2018 among more than 1,000 Southeast Asians who hail from the policy, research, business, civil society and media communities in the region.

From the big picture of the survey findings, this issue casts spotlight on the US-China trade war and its ripple effects to Southeast Asia, for better or for worse. Ms. Selena Ling gives an overview of the trade war developments and projections of its implications on global and regional growth in 2019. Mr. Bilahari Kausikan weighs in on the underlying US-China strategic competition for which trade is only the instrument. We then present country-specific perspectives from Dr. Muhamad Chatib Basri, Dr. Donald Hanna, Dr. Suthad Setboonsarng and Dr. Luc Can on the complex impacts of the trade war to the respective economies of Indonesia, Malaysia and Singapore, Thailand, and Vietnam. These in-depth analyses are complemented by facts and numbers in *ASEAN in Figures* that illustrate how the impacts of the trade war are being felt in the region. For *Insider Views*, Mr. Alex Feldman, CEO and President of the US-ASEAN Business Council, shares with us how ASEAN can be a game-changing factor as American companies operating in the region adjust their business plans to deal with the US-China trade war.

In this issue's *Sights and Sounds*, Ms. Nur Aziemah Aziz is hopeful for more green buildings to spring up amidst the increasingly concretised landscape of Southeast Asian cities. Lastly, Ms. Hayley Winchcombe marvels at how rice has been a quintessential and ever present element of life in Southeast Asia since antiquity.

On the last note, we are delighted to welcome Ms. Anuthida Saelaow to the ASC family. Looking forward to an exciting year ahead, we thank all our readers and contributors for your support as we continue to provide you with analysis and perspectives on ASEAN and beyond. From all of us at the ASEAN Studies Centre and ISEAS-Yusof Ishak Institute, we wish you a happy and productive year for 2019.

Analysis

Thailand's ASEAN Chairmanship 2019: "Advancing Partnership for Sustainability"

Busaya Mathelin outlines Thailand's agenda and priorities for its 2019 ASEAN Chairmanship.

ASEAN remains the core regional institution and organisation in Southeast Asia. It has helped promote peace, stability and economic growth and development in the region for over five decades. Since the Bangkok Declaration establishing ASEAN was signed on 8 August 1967, ASEAN has grown from an Association of five to a Community of ten. It has cultivated a culture of cooperation that has made a positive impact on the lives of over 650 million people. It has also reinforced a foundation of peace and stability, which has helped generate unprecedented economic growth and development. According to The Asia Foundation, the average per capita income of ASEAN has grown 33 times since its founding in 1967.

ASEAN is a core pillar of Thai foreign policy. Thailand's long-term goal is to work together with all ASEAN Member States to build an ASEAN Community that is people-centred, leaves no one behind, and looks to the future. Such a Community would also be open and outward-looking, with strong links – based on mutual interests – with the international community. It would also be a Community that would be in step with the changing times. Indeed, ASEAN will need to find effective ways to manage ongoing changes and uncertainties to ASEAN's benefit – whether it be to address the consequences of the Fourth Industrial Revolution or rising geopolitical tensions in some areas, for example.

To guide ASEAN's work over the next year to bring us closer towards realising the ultimate goal of building a people-centred Community that leaves no one behind and looks to the future, Thailand has chosen the following theme for its Chairmanship: "Advancing Partnership for Sustainability".

There are three key words in our theme.

The first is "Advancing". We live in fast-moving times. The Fourth Industrial Revolution has many positive aspects, but technology can be disruptive and cyber-crime is a real danger. So ASEAN must adapt, find creative solutions, and become more future-oriented, that is, looking ahead twenty years and trying to prepare for it. Indeed, the Association has already set itself the goal of becoming a "Digital ASEAN", with a number of initiatives in the pipeline to enhance digital links as well as cybersecurity. An ASEAN Digital Leaders' Meeting is also planned this year in support of our move towards a Digital ASEAN. Furthermore, the ASEAN-Japan Cybersecurity Capacity-Building Centre has been established in Thailand.

But we must first be able to harness advances in technology for the benefit of the people. This includes enhancing the region's competitiveness, especially in terms of micro, small and medium enterprises (MSMEs). Advancing forward also means preparing for trends beyond the technological to include global challenges, such as climate change and natural disasters.

The second key word is "Partnership". We have many challenges before us, for example, climate change, natural disasters, terrorism, migration as well as the rising tide of

nationalism and trade protectionism. No one country can solve these problems; nor can ASEAN go it alone. So we need to form partnerships, to work with our Dialogue and External Partners. For instance, ASEAN must help to shape the region's Strategic New Equilibrium by strengthening the ASEAN-centred regional architecture and reinforcing a multilateral and rules-based trading system. At the centre of the regional architecture is the East Asia Summit (EAS), which remains the primary platform for dialogue and cooperation on key strategic issues. Other platforms such as the ASEAN Plus Three (APT) should also be utilised to deepen cooperation in important functional areas such as finance, food security and pandemics, for example.

Another critical issue is the Regional Comprehensive Partnership (RCEP). ASEAN and its partners are determined to finalise RCEP negotiations this year. Once concluded, the RCEP will be the world's largest Free Trade Agreement; and together with the envisaged launching of the ASEAN Single Window across all ASEAN Member States, the RCEP should help stimulate greater trade within the region.

We also need to promote connectivity in all dimensions, including basic infrastructure, rules and regulations, people-to-people connectivity, leading to a Seamless ASEAN. Equally important is to increase ASEAN's strategic value-added by connecting the Master Plan on ASEAN Connectivity 2025 to other connectivity strategies in the region, through the "connecting the connectivities" approach.

This "Partnership", however, does not concern governments alone, but also must be formed at all levels, with all sectors of society working together to tackle the challenges of our times.

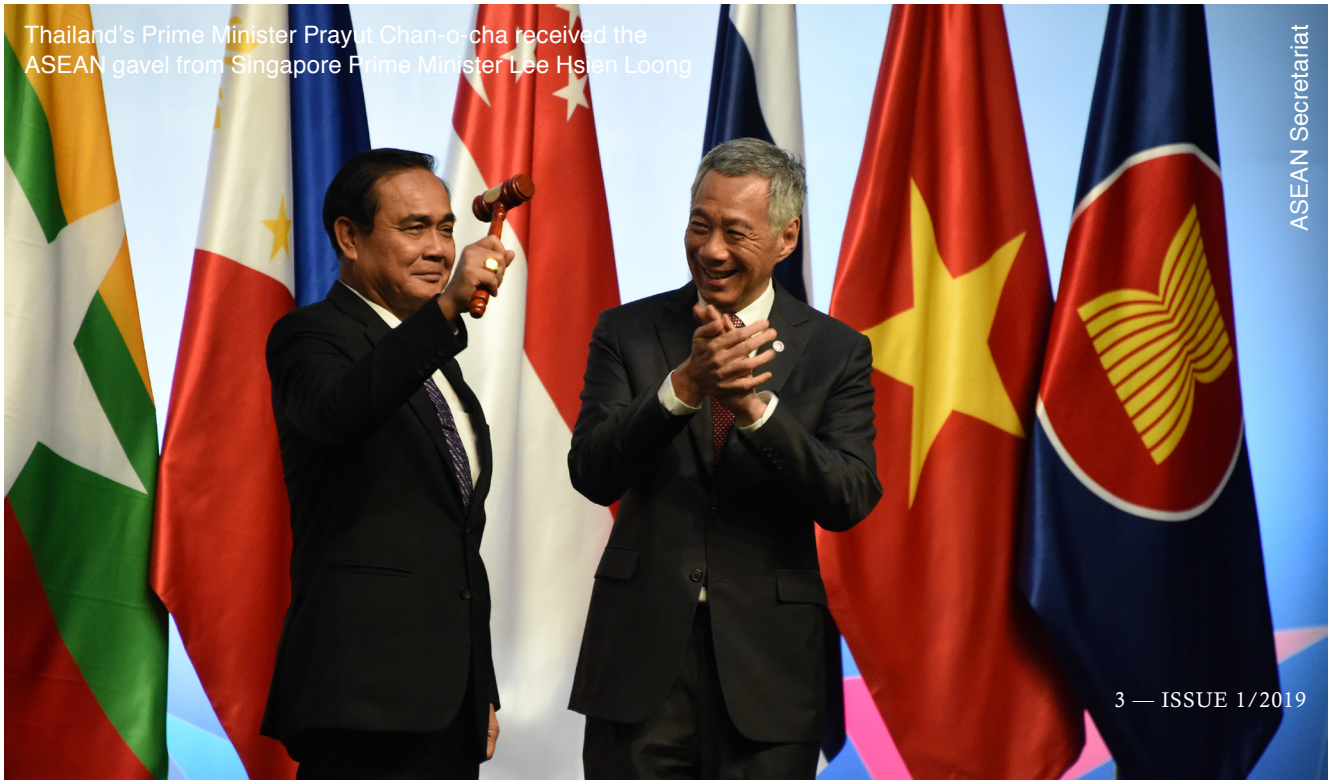
The third key word is "Sustainability". For regional peace, security and prosperity to endure, ASEAN's policies and Community-building efforts need to be sustainable. That is why we need to enhance sustainable security, sustainable growth, and sustainable development. In other words, ASEAN needs to be a "Sustainable ASEAN" that is sustainable in all dimensions, or sometimes referred to as "Sustainability of Things".

Sustainable development cooperation will be given particular emphasis as it will help in not only closing development gaps, but also assisting Member States to attain the Sustainable Development Goals (SDGs). Building on the Complementarities Initiative, which seeks to build synergies between the ASEAN Community Vision 2025 and the United Nations 2030 Agenda for Sustainable Development, sustainable development cooperation will help ASEAN and the region to better advance human security. This was widely recognised by the United Nations, the World Bank and the International Monetary Fund at the ASEAN Leaders' Gathering in Bali in October 2018.

"Sustainability" will also require institutions in place to ensure the continuity of policies and cooperation. That is why we will be establishing a number of ASEAN centres in Thailand next year, such as the ASEAN Centre for Sustainable Development Studies and Dialogue and the ASEAN Centre for Active Ageing and Innovation. We will also ensure that good initiatives of previous Chairs, such as the ASEAN Smart Cities Network, will continue to be implemented. These undertakings will help ensure continuity of policies beyond the Chairmanship of any particular ASEAN Member State.

Through win-win cooperation and with mutual trust, benefit, and respect, we hope to promote sustainability in the policies and initiatives of the ASEAN Community. This will enable ASEAN to better contribute to regional peace, stability and prosperity. Thailand looks forward to "Advancing Partnership for Sustainability" in cooperation with all our friends for a better future for the peoples of this region.

Mrs. Busaya Mathelin is Permanent Secretary, Ministry of Foreign Affairs of the Kingdom of Thailand.



Thailand's Prime Minister Prayut Chan-o-cha received the ASEAN gavel from Singapore Prime Minister Lee Hsien Loong

ASEAN Secretariat

Priority Deliverables of Thailand's ASEAN Chairmanship 2019

ASEAN Community

ASEAN POLITICAL-SECURITY COMMUNITY

Future-Oriented
Enhance ASEAN's Preparedness to Manage Changes that Impact Regional Peace and Security

Effective Partnerships
Promote Effective Partnerships to Address Security Challenges

Sustainability
Promote Sustainable Security in the Region

ASEAN ECONOMIC COMMUNITY

Equip ASEAN in preparation for the Fourth Industrial Revolution

Enhance ASEAN's connectivity through Trade, Investment, and Tourism

Enable Sustainable Economic Development in ASEAN

ASEAN SOCIO-CULTURAL COMMUNITY

Future-Oriented
Promote Future-Oriented Action for Human Security

Connectivity and Partnerships
Promote People-to-People Connectivity and Partnerships

Sustainability
Promote Socio-Cultural Sustainability in the Region

- Enhance ASEAN's ability in addressing different security challenges such as terrorism, transnational crime and cybersecurity, including by launching the ASEAN-Japan Cybersecuriy Capacity-Building Centre (AJCCBC in Thailand)
- Strengthen ASEAN's capability to conduct preventive diplomacy

- Promote enhanced border management cooperation within ASEAN
- Promote constructive and inclusive maritime cooperation
- Promote defence cooperation and defence diplomacy

- Advance cooperation for sustainable security in ASEAN and the region by reinforcing strategic trust
- Promote the role of the ASEAN Center of Military Medicine

- ASEAN Digital Integration Framework Action Plan
- ASEAN Innovation Roadmap
- Guideline on Skilled Labour/Professional Services Development in Response to 4IR
- ASEAN Declaration on Industrial Transformation to Industry 4.0
- Digitalisation of ASEAN Micro Enterprises

- ASEAN Single Window (ASW)
- Local Currency Settlement Framework
- A Comprehensive ASEAN Region of Gastronomy Official Guideline
- ASEAN Infrastructure Financing Mechanisms
- The Conclusion of Regional Comprehensive Economic Partnership (RCEP) in 2019

- Promoting Sustainable Fisheries through ASEAN Cooperation
- Roadmap for ASEAN Sustainable Capital Market

- Establish ASEAN Centre for Active Ageing and Innovation
- Disaster Emergency Logistic System for ASEAN: DELSA
- Advocate for ASEAN Network for Microbial Utilisation
- Develop human capital through programmes and activities for life-long education
- Initiate programs to address malnutrition, stunting and obesity
- Organise the 20th ASEAN Conferences on Civil Service Matters under the theme "Accelerating Agile ASEAN Civil Service"

- Organise ASEAN Civil Society Conference/ASEAN People's Forum
- Promote ASEAN Year of Culture in 2019 and Development of ASEAN Cultural Centre
- Establish ASEAN Training Centre for Social Work and Social Welfare: ATCSW
- Strengthen ASEAN University Network: AUN

- Enhance capacity of ASEAN Centre for Sustainable Development Studies and Dialogue
- Organise the Special ASEAN Ministerial Meeting on Marine Debris
- Nominate Mu Ko Ang Thong National Park, Hat Chao Mai, Koh Libong Wildlife Sanctuary as an ASEAN Heritage Park
- Monitor the progress of implementation of ASEAN Transboundary Haze Free Roadmap

Source: www.asean2019.go.th

Analysis

Survey Report

State of Southeast Asia: 2019

By **Tang Siew Mun, Moe Thuzar, Hoang Thi Ha, Termsak Chalermpalanupap** and **Pham Thi Phuong Thao**

The ASEAN Studies Centre at ISEAS-Yusof Ishak Institute conducted the "State of Southeast Asia: 2019" online survey between 18 November and 5 December 2018 to seek the views of Southeast Asians on regional affairs. The survey used the purposive sampling method, canvassing views from a total of 1,008 Southeast Asians who are regional experts and stakeholders from the policy, research, business, civil society, and media communities. As such, the results of this survey are not meant to be representative. Rather, it aims to present a general view of prevailing attitudes among those in a position to inform or influence policy on regional political, economic and social issues and concerns.

The academe and think-tank community made up the largest group of respondents at 42%. Nearly one third of the respondents (32.9%) came from the government, inter-governmental and international organisation cluster, which provides a rare opportunity to access perspectives from these often closed circles. The business and finance community (10.4%), civil society and NGO (8%), and the media (6.7%) made up the remaining 25.1% respondents.

The 1,008 respondents were drawn from all ten ASEAN member states to ensure that the survey accurately reflects the regional view. The highest responses for the survey came from Myanmar (16.9%), followed by Malaysia (14.5%), Singapore (12.7%), Vietnam (12.3%), Indonesia (11.4%), Thailand (11.4%), the Philippines (11%), Brunei Darussalam (4.5%), Laos (2.9%) and Cambodia (2.4%).

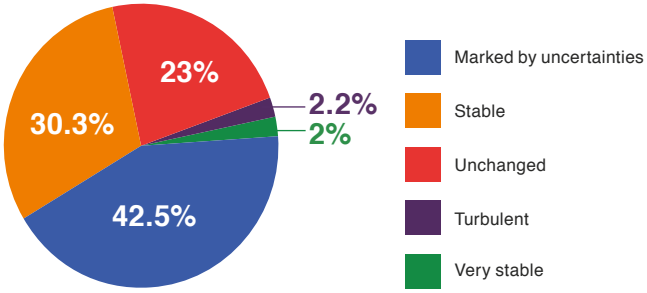
For purpose of readability, the figures in this analysis are rounded up or down to the one decimal point.

I. REGIONAL OUTLOOKS AND DEVELOPMENTS

The big picture

The overall mood of the region is one of pessimism with 42.5% of the respondents expecting the region to encounter a period of uncertainty and a small percentage (2.2%) harbouring concerns of a turbulent year ahead. On the other hand, 32.3% see the region as either "stable" (30.3%) or "very stable" (2%). Nearly a quarter of the respondents (23%) view the fundamentals of the region as "unchanged." The most optimistic is Laos with 68.9% viewing the region to be "stable" or "very stable" while Singaporeans are the most pessimistic, with 66.9% expecting 2019 to be marked by uncertainties and even turbulence.

The general state of the region in 2019 will be ...

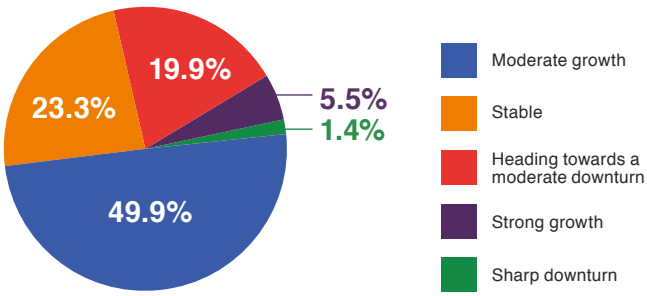


Economic prospects

Across all ASEAN member states, the positive outlook (55.4%) on the regional economy outweighs the negative responses (21.3%). More than half of the respondents (55.4%) expect that the region will experience growth, whether moderate (49.9%) or strong (5.5%). Nearly a quarter (23.3%) anticipate a stable year ahead. The strong endorsement of the economy is somewhat surprising given the current headwinds from the ongoing US-China trade war.

On the other hand, 21.3% of the respondents see the region heading towards a moderate (19.9%) or sharp downturn (1.4%). The most bullish (moderate to strong growth) sentiments are found in Laos (86.2%), Cambodia (66.7%) and Brunei (64.4%). Malaysia (34.9%), Singapore (33.5%) and Thailand (32.2%) harbour the most bearish (moderate to sharp downturn) sentiments in the region.

How do you view the state of the region's economy in 2019?

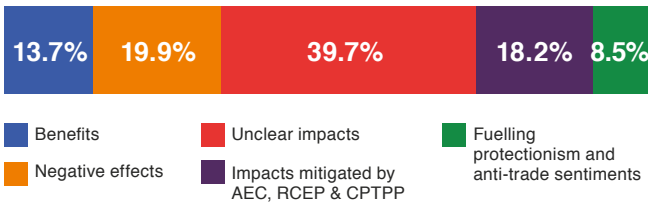


Uncertainty over RCEP's conclusion and the impact of the US-China trade war

The positive views on the region's economic resilience do not carry through to the Regional Comprehensive Economic Partnership (RCEP). When asked of their views on the conclusion of the RCEP negotiations, 47.1% are "unable to comment." This could be interpreted as not having sufficient information to make an informed opinion, suggesting that more effort be expended to engage relevant stakeholders in this discussion.

Overall, 29.2% of the respondents are either "confident" (27%) or "very confident" (2.2%) that the RCEP will be signed in 2019. In contrast, 23.7% see the RCEP negotiations to be a drawn-out affair that is "unlikely" (21.3%) or "highly unlikely" (2.4%) to be wrapped up in 2019. Cambodia respondents are the most upbeat with 45.8% giving their vote of "confidence" towards a speedy and final conclusion, followed by Thailand (34.8%) and Indonesia (33.4%). The highest degrees of scepticism are from Singapore (35.2%), Vietnam (30.7%) and Malaysia (30.1%) – three of the four ASEAN signatories to the Comprehensive and Progressive Agreement for the Trans-Pacific Partnership (CPTPP).

What is your view of the impact of the US-China trade war on your country?



A great deal of uncertainty also surrounds the possible dislocations (and pay-offs) from the US-China trade war as 39.7% of the respondents are unclear of the trade war's impact on their respective countries. Nevertheless, more respondents think their country will stand to lose out from the trade war than reaping any benefits. Nearly one in five respondents (19.9%) shares that their "country's economy will be affected negatively because the trade war will disrupt regional supply chains." Singapore respondents bear the strongest sense of foreboding with 29.7% holding this negative perspective. This sense of anxiety is shared by Thai (27.2%) and Indonesian (21.8%) respondents. At the same time, 13.7% of all respondents see their country "benefiting from the trade and investment diversions towards the region," with Cambodia leading the optimism (29.2%), followed by Malaysia (19.9%) and Vietnam (17%).

A small number of respondents (8.5%) think "the trade war will fuel rising protectionist and anti-trade sentiments in the region." Only 18.2% of the respondents realistically see the ASEAN Economic Community, the RCEP and the CPTPP as safe harbours to weather the US-China trade war.

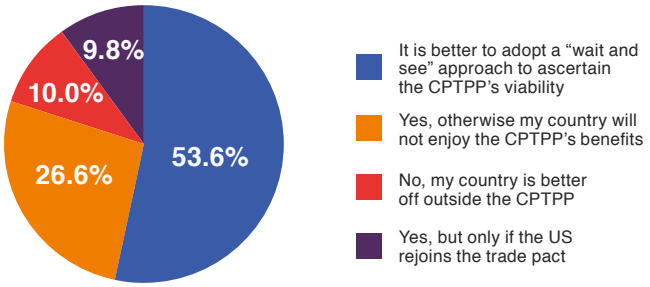
*"**46.1%** agree that the CPTPP is important in keeping the momentum towards a rules-based and high-quality regional trade regime."*

Is the CPTPP expansion on the cards?

The CPTPP entered into force on 30 December 2018, having secured ratifications by seven members – Australia, Canada, Japan, Mexico, New Zealand, Singapore and Vietnam. The remaining four signatories – Brunei Darussalam, Chile, Malaysia and Peru – are expected to follow suit in due course. The survey canvassed the views of respondents from the six non-CPTPP ASEAN members (Cambodia, Indonesia, Laos, Myanmar, the Philippines and Thailand) on their country's possible accession to the trade pact. In this multiple response question, the majority of the respondents (53.6%) think "it is better to adopt a wait-and-see approach to ascertain the CPTPP's viability."

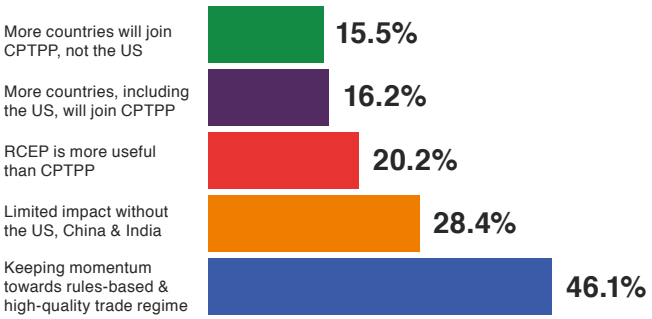
Meanwhile, support for the CPTPP is not insignificant with more than a third of the respondents (36.4%) positively inclined towards the trade pact. Within this grouping, 26.6% support their country joining the CPTPP as it is presently constituted, and 9.8% prefer that their country join "only if the US rejoins the trade pact." The strongest support for the CPTPP in its current form is found in Cambodia (39.1%), the Philippines (38.1%) and Thailand (33.6%). A small number of respondents (10%) think their country is "better off outside the CPTPP."

Should your country join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)?



On the broader question on the CPTPP, which includes responses from all ten ASEAN member states, most respondents (46.1%) agree that the CPTPP is "important in keeping the momentum towards a rules-based and high-quality regional trade regime." 20.2% of all respondents support the usefulness of RCEP over the CPTPP; the higher levels of support for the RCEP over the CPTPP come from Lao (39.3%) and Indonesian (35.1%) respondents. Overall, 28.4% of all respondents think the CPTPP would be of limited impact because it excludes the US, China and India; Cambodian respondents are more pessimistic with 43.5% of the respondents sharing this view.

Which of the following statements on the CPTPP do you agree with?



Will there be a revival of the East Asia Economic Caucus (EAEC)?

Discussions on the regional architecture have become more captivating with the return to political power of Malaysian Prime Minister Mahathir Mohamad who is keen to revive his proposal of an East Asia Economic Caucus (EAEC) for closer integration among the ASEAN Plus Three countries (China, Japan and South Korea). Nearly half of the respondents (49.2%) hold the view that "the proposal is no longer relevant as the EAEC has been superseded by the East Asia Summit and the future RCEP." The strongest reservation to the EAEC comes from Singapore (65.6%), Indonesia (56.7%), the Philippines (55.1%), Thailand (52.7%) and Vietnam (52.1%).

At the same time, Mahathir's brainchild has found traction in the other five member states. Respondents from Brunei (55.6%), Malaysia (50.7%), Cambodia (50%), Laos (50%) and Myanmar (47.2%) think the EAEC "will further deepen ASEAN's relations with China, Japan and South Korea." Across the board, the respondents appear unconcerned with the EAEC's narrow membership, which excludes Australia, India and New Zealand. Only one in five (20.6%) respondents is concerned with the omission of these three countries from the EAEC. This concern is most audible in Singapore (29.7%) and Vietnam (27.7%).

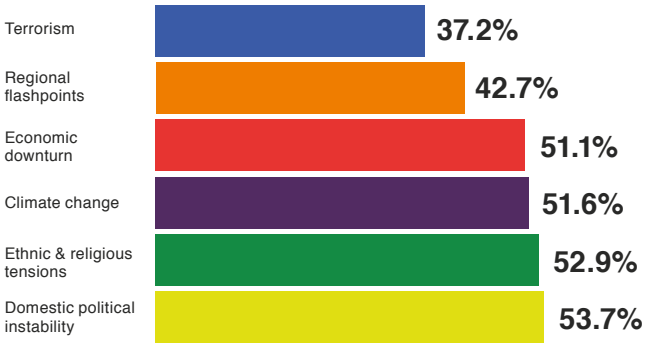
Domestic political instability, ethnic and religious tensions, and climate change top Southeast Asia's security challenges

The survey provided six options – economic downturn, terrorism, ethnic and religious tensions, increased military tensions from potential regional flashpoints, domestic political instability, and climate change – for the respondents to identify their top three security concerns. Four options receive more than 50% responses, namely, domestic political instability (53.7%), ethnic and religious tensions (52.9%), climate change (51.6%) and economic downturn (51.1%). Terrorism ranks at the lowest rung with only 37.2% of the respondents.

Interestingly, threats from "more intense and frequent weather events resulting from climate change" rank third, beating economic downturn, terrorism and regional military tensions. Climate change is the top security concern in Laos (62.1%, jointly with economic downturn), the Philippines (62.2%, jointly with regional military tensions) and Singapore (61.2%).

The top security concern for the respective ASEAN member states are: Brunei (economic downturn, 80%), Cambodia (domestic political instability, 75%), Indonesia (ethnic and religious tension, 67.8%), Laos (economic downturn and climate change, 62.1% respectively), Malaysia (economic downturn, 63.7%), Myanmar (ethnic and religious tension, 67.1%), the Philippines (regional military tensions and climate change, 62.2% respectively), Singapore (climate change, 61.2%), Thailand (domestic political instability, 78.3%) and Vietnam (regional military tensions, 78.2%).

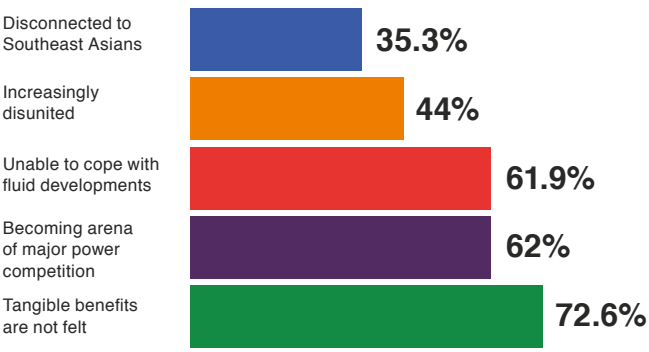
What are your top 3 concerns for security challenges facing Southeast Asia?



What worries Southeast Asians about ASEAN?

The main concern about ASEAN is the perception that ASEAN has not "delivered" for its 650 million population. Nearly three quarters of the respondents (72.6%) express their disappointment that "the tangible benefits of ASEAN are not felt." Respondents from seven ASEAN member states (except Cambodia, Laos and Vietnam) choose this as their top concern. Rounding off the top three concerns is the fear that "ASEAN is becoming the arena for major power competition (62%) and ASEAN's inability to "cope with fluid political and economic developments" (61.9%). Southeast Asians' sense of "disconnectedness" does not factor highly (35.3%). 44% of the respondents share their concern over ASEAN becoming increasingly disunited. This is the top concern among the Vietnamese respondents (69.4%).

What are your top 3 concerns about ASEAN?

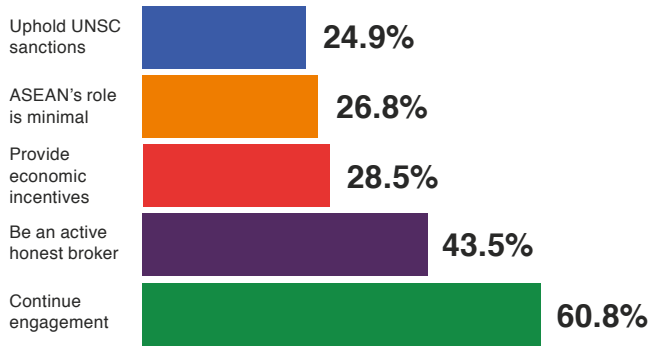


On developments in the Korean Peninsula and the Rohingya issue

The Trump-Kim Summit in Singapore on 12 June 2018 was a political highlight of 2018, a testament to Singapore's diplomatic standing as well as ASEAN's niche of being a friend to all and an enemy of none. The fact that only 26.8% of the respondents take the view that "it does not matter what ASEAN does since its role is minimal" suggests that the majority of the respondents expect the regional organisation to stay engaged on this issue.

Few respondents in this multiple-option question consider an ASEAN's "carrot and stick approach" with only 28.5% agreeing that ASEAN should "provide economic incentives to North Korea to uphold its pledge to denuclearise," and 24.9% supporting "upholding sanctions until the United Nations Security Council lifts them." The majority (60.8%) favour the diplomatic approach of continued "engagement with North Korea bilaterally and through the ASEAN Regional Forum." Diplomatic engagement is the top response across all ASEAN member states except for Cambodia where 75% of the respondents prefer that ASEAN "take an active role as an honest broker."

How should ASEAN respond to North Korea's overtures regarding denuclearisation of the Korean Peninsula?



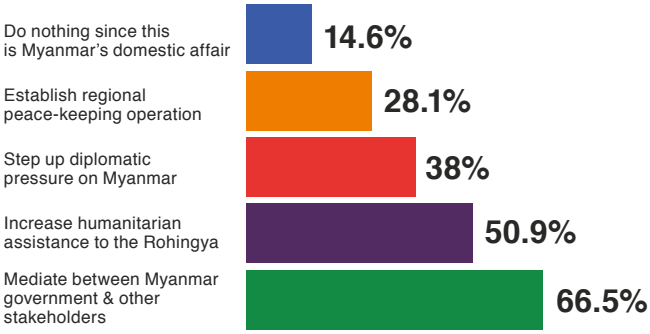
Closer to home, the Rohingya issue continues to reverberate through the region and beyond. ASEAN has been criticised for hiding behind its veil of "non-interference" as a humanitarian crisis continues to take its toll on more than half a million displaced Rohingya people. The survey results suggest that ASEAN should take a more proactive approach as the option "do nothing since this is Myanmar's domestic issue" garners the lowest number of responses (14.6%). Even among Myanmar respondents, "do nothing" is not the preferred approach.

Overall, 66.5% of all respondents select "mediating between the Myanmar government, the international community and the Rakhine and Rohingya communities" as the best way forward. This view is shared by 59.2% of Myanmar and 79.1% of Indonesian respondents. The second most preferred response (50.9%) is to "increase humanitarian assistance to the the Rohingya in camps outside Myanmar, followed by "stepping up diplomatic pressure on Myanmar" (38%).

"ASEAN should take a more proactive approach as the option "do nothing since this is Myanmar's domestic issue" garners the lowest number of responses. Even among Myanmar respondents, "do nothing" is not the preferred approach."

Reflecting the reality on the ground, ASEAN is divided between the "safer" option of humanitarian assistance and the relatively more intrusive act of mediation. Most respondents from Brunei (77.8%), the Philippines (71.2%) and Singapore (66.1%) choose humanitarian assistance as their primary response, while mediation is the top choice for respondents from Indonesia (79.1%), Laos (51.7%), Malaysia (72.4%), Thailand (66.1%), Vietnam (67.2%) and Myanmar (59.2%). 62.5% of Cambodian respondents choose both humanitarian assistance and mediation as their top responses.

What should ASEAN do to respond to the crisis in Myanmar's Rakhine State?



II. MAJOR POWERS AND THEIR ENGAGEMENT IN THE REGION

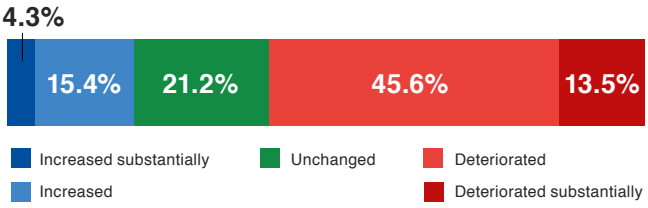
Dissecting Southeast Asians' view on the US

The survey invited the respondents to share their perception of (a) the US as a global power and influence today compared to one year ago; (b) the Trump Administration's engagement with the region; and (c) the US' reliability as a strategic partner and provider of regional security. For all three questions, the general view of the US is overwhelmingly negative.

Nearly six out of ten respondents (59.1%) think US power and influence at the global stage has either deteriorated (45.6%) or deteriorated substantially (13.5%). In contrast, In contrast, only 19.7% hold the view that US global power and influence has increased (15.4%) or increased substantially (4.3%). 21.2% see US' position as unchanged. To put the larger picture into perspective, the respondents

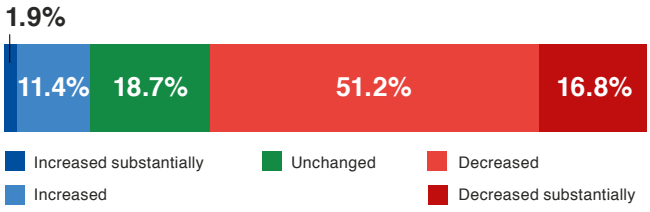
holding the view on the US' decline outnumber by three to one their peers who think US power has either increased or increased substantively. The countries with the highest degree of concern over the US' decline are the Philippines (75.7%), Singapore (72.7%), Brunei (68.2%) and Malaysia (67.6%). Bucking this pessimistic trend is Vietnam, the only country where the positive sentiments (47.1%) outnumber the sceptics (31.7%).

How do you view the US' global power and influence today compared to one year ago?



The pessimistic sentiments double down as respondents cast their assessment of the Trump Administration's engagement with Southeast Asia. Only 13.3% think US engagement with the region has increased (11.4%) or increased substantially (1.9%) while about 68% think it has either decreased (51.2%) or decreased substantially (16.8%). This negative assessment is strongest in Cambodia (87.5%), followed by Malaysia (80.7%), Singapore (77.3%), Indonesia (73.9%), Thailand (72.8%) and the Philippines (71.2%). Vietnam is again the only country where the positive views (41%) are higher than the negative ones (36.9%).

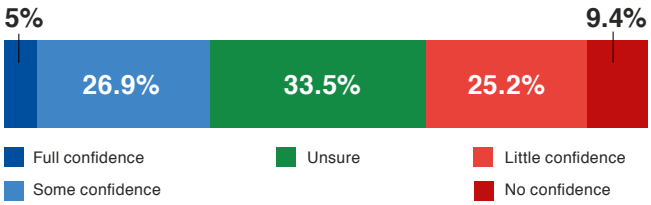
The level of US engagement with Southeast Asia under the Trump Administration has …



Findings on the US' reliability as a strategic partner and provider of regional security support the general trend of the region's downcast view of the US. Less than a third of the respondents have some confidence (26.9%) or full confidence (5%) in the US, with the strongest support coming from Vietnam (54.9%) and Cambodia (45.8%). 34.6% of the respondents have little or no confidence in the US' reliability. This view is most pronounced in Malaysia (47.9%), Brunei (45.4%) and Thailand (43.5%).

Equally noteworthy is the high level of uncertainty over the US' commitment towards the region. About a third of the respondents (33.5%) is unsure of the US' reliability, a view shared most widely in Indonesia (42.6%), Laos (41.4%) and Myanmar (41.2%).

How confident are you of the US as a strategic partner and provider of regional security?



*"**59.1%** think US power and influence at the global stage has deteriorated or deteriorated substantially. **68%** think the Trump Administration's engagement with Southeast Asia has either decreased or decreased substantially. **31.9%** of the respondents have confidence in the US as a strategic partner and provider of regional security."*

Taken together, 68.1% of the respondents are unsure of or have little confidence in the US' reliability as a strategic partner and provider of regional security. However, we would caution against equating this high level of uncertainty or little confidence with the conclusion that the US is unwanted or unwelcome in the region. The latter question is not covered in this survey.

Feeling the dragon's breath: China's interaction with Southeast Asia

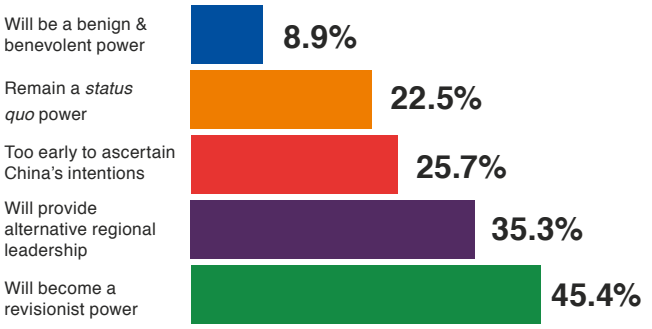
The respondents were asked to share their views on China's re-emergence as a major power with respect to Southeast Asia. Most respondents (45.4%) think "China will become a revisionist power with an intent to turn Southeast Asia into its sphere of influence." This is the top response in six ASEAN member states: the Philippines (66.4%), Vietnam (60.7%), Singapore (57%), Cambodia (50%), Thailand (45.1%), and Indonesia (37.7%).

The second most prevalent view regionally (35.3%) is that "China will provide alternative regional leadership in the wake of perceived US disengagement." This is the top response from Brunei (61.4%), Malaysia (44.8%) and Myanmar (32.1%). Rounding up the top three views is the neutral response that "it is too early to ascertain China's strategic intentions" (25.7%).

*"**8.9%** see China as a benign and benevolent power, while **45.4%** think China will become a revisionist power with an intent to turn Southeast Asia into its sphere of influence."*

Less than one in ten respondents (8.9%) sees China as "a benign and benevolent power." Country-level results paint an equally pessimistic picture of China with only four countries breaking into modest double digits for this response: Laos (13.8%), Myanmar (13.1%), Cambodia (12.5%) and Indonesia (12.3%). This result, coupled with the majority view that China will be a revisionist power, is a wake-up call for China to burnish its negative image across Southeast Asia despite Beijing's repeated assurance of its benign and peaceful rise.

How do you view China's re-emergence as a major power with respect to Southeast Asia?



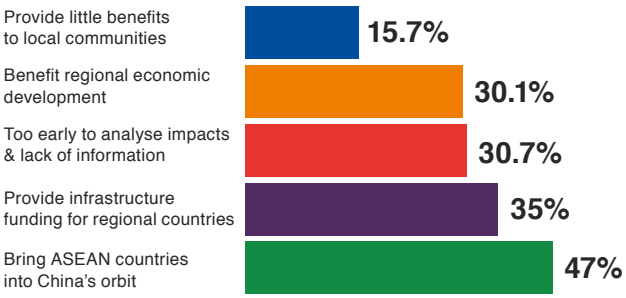
The Belt and Road Initiative

Views on China's flagship project – the Belt and Road Initiative (BRI) which was launched by President Xi Jinping in 2013 – are mixed. Close to half of the respondents (47%) think the BRI "will bring ASEAN member states closer into China's orbit," a finding that may have profound implications for Southeast Asia given the region's concern that China will become a revisionist power. The fear of being drawn into China's orbit is widely shared across seven ASEAN member states: Singapore (60.2%), Vietnam (58.7%), Brunei (52.3%), Malaysia (51.8%), Thailand (51.3%), Indonesia (44.4%) and the Philippines (38.7%).

On the other hand, China's deep pockets in giving loans to provide "much needed infrastructure funding for countries in the region" are duly acknowledged. It showed up as the second most popular response (35%). However, the lack of transparency, which is sometimes associated with BRI projects, factored into the third most popular impression on the BRI. About one third of the respondents (30.7%) think that it is "too early to analyse BRI's impact due to the lack of sufficient information." Overall, 15.7% of the respondents think the BRI "will not succeed as most of its projects provide little benefit to local communities." This view is most evident in Vietnam (20.7%), Indonesia (19.1%), Malaysia (18.9%) and the Philippines (18.9%).

Laos has the most positive view on the BRI, with 75.9% thinking that the BRI will "benefit regional economic development and enhance ASEAN-China relations." In neighbouring Cambodia, most respondents (70.8%) are also optimistic that the BRI "provides much needed infrastructure funding for countries in the region."

What is your perception of the Chinese-led Belt and Road Initiative (BRI)?

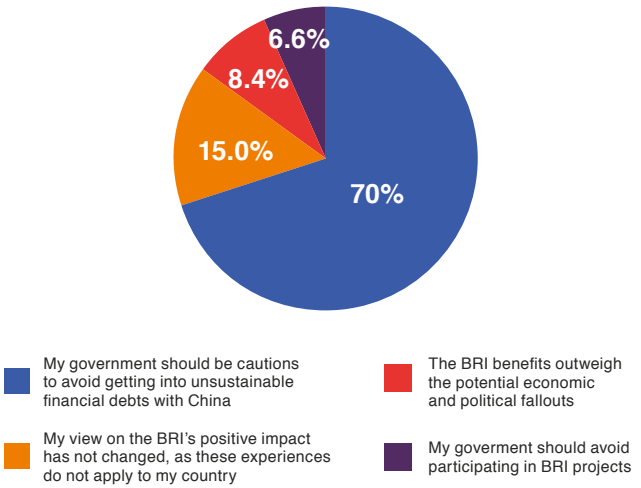


Respondents from countries having BRI projects or are negotiating BRI projects (i.e. all ASEAN member states except Singapore) were then invited to comment on the lessons to be drawn for their respective country from past BRI projects, in particular the Hambantota port in Sri Lanka and the East Coast Rail Link (ECRL) in Malaysia. The overwhelming majority of the respondents (70%) opine that their government "should be cautious in negotiating BRI projects, to avoid getting into unsustainable financial debts with China." This reservation is noticeable in all nine ASEAN member states, and particularly strong in Malaysia (84.2%), the Philippines (78.6%), Thailand (72.7%), Indonesia (72.6%) and Cambodia (70.8%). The country least concerned over the debt issue is Laos where only 46.2% agree that their government should exercise prudence in negotiating BRI projects with China.

Notwithstanding the overall cautious perception of the BRI projects, only a small percentage (6.6%) prefer that their countries "avoid participating in BRI projects." At the other end of the spectrum, 8.4% think that "the BRI benefits outweigh the potential economic and political fallouts."

"The overwhelming majority of the respondents (70%) opine that their government "should be cautious in negotiating BRI projects, to avoid getting into unsustainable financial debts with China."

In the light of the experiences in Sri Lanka (Hambantota Port) and Malaysia (East Coast Rail Link), what is your view of BRI proposals for your country?

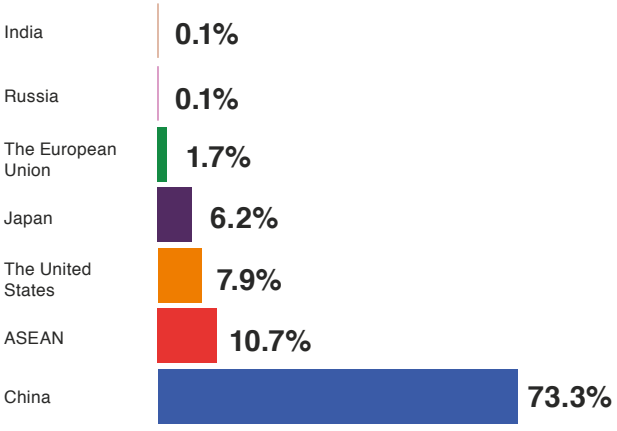


Gauging economic and political-strategic influence

Still, China's economic influence reigns supreme in the region, a view held by 73.3% of the respondents. The US trails by a considerable distance at 7.9%, followed by Japan (6.2%). The spread and consolidation of China's economic influence in the region is not entirely surprising as China has been ASEAN's largest trading partner since 2009 and bilateral trade crossed the US$500 billion mark in 2017.

In one of the many surprise findings of this survey, Southeast Asians rank ASEAN (10.7%) higher than the US and Japan in economic influence over the region. ASEAN receives the second highest vote of confidence in Thailand (16.8%), the Philippines (14.4%), Laos (13.8%), Indonesia (10.4%), Malaysia (10.4%), Singapore (9.5%) and Cambodia (8.3%).

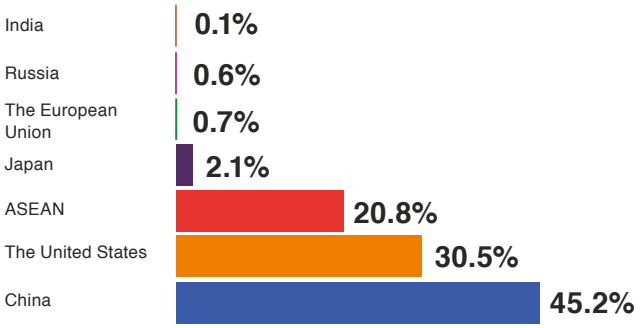
Which country/regional organisation has the most influence economically in Southeast Asia?



"China edges out the US as the most influential major power in the region in both economic and political-security domains."

The conventional wisdom that China holds sway in the economic realm while the US wields its influence in the political-strategic domain will, however, need to be revisited in light of the survey results. 45.2% of the respondents consider China as having the most influence in political and strategic matters. This view is most pronounced in Brunei (53.4%), Vietnam (52.1%), and Cambodia (50%). In comparison, 30.5% think the US is still the most influential in this domain. ASEAN – which continues to surprise throughout the survey – obtains 20.8% of the vote share.

Which country/regional organisation has the most influence politically and strategically in Southeast Asia?



China's expanding influence from the economic realm into the political-strategic sphere is preparing the ground for Beijing to take on the region's leadership mantle. About three out of four Southeast Asians (74.1%) expect China "to vie for political leadership in response to the growing indifference of the US towards Southeast Asia and ASEAN." This view is most widely shared in Singapore (90.5%), Malaysia (78.5%), Brunei (77.8%), the Philippines (77.1%) and Thailand (76.8%).

The region does not see any viable leadership other than China to replace the US among other possible contenders – the European Union (EU), India, Japan or Russia. The closest major power that could possibly contest for regional leadership is Japan, but its prospect appears dim with support from only 9.5% of the respondents. Japan is the second alternative in Myanmar (15.9%), the Philippines (13.8%), Cambodia (8.7%) and Singapore (3.9%). The EU receives nods as the second alternative in Laos (13.8%) and Cambodia (8.7%). India's leadership role earns some recognition in Brunei (4.5%), Laos (3.4%) and Thailand (2.7%), and Russia fares almost similarly in Myanmar (4.7%), Laos (3.4%) and Thailand (2.7%).

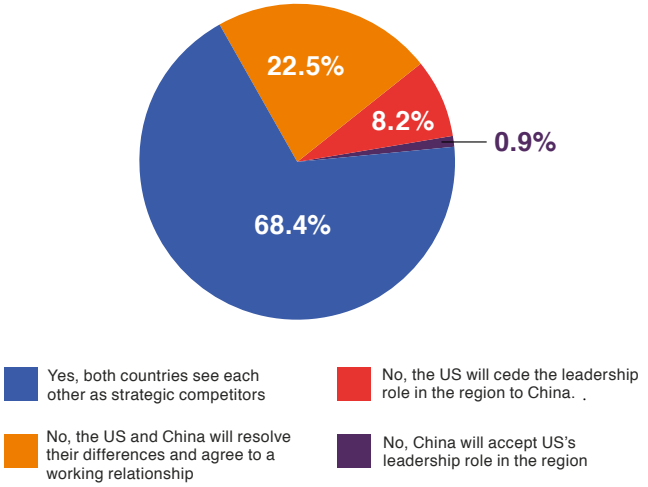
China and the US on a collision course

China has not been shy about its ambition to regain its rightful place in global affairs, and Southeast Asia will be a test bed for Beijing in this respect. At the same time, the US will not give up its "primacy" without a fight. Are China and the US on a collision course in Southeast Asia? Most respondents (68.4%) think so, as they view "both countries see each other as strategic competitors." This perspective is most pronounced in Malaysia (74%), Myanmar (73.5%), and Indonesia (72.2%).

At the other end of the spectrum, only 22.5% of the respondents expect China and the US to "resolve their differences and agree to a working relationship." Most of these optimists are found in Vietnam (31.7%), Thailand (25.7%) and the Philippines (25.5%).

Also, a significant number of respondents (62%) worry that ASEAN is "becoming the arena of major power competition." If reality plays out to this projection, regional politics will be more polarised and ASEAN member states will need to muster all their resourcefulness to avoid being a pawn in either China's or the US's power games.

Do you think the US and China are on a collision course in Southeast Asia?

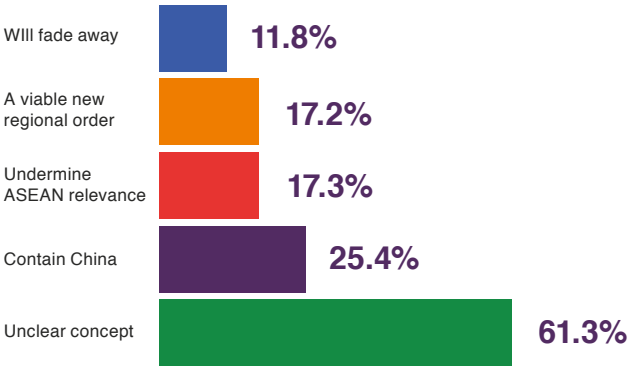


Lack of clarity undermines support for Indo-Pacific

The survey findings suggest that the US' response to parry China's strategic gains in the region through the Indo-Pacific strategy is unlikely to make any headway. The majority of the respondents (61.3%) think the concept is "unclear and requires further elaboration." In other words, this is the region's call for clarity and specificity from the proponents of the Indo-Pacific concept. Lingering doubts of the Indo-Pacific's "hidden agenda" are also evident as a quarter of the respondents (25.4%) think the "concept aims to contain China" while 17.3% see the concept as working to "undermine ASEAN's relevance and position in the regional order."

A methodological note is in order to put these numbers into perspective. This specific question gives respondents the freedom to choose multiple responses. Another way of interpreting the findings is that 74.6% of the respondents do not think that the Indo-Pacific concept aims to contain China. Nevertheless, support for the Indo-Pacific remains low as only 17.2% think the concept "presents a viable option for a new regional order," with the strongest support coming from Laos (31%), the Philippines (26.4%), Indonesia (24.8%) and Cambodia (20.8%).

How do you view the Indo-Pacific concept?



III. WHO DOES SOUTHEAST ASIA TRUST?

The survey invited the respondents to share how confident they are that the major powers – China, the European Union, India, Japan and the United States – will "do the right thing" in contributing to global peace, security, prosperity and governance.

China

The majority of the respondents (51.5%) have either little (35.5%) or no confidence (16%) that China will "do the right thing" in contributing to global peace, security, prosperity and governance. Less than one in five respondents (19.6%) has positive views on China in this respect, with 17.9% and 1.7% of the respondents respectively indicating their "confidence" and "high confidence." The top three countries with negative views on China are Vietnam (73.4%), the Philippines (66.6%) and Indonesia (60.9%). It is noteworthy that the degree of trust in China among the respondents from Cambodia – largely seen as a "China-leaning" state – is low. More than half of Cambodian respondents (58.3%) have little or no confidence in China, outnumbering the positive views (20.9%) by more than two to one. Bucking this trend of negative views is Laos where 41.3% of the respondents are either confident or very confident that China will "do the right thing." Laos is the only country to register more than 30% positive views on China, followed by Brunei (26.6%) and Malaysia (25%).

The European Union

Southeast Asians have a positive view of the EU, with 41.3% feeling "confident' (36.1%) and "very confident" (5.2%) that the EU will "do the right thing." In comparison, 35.2% take the opposing view, with 28.7% having "little confidence" and 6.5% having "no confidence." The EU is most trusted in the Philippines (60%), Cambodia (58.4%) and Malaysia (48%). EU diplomacy needs to work harder in Myanmar and Brunei which have the highest level of "little confidence" and "no confidence" responses at 46.8% and 44.4% respectively.

India

India does not fare too well in the survey with negative views outnumbering positive ones by two to one. 45.6% of the respondents have either "little confidence" (34%) or "no confidence" (11.6%) in India, compared to 21.7% who are "confident" (19.6%) or "very confident" (2.1%). Nearly a third of the respondents (32.7%) opt for the "no comment" response. Negative views are most prevalent in Indonesia (54.8%), Malaysia (52.4%), Cambodia (50%), Singapore (50%) and Thailand (50%). The largest pool of positive responses are found in Myanmar (29.3%), Vietnam (25.8%) and the Philippines (23.2%).

Japan

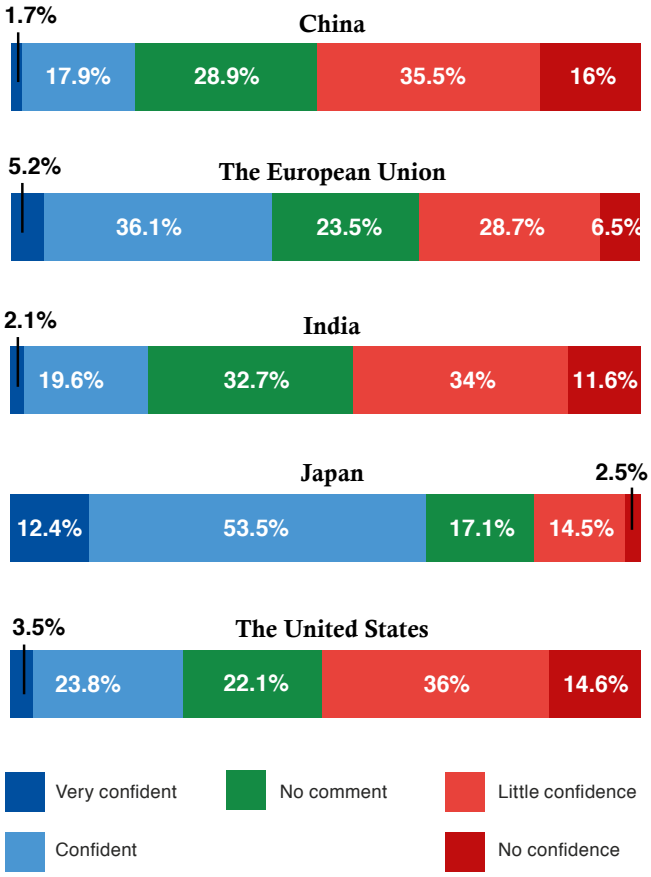
Japan is viewed most favourably by Southeast Asians. Nearly two-thirds of all respondents (65.9%) are either "confident" (53.5%) or "very confident" (12.4%) that Japan will "do the right thing" in global affairs. The percentage of 65.9% is the highest among all major powers, effectively earning Japan the mantle of the most trusted major power in the region. The level of trust in Japan is highest in Cambodia (87.5%), the Philippines (82.7%) and Myanmar (71.9%). The level of distrust on Japan (17%) is the lowest among the major powers. Reservations on the Land of the Rising Sun's role in global affairs are highest in Singapore (25.2%), Laos (24.1%) and Indonesia (22.8%). Japan is the only major power in the survey to receive "positive views" as the majority of responses in all ASEAN member states.

The United States

Southeast Asians' perceptions of the US are gloomy. 50.6% of the respondents have "little confidence" (36%) or "no confidence" (14.6%) in the US to "do the right thing" in global affairs. The US' withdrawal from the Paris Climate Change agreement and its sustained railing against free trade and disdain for multilateralism probably feed into these pessimistic views of the US. Negative views are prevalent in all ASEAN member states except the Philippines and Vietnam where 45.4% and 45.2% of the respective respondents keep their faith in the US. More pessimistic views are found in Brunei (64.4%), Malaysia (63.9%), Indonesia (60.9%) and Thailand (60.5%).

*"Japan is the most trusted major power in the region with the confidence of **65.9%** of the respondents."*

How confident are you that … will "do the right thing" in contributing to global peace, security, prosperity and governance?



Analysing the "trust issue" among Southeast Asians

The "trust" rankings of the major powers based on the combined "positive responses" of the respondents are as follows: Japan (65.9%), the EU (41.3%), the US (27.3%), India (21.7%) and China (19.6%). Conversely, the "distrust" rankings of the major powers are as follows: China (51.5%), the US (50.6%), India (45.6%), the EU (35.2%), and Japan (17%). Four additional observations are worth pointing out:

a) The number of "distrust" responses (58.3%) is significantly higher than the "trust" ones (20.9%) among Cambodian respondents vis-à-vis China, which is surprising considering the general perception of Cambodia's "closeness" to China;

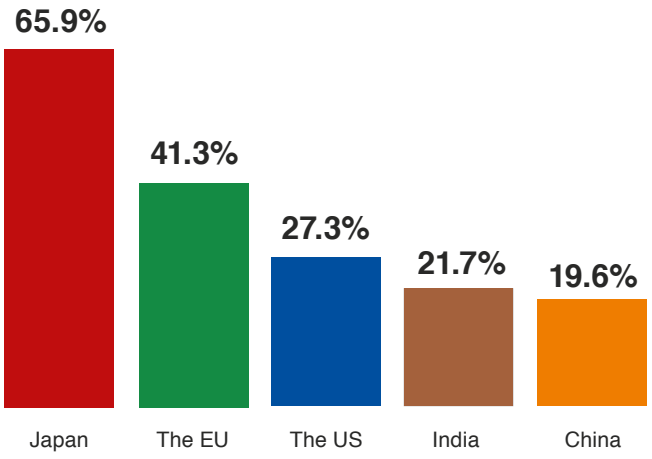
b) The number of "trust" responses on Japan among the Philippine respondents (82.7%) is the second highest among all ASEAN member states, suggesting that "war memories" are no longer the Achilles' heel in the Philippines-Japan relations. This result, when read together with the "negative responses" on China, which is the second highest (66.6%) in ASEAN, may require us to rethink our understanding of Manila's perceived shift towards Beijing;

c) Confidence in the US is relatively low in three ASEAN member states that traditionally have the closest relations with Washington. Thailand – which is the US' non-NATO treaty ally – has the second lowest positive rating of the US (14.1%). The numbers in the Philippines (45.4%) and Singapore (29.7%) are much better, but still fail to mask the fact that the US does not receive a majority vote of confidence among its closest regional friends; and

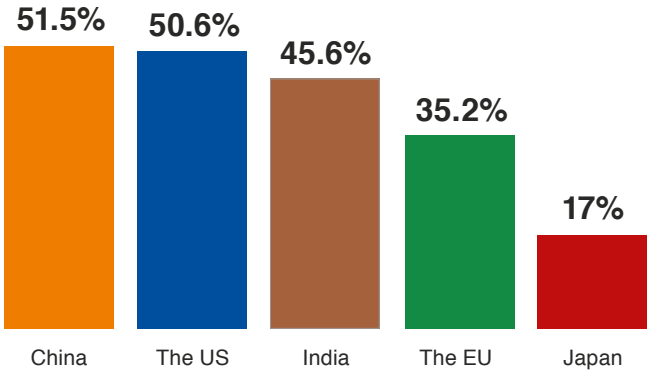
d) While China is regarded as the most influential major power in both economic and political-strategic domains and is expected to assume a larger leadership role in the region, its expanding influence has not inculcated a sense of confidence in its conduct of global affairs. Conversely, Japan, which is not as highly regarded as either China or the US in hard power and regional influence, is widely seen as the most trusted major power in the region.

"Confidence in the US is relatively low in three ASEAN member states that traditionally have the closest relations with Washington, i.e. Thailand, the Philippines and Singapore."

Trust rankings of the major powers in Southeast Asia



Distrust rankings of the major powers in Southeast Asia



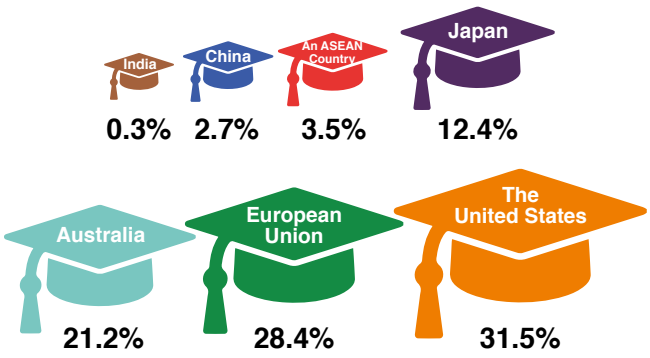
IV. WHAT SOFT POWER TELLS US ABOUT MAJOR POWERS' STANDING IN THE REGION

The last cluster of questions in the survey look at the application of soft power in the region, namely: (a) Which country would be your first choice if you (or your child) were offered a scholarship to a university?; (b) Which country is your favourite destination to visit, or would like to visit in the near future; and (c) Which foreign language do you think is the most useful and beneficial for your work and professional development? Collectively, these three indicators provide some insights on the strength of soft power.

Tertiary education

The top choice for tertiary education is the US with about one third of the respondents (31.5%) choosing American universities as their most preferred destination. America's popularity is followed by the EU (28.4%), Australia (21.2%) and Japan (12.4%). More Southeast Asians prefer an ASEAN member state (3.5%) over China (2.7%) for their higher education. Preference for American universities is notably highest in Singapore (48%), Vietnam (41.9%) and Thailand (35.4%). The EU is the most preferred choice in Brunei (53.3%), Indonesia (41.7%), Malaysia (34.5%), Thailand (35.4%, jointly with the US) and the Philippines (30.9%). Japan is the top choice in Myanmar (29.2%) while Cambodian (50%) and Lao (31%) respondents prefer Australian universities.

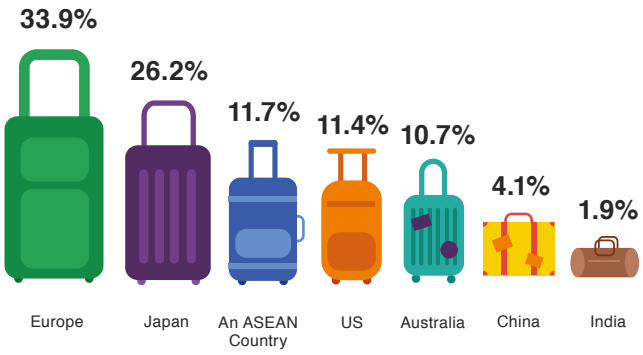
Which country would be your first choice if you (or your child) were offered a scholarship to a university?



The dream vacation

Europe is Southeast Asians' dream vacation destination with 34% respondents selecting a European country as their favourite spot. About one in four respondents (26.2%) looks forward to experiencing Japan in their travel plan. Rounding up the top three travel destinations is an ASEAN member state (11.7%). The fact that ASEAN edges out what are thought to be more popular destinations such as the US (11.4%), Australia (10.7%), China (4.1%) and India (1.9%) is a healthy sign that Southeast Asians are gaining a sense of regional affinity and show a higher interest in their ASEAN neighbours. Europe is the most popular tourist destination among the respondents in all ASEAN member states except Singapore and Thailand, which prefer Japan above all others.

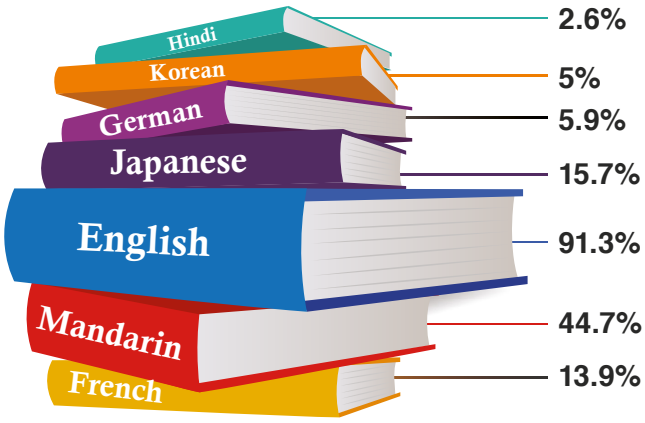
Which country is your favourite destination to visit, or would like to visit in the near future?



Foreign language

The English language is the most popular foreign language in the region. An overwhelming majority (91.3%) of the respondents consider it "the most useful and beneficial for their work and professional development." 44.7% consider Mandarin to be "useful and beneficial", much lower than English but not an insignificant number, which speaks to China's growing economic, political and cultural influence and the increasing use of Mandarin in trade, commerce and tourism in the region. The recognition of the importance of Mandarin is highest in Singapore (71.1%), Brunei (62.2%), Malaysia (55.9%) and Indonesia (54%).

Which foreign language do you think is the most useful and beneficial for your work and professional development?



Reading the Soft Power "tea leaves"

Overall, Western soft power is still dominant in Southeast Asia. Collectively, 81.1% of the respondents favour "Western education" (i.e., US, European and Australian tertiary institutions); 56.1% pick Europe, the US and Australia as their favourite destinations to visit; the English language is overwhelmingly considered the most useful and beneficial foreign language in the region.

Japan is the most successful non-Western/Asian "soft power nation" in Southeast Asia. It ranks the fourth (after the US, the EU, Australia) as the preferred choice of tertiary education. It is the second most preferred destination to visit. And the Japanese language is the third most popular foreign language after English and Mandarin.

"China's soft power penetration in mainland Southeast Asia is surprisingly low despite the popular belief that these countries have a closer cultural affinity with China."

From a micro perspective, the results of this survey suggest that Chinese soft power penetration in mainland Southeast Asia (Cambodia, Laos, Myanmar, Thailand and Vietnam) is surprisingly low despite the popular belief that these countries have a closer cultural affinity with China. Chinese universities are the least preferred choice for higher education among respondents from Myanmar and Vietnam. In terms of tourism appeal, China ranks the second last, before only India. China's most potent soft power tool is the Mandarin language. Even then, the number of respondents in mainland Southeast Asia choosing Mandarin as the "most useful and beneficial foreign language" is surprisingly lower than in maritime Southeast Asia: Thailand (49.1%), Cambodia (37.5%), Laos (24.1%), Vietnam (27.6%) and Myanmar (18.7%). The low appeal of Chinese education institutions and tourism and moderate interest in its national language are critical soft power challenges for China in the region. However, we caution the readers to digest these findings with the caveat that elite thinking may not necessarily reflect popular views.

The authors of the report are researchers at the ASEAN Studies Centre, ISEAS-Yusof Ishak Institute. We are grateful to Mr Zul Hazmi bin Nordin for his assistance, as we are indebted to our ISEAS colleagues for their feedback and suggestions. This survey is the result of the ASEAN Community at work as more than a thousand Southeast Asians from various public and private sectors and entities participated in sharing their opinions.

Bracing for the Trade War Roller Coaster

Selena Ling dissects the US-China trade war and what it would mean for regional economies.

Rising trade tensions have been a source of volatility in 2018. US President Donald Trump firmly believes that trade wars are "good" and "easy to win", whereas Chinese President Xi Jinping has warned that a trade war will produce "no winners". The Trump Administration's advocacy for an "America first" approach towards "fair and equitable trade" led to a first tranche of 25% trade tariffs on US$34 billion of Chinese imports from 6 July, followed by a second tranche of 25% tariffs on US$16 billion goods on 23 August, and a third tranche of 10% tariffs on US$200b on 24 September. These were coupled with threats of escalating the 10% tariff rate to 25% from 1 January 2019, with tariffs on a further US$267 billion to follow, which is now put on hold following the truce in December 2018.

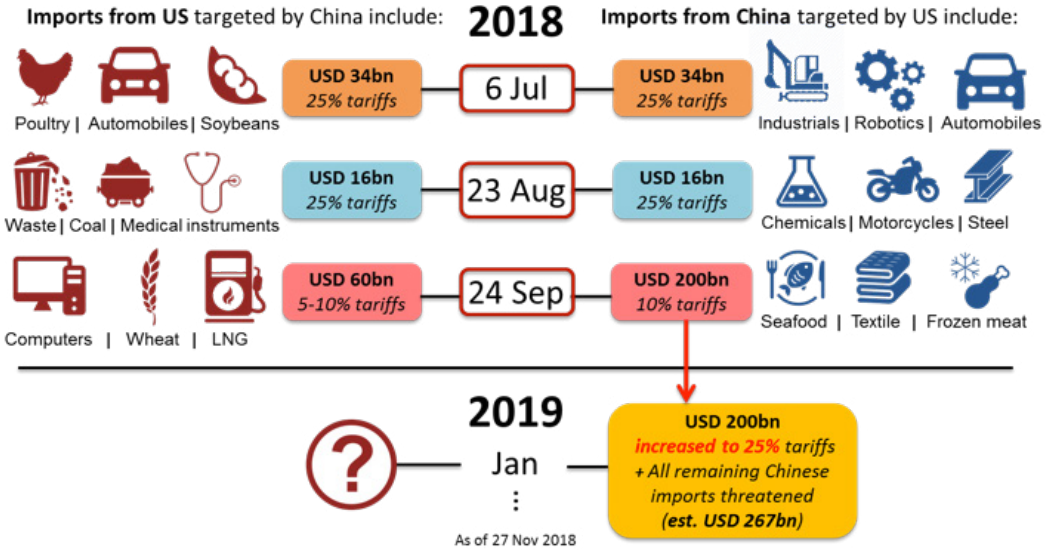
Meanwhile, China appears to be running out of ammunition in terms of goods tariffs that it can further employ as it only imported US$130 billion worth of goods from the US in 2017, as compared to US$505 billion worth of goods that the US imports from China. The escalating US-China trade tensions have contributed to market uncertainty and caused some trepidation to businesses operating in and selling to and/or buying from these two large markets.

Impact on global and regional growth

The escalating US-China trade war has begun to bite. A recent AmCham China and AmCham Shanghai survey of member companies flagged concerns such as a loss of profit, higher production costs and decreased demand for products, as well as an increase in non-tariff barriers. Consequently, some companies are re-assessing investment plans, and their top destinations are supposedly Southeast Asia and the Indian Subcontinent. However, the unilateral US-initiated trade initiatives are not targeted at China alone, as can be seen from the earlier re-negotiation of the North American Free Trade Agreement (NAFTA), and initially planned auto tariffs against the European Union and Japan. Especially, under the revamped NAFTA agreement between the US and Canada and Mexico, each member is required to notify the others three months before entering into trade talks with non-market economies, which underscores the US' aim to pressure China.

The global growth impact has been muted so far due to frontloading ahead of the tariffs. China saw its GDP growth ease to 6.5% year-on-year (yoy) in the third quarter of 2018 while ASEAN economies generally saw a deceleration in momentum. However, the overall impact on the Chinese economy and potential collateral damage to other economies engaged in the global manufacturing value chain were likely buffered by some frontloading of goods ahead of the implementation of the tariffs. China has also raised the export tax rebate twice since September to alleviate the pain for Chinese exporters, in addition to other policy easing measures. Still, the International Monetary Fund (IMF) has warned that US auto tariffs with reciprocal retaliatory moves represented a major risk to the global economy and could shave up to 0.75% point off its baseline global growth forecast of 3.7%.

Leading indicators such as regional manufacturing PMIs suggest a further moderation in regional momentum going into the end of the year, especially on the electronics front.



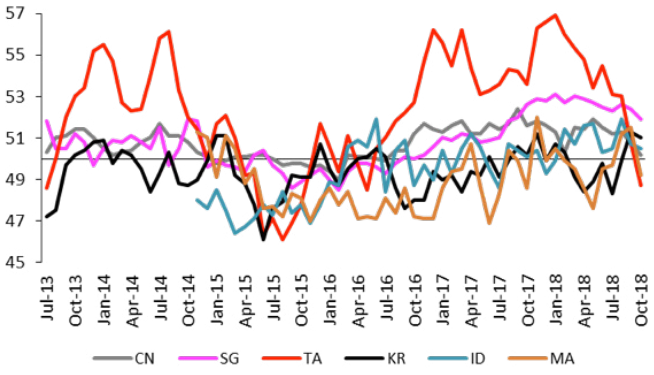
Total trade growth (yoy)	SG	CN	JP	KR	HK	MA	ID
Total trade empirical (January - July 2018)	8.0%	15.8%	7.2%	9.7%	10.3%	6.1%	17.7%
Total trade growth in 2019 (no tariffs)	3.9%	6.9%	3.1%	5.6%	4.5%	6.7%	9.8%
Impact to GDP growth	-0.5%	-0.8%	-0.3%	-0.5%	-0.6%	-0.5%	-0.2%
Baseline GDP growth forecast	2.7%	6.2%	1.0%	2.8%	3.6%	5.0%	5.3%
Worst case: GDP growth	2.2%	5.4%	0.7%	2.3%	2.0%	4.5%	5.1%

Source: OCBC Bank

Fortunately, the domestic demand in Singapore appears to be more resilient and services growth is expected to offset some of the manufacturing and electronics moderation in momentum. However, the longer the US-China trade war drags on, the more likely business and consumer confidence will be impacted and MNCs will take mitigation steps to avoid the tariffs. It is still too early to fully assess the impact on Southeast Asian economies in terms of investment and production diversion. Singapore saw some US$35 billion of foreign direct investments (FDI) in the first half of 2018, putting the country in the 6th place in the top 10 host economies – an improvement from the 8th place in 2017, even though global FDI fell 41% for the same period. Although FDI from the US into Singapore fell US$34 billion due to the US Tax Cut and Reform Bill, this was compensated by FDI from Europe, among others, according to UNCTAD data.

Asia Manufacturing PMI

Source: OCBC Bank, Bloomberg



Beyond trade concerns

The US-China discord has spread beyond trade to foreign exchange and politics. Even if the trade disagreements can be satisfactorily resolved, there is a wide swathe of other lingering issues – recall the ZTE saga where the company was only allowed to again buy US components after it agreed to pay a US$1 billion fine. Other instances include Fujian Jinhua Integrated Circuit being accused of stealing trade secrets and slapped with export restrictions that prevent US suppliers from selling components to it and the US Commerce Department's plan for new export controls for "emerging and foundational technology" that is crucial to national security, including artificial intelligence, biotech and robotics. In October, US Vice President Mike Pence accused China of interfering with the mid-term elections, and the discovery of the mini-chip hack has further raised suspicions of China's intellectual property espionage.

While the US Treasury Department did not label China a currency manipulator in its October FX report, China is not completely off the hook. With the Renminbi under pressure as it approaches the psychologically vital level of 7 against the US dollar and 92 on the CFETS Index, the People's Bank of China (PBoC) has been preoccupied on the policy front over the past few months to prepare for rainy days ahead, with required reserve ratio (RRR) cuts and medium-term lending facility (MLF) injections implemented to boost liquidity and stimulate growth. Chinese policymakers face a delicate juggling act of supporting growth, containing inflation, maintaining financial and currency stability and providing jobs.

The pressure and potential collateral damage cuts both ways for the US and China. The US' FDI stock in China was estimated at US$107.6 billion in 2017 (a growth of 10.6% yoy), led by manufacturing, wholesale trade, and finance and insurance. Meanwhile, China's FDI stock in the US was US$39.5 billion in 2017 (a decrease of 2.3% yoy), led by manufacturing, real estate, and depository institutions. The US remains a net exporter of services to China (US$40.2 billion of services trade surplus in 2017), comprising tourism, intellectual property, banking and transport services. China remains the largest foreign owner of US Treasury bonds with more than US$1.1 trillion. If the goods tariffs dispute degenerates into the services and/or FDI sphere (for instance, through increased regulatory oversight for Mergers and Acquisitions), this could get ugly.

Projections for 2019

The jury remains mixed on whether 2019 would herald more market uncertainty and bouts of volatility. The US economy looks primed for a growth slowdown, anticipated potentially to materialise in the second half of 2019 due to the fading of fiscal stimulus effects (the "sugar rush") and the likelihood that the Federal Open Market Committee (FOMC) would have tightened monetary policy to around neutral rates at that juncture. With the European Central Bank (ECB) ending asset purchases by December 2018 and contemplating initiating rate hikes from summer of 2019, and the Bank of England (BOE) warning of a calamitous outcome if the UK crashes out of the EU without a deal,

there is no shortage of headwinds and downside risks going into 2019. At this juncture, IMF forecasts and consensus growth forecasts for 2019 remain fairly benign in terms of the anticipated slowdown from 2018.

We envisage a "slow burn" growth scenario for the US-China trade tensions going into 2019. Under a worst-case scenario where all US$505 billion of Chinese imports face US tariffs of up to 25%, China may be vulnerable to a growth downgrade from our baseline 6.2% to 5.4% in 2019, while the other Asian economies could see their growth prospects impacted by 0.2% - 0.8% points.

For the ASEAN countries, there may be some additional domestic challenges on top of bite marks from the trade war after the frontloading activities have waned. For example, Malaysia's 2019 Budget focused on fiscal consolidation in view of the forecast 2019 budget deficit at 3.7% of GDP. Hence, it will be crucial for the Malaysian government to ensure the successful implementation of the proposed revenue-generating measures, since the consumption surge as a result of the Goods and Services Tax (GST) abolishment is unlikely to hold up with the return of Sales and Service Tax (SST). Indonesia has already experienced significant currency weakness and capital outflows in 2018. Notwithstanding a recent stabilisation in the currency and a slight recovery in fund flows, the upcoming Indonesian presidential elections in April 2019 may contribute to some market uncertainties. Singapore may also see growth slow down from above 3% yoy in 2018 to around 2-3% in 2019.

Other headwinds may come from the withdrawal of global liquidity by major central banks like the FOMC and the ECB, which means that USD funding will likely get tighter and bond yields will continue to head north. Emerging markets remain vulnerable to further capital flow reversals, especially those with high levels of external and foreign currency debt and/or high foreign ownership of local currency bonds. China's position as a currency anchor could also become a source of volatility for Asian FX and potentially add to market dislocations. If the USD and USD interest rates continue to strengthen, corporates servicing foreign-denominated debt may come under stress.

Not all doom and gloom

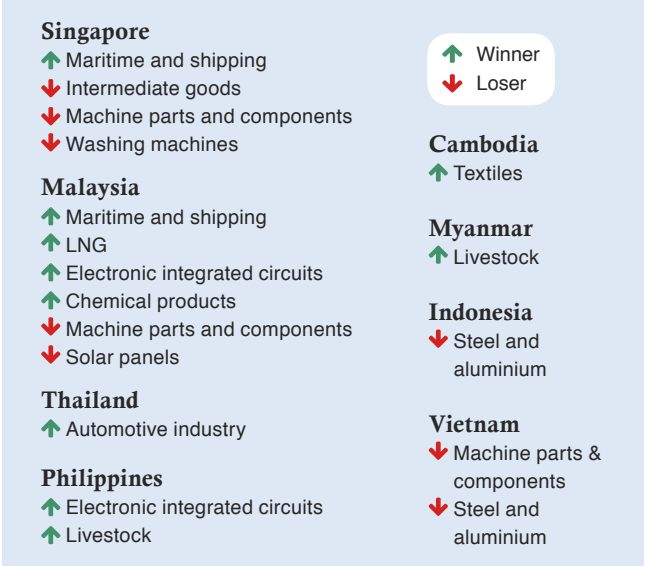
There are also some short-term beneficiaries from the current US-China trade spat. These could include temporary diversions of production to other Southeast Asian factories, potentially benefiting the automotive industry in Thailand, LNG and electronics components in Malaysia, textiles in Cambodia, etc. Anecdotally, some Taiwanese and Korean manufacturers are considering shifting some production out of China, albeit most MNCs may adopt a wait-and-see approach as the duration of the US-China trade remains uncertain and China remains an important market in the medium term.

Another silver lining is that regional consumption remains resilient and unemployment rates remain relatively low. On the more positive side, there has been renewed impetus for the Comprehensive and Progressive Agreement for the Trans-Pacific Partnership (CPTPP) and the Regional Comprehensive Economic Partnership (RCEP), which suggests that many countries remain committed to free and open trade.

Ms. Selena Ling is Head of Treasury Research & Strategy, OCBC Bank.

Manufacturers are switching production and imports away from US and/or China to avoid tariffs

Source: OCBC Bank



Industry	Firms and actions proposed and/or taken
Furniture	Vietnamese producer Phu Tai Corp., a manufacturer of home furnishings for Walmart in the US to invest approximately $10mn to develop and improve production plants in Vietnam in anticipation of stronger demand for US importers seeking to skirt around tariffs on Chinese goods.
Luxury consumer wearables	Parent company of luxury goods brands Coach and Kate Spade, Tapestry Inc., as well as Vera Bradley, ramped up production capacity in Cambodia and Vietnam, away from China.
Consumer electronics	Manufacturer of Apple's iPhones, Pegatron, planned for capacity expansion in Taiwan itself, as well as India and other Southeast Asian economies. Along with Compal Electronics and Inventec Corp., the firms are now seeking to boost capacity closer to home in Taoyuan, Taiwan.
Maritime and shipping	Kerry Logistics, based in Hong Kong with operations in Greater China and Southeast Asia, said that "numbers are looking up a bit more" for the region, likely following the rerouting of selected shipping centres to bypass Chinese ports.
Intermediate goods	Star Microelectronics Thailand noted new orders originated from firms that shifted production to the country which supports the supply chain.

Source: OCBC Bank, Bloomberg

Can ASEAN Cope with the "Trade War"?

Bilahari Kausikan posits that ASEAN must brace itself for both the economic and strategic fallouts from the US-China trade war.

ASEAN is facing a prolonged period of heightened US-China competition and hence of greater uncertainty. The most obvious manifestation of this new phase in US-China relations is the so-called "trade war". The term is something of a misnomer: trade is only the instrument; the objective is strategic competition. From 1972, when the US and China re-established relations, to the global financial crisis of 2009, the overall emphasis of US-China relations was on engagement. The US and China will continue to work together selectively. But as Vice-President Mike Pence's speech of 4 October 2018, the National Security Strategy of December 2017, and the National Defense Strategy of January 2018 clearly signaled, the overall emphasis of the relationship is now on strategic competition.

China was clearly caught on the back-foot by the new approach. Towards the end of the Hu Jintao administration and far more shrilly under Xi Jinping's leadership, Chinese foreign policy took on a triumphalist tone. Beijing seems to have over-estimated its own capabilities and began to believe its own propaganda about the US being in inevitable decline. ASEAN should not make the same mistake.

The new US approach of robust competition will not end with the Trump Administration. Nor will the agreement that Presidents Donald Trump and Xi Jinping reached in Argentina substantially change the situation. The new trend had been developing over many years. It was President George W. Bush that first dubbed China a "strategic competitor" almost twenty years ago. The mood of American businesses towards China on intellectual property (IP) and technology theft began to turn sour during the Bush '43 administration. 9/11 was a distraction. The subsequent wars in the Middle East gave China a virtually free hand in East Asia. President Barack Obama's "pivot" or "rebalance" was intended to refocus on China. But Obama had little stomach for competition and his rhetoric was hardly matched by action.

Trump has successfully positioned his administration's approach to China as an overdue correction to the perceived failures of his predecessors. Even if they do not always agree with his methods, this has resonated positively across the security and defense community, American businesses, as well as human rights and religious freedom advocates. This broad bipartisan consensus is a new paradigm that no American politician can ignore. Any subsequent presidential candidate will find it difficult to soften China policy without being accused of weakness. In any case, the new legislation that has been put in place with strong bipartisan support to make it difficult for China to acquire US technology defines a new framework for the relationship that any successor administration will find difficult to change, even if it is so inclined.

The Argentina deal is only a 90-day tactical pause in the implementation of new tariffs. It makes the US look reasonable. The 90-day deadline – not reported within China – dials-up the pressure on Beijing to demonstrate that it is serious about addressing US complaints about IP violations and other unfair economic policies. China

US President Trump and Chinese President Xi Jinping at the G20 Summit 2018 in Buenos Aires

Wikimedia

has made some gestures. It has introduced a new foreign investment law with better protection for intellectual property that prohibits forced technology transfer. It has released a 'negative list' of sectors that are off-limits to foreign businesses to provide greater transparency. China may offer further concessions. But these gestures have generally been received with skepticism. If a deal is reached at the end of the 90-day pause, it will probably only address tariffs, not technology. Fundamental changes to the Chinese way of doing business and to the Chinese economy are not likely.

The core of the problem is a fact so obvious as to be often over-looked: China is a communist country – not in its ideology, but in the structure of its political system that is built around a Leninist Party that claims absolute dominance over every facet of the economy and society. Party dominance gives any Chinese business connected to the Chinese Communist Party (CCP) a privileged position – in effect this means every Chinese business because no Chinese business can succeed against the will of the Party. It is precisely that privilege that the US and other countries deem unfair. No Chinese leadership will ever compromise on the dominance of the CCP, and Xi Jinping has placed greater emphasis on CCP control. The probability therefore is that whatever China is willing or able to do to assuage US concerns will fall short of US expectations and that after this pause, US pressures on China will resume. Action has already been taken against Huawei and other Chinese technology companies. More action can be expected.

Xi is already facing some internal criticism for having mismanaged the relationship with the US. This does not immediately threaten his position, but is also not a factor that he can ignore. For now, Xi has adopted a conciliatory approach towards the US and its allies. This is unlikely to last. Since the current conciliatory attitude is probably not going to end US pressures, sooner or later, Xi must act tough. He cannot afford to appear weak by continuing to be conciliatory with no substantive result. The crucial question is what China will do. Not responding is not an option, and the response is not necessarily only on trade.

At least for now, China is hurting, particularly on the technology front. Growth has slowed as Chinese economic policy is pulled in contradictory directions. The Chinese private sector, which provides more than half of GDP growth, is facing great uncertainty. The Trump Administration's bilateral approach towards trade seems to be working – the FTA with South Korea has been tweaked, the renegotiated North America Free Trade Agreement (NAFTA) gives the US a veto over its partners' trade relationships with China, Japan has apparently been persuaded to discuss a bilateral trade agreement. Europe shares many US concerns and is incapable of dealing with a resurgent Russia on its own. Europe must therefore ultimately accommodate US concerns no matter how distasteful it finds the Trump Administration. There is thus no incentive for the US to change tack, and every reason for the US to pressure its partners to follow its approach towards China. Why should ASEAN be exempted?

Some analysts have speculated that ASEAN could benefit from the diversion of investments from China. This is possible, but is a short-sighted view that only provides cold comfort. The extent of diversion remains to be seen and may well be less than anticipated. New investments may be postponed. But no serious business can afford to foreswear the China market, as Japan's unsuccessful decades long search for a viable 'China plus one' investment strategy demonstrates. In so far as investment diversion occurs, ASEAN must expect greater scrutiny. ASEAN economies will be closely monitored to ensure that they do not act as a backdoor for China into the US market. The US will demand that sophisticated economies like Singapore put in place credible and robust safeguards to ensure that sensitive technology does not leak into China. The harsh fact is that the definition of what is "credible", "robust", and "sensitive" will be primarily American.

Technology is already eroding the cost advantage of widely distributed supply chains. Heightened US-China competition could accelerate such shifts in supply chains and derail ASEAN's project of making Southeast Asia a common market and common production platform unless we move more decisively. Concerns over the security of supply chains also implies that the scrutiny of ASEAN's relationship with China will go beyond the purely economic and will involve judgements on the overall autonomy of member states' foreign and domestic policies.

Since trade is only the instrument of strategic competition, it will become increasingly difficult for ASEAN member states to neatly separate the economic dimensions of their relationships with China from political and security dimensions. Their ability to attract high quality western investments and keep access to advanced western technologies will, at least in some measure, be influenced by perceptions of their positions on non-economic issues such as the South China Sea, and their ability to resist Chinese influence. This is particularly so with regard to defense technologies, which are crucial to Singapore. There is no viable alternative to American (and more generally, western) defense technology.

All this is a counsel of realism, not of despair. During the Cold War, ASEAN successfully navigated even more intense and dangerous periods of major power competition when the possibility of war was ever present. The possibility of conflict can never be entirely discounted, but war is currently highly unlikely. ASEAN thus ought to be able to cope with the new complexities. We succeeded during the Cold War because ASEAN did not then lack ambition and courage. The last decade or so has, however, seen a narrowing of ASEAN's strategic imagination and a lack of bold leadership. We must understand that the greatest risk under present circumstances is unwillingness to take risks.

Mr. Bilahari Kausikan is Chairman of the Middle East Institute at the National University of Singapore, and former Permanent Secretary at the Ministry of Foreign Affairs of Singapore.

Winter is Coming: Indonesia's Take on the Trade War

Muhamad Chatib Basri argues for bold economic reforms to be made for Indonesia to weather well in the trade war.

Winter can be inhospitable, somber and gloomy. In his speech at the Annual Meetings of the International Monetary Fund and World Bank held in Bali in mid-October 2018, President Joko Widodo warned that winter is coming, and he is right. This is all the more relevant in light of US Vice President Mike Pence's speech at the Hudson Institute on 4 October 2018. Pence not only implied that winter was coming, he forecast a blizzard. *The New York Times* summed up the gist of the speech with the headline, "Pence's China Speech Seen as Potent of New Cold War". Pence's passionate defence of American interest implied that the problem between China and the US goes far beyond a trade war. It is a rivalry between two major powers.

If this is indeed the root of the problem, the trade war between the US and China will continue. Over the last several weeks, efforts have been made to cool this conflict with the tenuous "90 day truce". We will have to wait and see how these efforts progress. But the trade war has already sent chills across the global markets. Several simulations using quantitative models by various research groups, including McKibbin and Stoeckel, show that a trade war will negatively impact the global economy. This will impact ASEAN and Indonesia.

The impact of a trade war on a country's economy occurs through trade channels. Countries which have high levels of trade with the US, China or the global economy will be significantly impacted. Thus, we can assume that the impact on Indonesia will be smaller than on Singapore, Malaysia, Vietnam or Thailand. Indonesia can take small comfort that its ratio of trade to GDP is only 30% and will weather the trade war storm with more resilience. In contrast, its ASEAN neighbours, such as Singapore with the trade to GDP ratio at over 200% and Vietnam, Malaysia and Thailand at around 100%, will be hit harder. Nevertheless, the Indonesian economy will not come out intact from the bruising trade war.

Repercussions of the trade war will be felt through Indonesia's trade ties to China. Like the Philippines, Indonesia is an important source of raw materials and intermediate products for China. Imposing duties on Chinese products would reduce the demand for Indonesian exports to China. More than 40% of Indonesian exports

to China are mining products, cooking oil and palm oil. In the second quarter of 2018, improved exports, greater tax revenue and boosts in household consumption were due to increases in the price of coal and palm oil. Weak demand for these products will negatively influence the Indonesian economy. Furthermore, any slowing of the Chinese economy will also be a drag on the Japanese economy, which would in turn affect Indonesian exports to Japan. In short, Indonesia's exports will be impacted either directly or indirectly.

It is important to note that at the beginning of October, the US, Mexico and Canada agreed to a new trade deal known as USMCA (United Sates, Mexico, Canada Agreement). Interestingly, the agreement's clause 32.10 contains "punishments" for USMCA members which enter into trade agreements with countries considered "non-market economies". Although not explicitly stated, one can assume that this non-market economy refers to China. In other words, this is an attempt by the US to ensure that USMCA member countries avoid trade agreements with China. If the US applies this clause to other trade deals, one can imagine how complicated this issue will become. The Regional Comprehensive Economic Partnership (RCEP) agreement led by Indonesia in its capacity as the RCEP Trade Negotiating Committee Chair, for example, will come under greater scrutiny as it includes China.

For the last four years, the Indonesian economy has grown at about 5%, quite a feat given the prevailing global economic challenges. The government's policy to focus on infrastructure has been sound. But we must be honest: economic growth of 5% is far from sufficient. Indonesia needs faster and more robust growth since its positive fundamentals may start to erode as Indonesia enters the "aging population" era in 2060. Without high growth, Indonesia risks growing old before it grows wealthy. Unfortunately, a trade war will disrupt Indonesian exports. Furthermore, increased interest rates due to a sliding *rupiah*, and increased risk of inflation will impose additional pressure on the domestic economy.

Although Southeast Asia and East Asia will be affected if the US and Chinese economies slow down, the region is still home to some of the fastest growing economies in the world. Thus, efforts are underway to increase intra-trade in the region. There may well be potential benefits to arise from the trade war. Could Indonesia benefit from it? Is there a possibility that investors will flee China and enter other countries, including Indonesia, to access the US market? This potential can materialise if we improve the investment climate. The government's decision to revise the Negative Investment List to expand FDI was a step in the right direction as this move is expected to attract more investment inflows to Indonesia.

In addition, Indonesia must revise its Labor Law. Rigid laws, relatively costly severance systems, and declining return on labour have led investors to avoid labor-intensive sectors, preferring to focus on the natural resource and capital sectors. To some extent, this further drives

"Is there a possibility that investors will flee China and enter other countries including Indonesia to access the US market? This potential can materialise if we improve the investment climate."

inequality. This is also one factor which explains why the share in GDP of the manufacturing industry, especially in labour-intensive sectors, continues to decline. In contrast, Vietnam is an attractive alternative for those wishing to relocate labor-intensive industries away from China.

As a result of Indonesia's labor laws, companies prefer to employ contract or informal workers, who are often unskilled women and children. The needs and welfare of the workers should be looked after and protected. One particular aspect to uplift the workforce is to raise real wage levels by decreasing living costs. The provision of affordable housing for workers near factories can reduce their housing costs. However, it remains to be seen whether the government has the political will to revise and update these laws.

Politically, it will not be easy, especially as 2019 is an election year. There are some grim reminders over recent months: the policy to increase fuel prices by doing away with subsidies lasted only a few hours in October 2018; and the government had to step back from the new negative investment list policy in November 2018 under pressure by business representatives. Revising the Labor Laws is an equally sensitive issue. But, if changes are not made, investors might prefer Vietnam over Indonesia, as Vietnam became the 7th signatory to implement the Comprehensive and Progressive Agreement for the Trans Pacific Partnership (CPTPP) on 11 November 2018. Or Chinese investments may flow into Thailand, particularly its manufacturing industry.

As a long winter fraught with blizzards is approaching with the trade war, we must prepare for the challenges ahead by using our wisdom and holding to our fortitude to make difficult choices. We should expand our political energy and capital judiciously, and should not run out of stamina before the legal reform process is completed. Above all, we should rise above the erosive and non-productive politics of populism.

Dr. Muhamad Chatib Basri is Senior Lecturer on economics at the University of Indonesia, and former Minister of Finance, Indonesia. He is also a member of the ISEAS-Yusof Ishak Institute International Advisory Panel. This article is adapted from an earlier version published in *Kompas* on 26 October 2018.

US-China Trade Tensions: Effects on Singapore and Malaysia

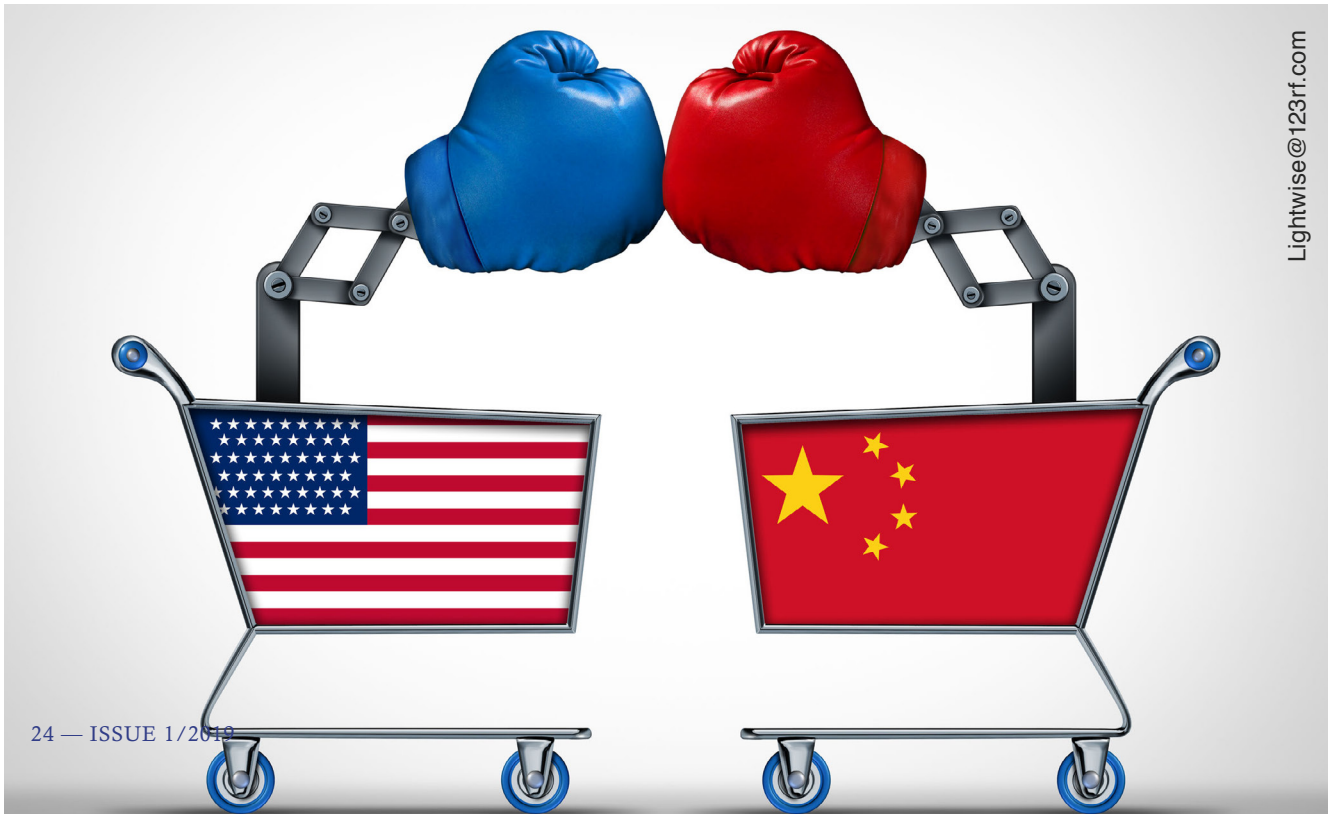
Donald Hanna unpacks the complex effects of the US-China trade war on Singapore and Malaysia.

As calendars head into 2019, the state of global trade continues to hang over Asia as a major source of external uncertainty. While the latest meeting between US President Donald Trump and Chinese President Xi Jinping brought some concessions from both sides on tariffs, the deepening strategic competition and suspicion between the world's two largest economies remains a worry. The deeper divide is a daunting challenge for Singapore and Malaysia, the two most trade-dependent members of ASEAN, with total trade accounting for 330% and 110% of their respective GDP. There are three main channels for the deteriorating trade/political environment to affect Singapore and Malaysia: on trade in goods and services; on confidence and financial markets; and on long-term growth and institutions.

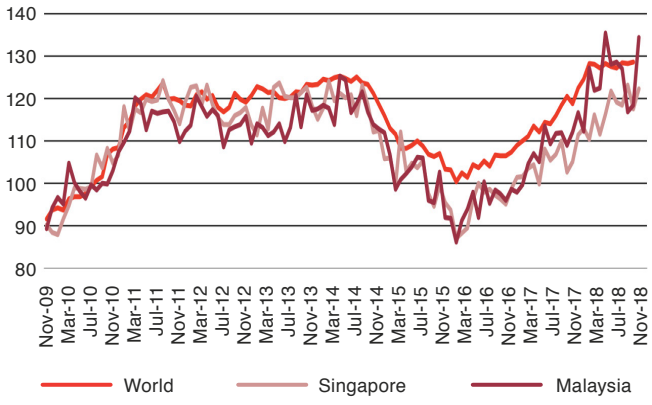
Effects on trade and services

Imposing tariffs has direct and indirect effects. The direct effects arise from the reduction in trade volumes that the surge in after-tariff prices implies. The indirect effects factor in how demand for inputs into the affected products would change and the shifts in incomes and spending associated with these changes. This is where the intricacies of global supply chain linkages come into play. The Asian Development Bank (ADB), in its work, filters out the effects of tariffs on redirecting trade to other countries, which is called "trade diversion". Because the US and China are largely imposing tariffs on trade sourced from the other country, third countries stand to gain if export demand from the US and China diverts to their exports. The magnitude of the effect depends how easily global supply chains can be restructured. Almost certainly the redirection of trade and the reshaping of supply chains will play out over one to two years, in part because of uncertainties about how protracted and divisive the US-China confrontation will be.

As the tit-for-tat tariffs ratcheted up over last summer, analysts were especially concerned about the fall in trade volumes, especially in China and the US and their spill-overs onto the rest of the world. Analysis using top-down macro models with little industry detail like those of the International Monetary Fund (IMF), forecast that China's growth could slow down by 1-1.5%, the US by 0.5-1.0% and the rest of the world by 0.3-0.5%. The decline in Chinese and Asian trade that is at the heart of these estimates has not been seen until quite recently largely because of the effort by firms to avoid pre-announced tariffs. The expected slowdown, though, seems to have shown up in November 2018. Of course, myriad factors could be behind this deceleration, not simply US-China tariffs.



World Trade, Singapore and Malaysia Exports
(seasonally adjusted in US dollar, 2010-100)



Source: Haver Analytics and author's calculations

Instead of relying on aggregate trade, one can use data on the value-added of different countries reflected in Chinese and US exports, respectively. These data recognise the effects of global value chains that constitute a large component of foreign value-added (FVA) in a country's exports. The TIVA Database of the Organisation for Economic Co-operation and Development (OECD) shows that at least for the aggregate of China and US exports, Malaysia's value-added embodied in China's exports is larger than that of Singapore, but neither country is as large as that of the Philippines.

Going further with a dataset using a high degree of industrial detail, the ADB has built a bottom-up analysis of the effects on GDP and employment based on the US-China tariffs already in place. The relatively surprising conclusion of the ADB work is that ASEAN and much of the rest of Asia would see a net gain over a few years from trade diversion, with the assumption that 50% of the US-China trade is redirected. Without that assumption, all of Asia loses.

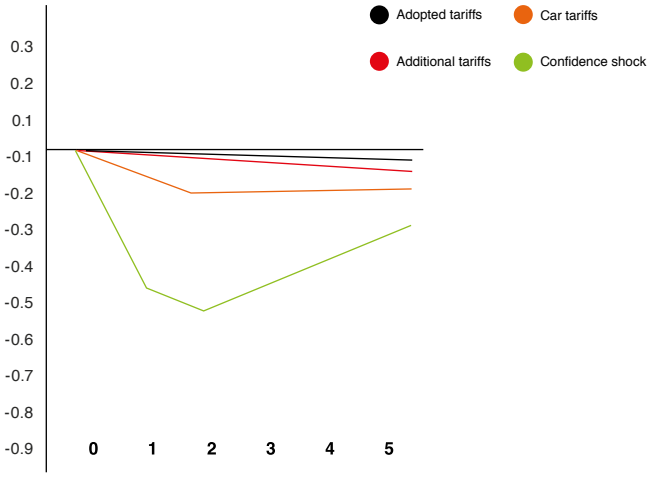
The specifics of Malaysia and Singapore are telling. Consistent with the OECD data on the FVA, both the losses in the absence of trade diversion and the gains from trade diversion are larger for Malaysia than for Singapore. The ADB estimates that Malaysia has lost 0.3% of GDP due to the tariffs but will gain a net 0.2% including diversion. Meanwhile under current tariffs, Singapore has lost less that 0.02% of GDP and stands to gain 0.03% with trade diversion.

The gains in both Singapore and Malaysia are concentrated in machinery, chemicals, electronics and wholesale trade, while some services sectors (health, education, hospitality and air transport) will incur small losses due to weaker Chinese income gains. In Malaysia, mining gets a boost through petroleum, whereas in Singapore, leasing activities are bound to gain.

Effects on Confidence, Markets, Long-term Growth and Institutions

While the industrial breakdown is fascinating, one should view the positive GDP effects with caution. First, as mentioned above, trade redirection will take some time and the immediate effects are more likely to be negative. Second, the ADB analysis does not factor in the effects on assets markets of weakened confidence, especially given the broadening of the conflict – regarding intellectual property rights and the role of the state in private business – that reflects broader societal competition. Indeed, the IMF's work shows confidence effects to be three to four times larger and occur more quickly than tariff hikes alone. However, there is a silver lining here. If the tariff conflict does not intensify, we may have already seen the worst of the confidence/trade effects.

Effects on Global GDP from US-China tariffs



Source: IMF 2018

There are other channels of influence arising from the US-China confrontation, some of which are positive. The withdrawal of the US from multilateral free trade deals has sparked some other countries to push for new trade arrangements. For example, the original Trans-Pacific Partnership (TPP) went forward in an 11-country version that includes Malaysia and Singapore, and came into effect on 30 December 2018. The RCEP negotiations have also moved forward, a grouping that would cover a huge swath of humanity with China and India being among its members. The heightened US-China tensions also incentivise ASEAN to accelerate making the ASEAN Economic Community a reality, both as a means to offset any losses to GDP should trade diversion disappoint, and also to create a more powerful political voice in a world that could become more fragmented.

Finally, the broadening by the US of its grievances with China raises the spectre of a broader geopolitical rivalry. In a relatively narrow economic realm, remaking global supply chains on the basis of arbitrary tariffs while increasing costs and lowering productivity, would temper long-run global growth. In the boarder geopolitical arena, the blow to the superiority of the US-centered economic-political structure caused by the 2008 Global Financial Crisis and persistent growth of China create the basis for more confrontational geo-politics. Singapore and Malaysia will need to be adept in balancing China and the US.

Dr. Donald Hanna is Senior Managing Director and Chief Economist for CIMB Group.

Thailand Looks to Benefit from the Trade War

Suthad Setboonsarng argues that the global supply chain realignment hastened by the trade war will benefit Thailand in the long term.

As a trading nation, global trade policy and sentiment can have a major impact on the Thai economy. The most damaging aspect of the US-China trade war is the uncertainty created by the threats from both sides and their on-again-off-again negotiations. The difficulty to predict the direction of the negotiations had disrupted manufacturing plans and trading systems, and reduced the activities to short-term transactions.

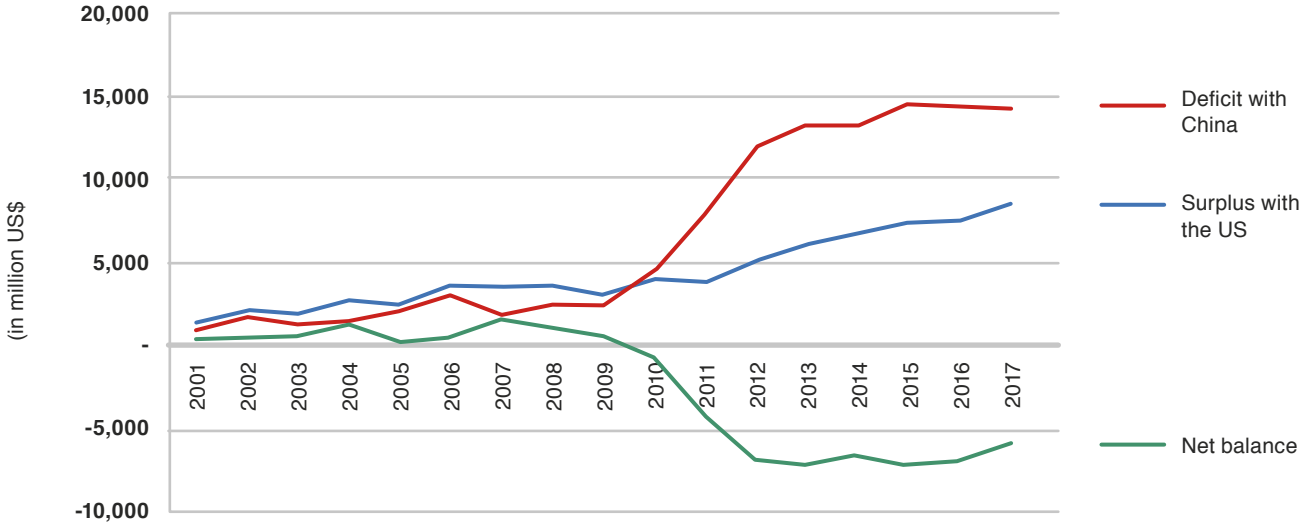
Thailand's top two export destinations are the US and China, and so the disputes between them will weigh heavily on Thailand's export-dependent industries. China and the US, together account for 25% of Thailand's total trade. Almost 50% of Thai exports to the US are dominated by two groups of product: machinery equipment and electrical products. On the other hand, Thailand carries a trade deficit on these two groups of product with China.

The direct short-term effects from the US-China trade conflict are positive, due to trade and investment diversion. *Reuters* interviews with Thai electronic companies in November 2018 revealed that they have been able to secure new orders from US companies looking to bypass import tariffs. A simulation by the Ministry of Commerce shows that Thailand stands to gain about US$1 billion (or 0.42% of exports).

Indeed, Thailand has been reaping benefits from the US-China trade war since early 2017 when the US issued an anti-dumping order on washing machines which led to a 400% surge in washing machine exports from Thailand. The total value of these exports surged from US$16 million in February to US$71 million in October 2018. But the good times may not last long as, according to the Office of the US Trade Representative (USTR), Samsung and LG are now setting up factories in South Carolina and Tennessee in the US.

An indirect and more important impact of trade war on Thailand comes from the slowdown of the Chinese economy. A depreciating yuan and declining Chinese equities led to a gradual downturn in the number of tourists from China beginning in April 2018. Chinese tourists accounted for the bulk of arrivals in previous years. Tourism spending accounts for around 12% of Thailand's GDP. A boat accident in July that killed 47 Chinese tourists adds to a steady decline of Chinese arrivals.

Thailand's Trade Balance on Machinery Equipment and Electrical Products with China and the US



Source: Analysis of data from Trade Maps, ITC

As a result, Thailand's third quarter growth dropped below expectations. The state-planning agency, the National Economic and Social Development Board reported flat quarter-on-quarter growth and a 3.3% year-on-year growth. This was caused mainly by the weaker exports and a contraction in tourist arrivals. Growth in merchandise trade, although expected to recover, was only 0.2% for the quarter versus an expansion of 7.4% in the previous quarter.

What does the future hold if the trade war continues to escalate?

China and the US have announced a trade war ceasefire earlier in December and committed not raise tariffs. However, the uncertainty surrounding the truce and the ongoing negotiations, as well as other related developments such as the arrest of Huawei's CFO Meng Wanzhou, will continue to drive sentiment downwards and feed into the global economic slow-down. On the upside, the Ministry of Commerce of Thailand believes that the trade war will not escalate as both economies will be gravely affected.

In the medium-term, the realignment of the global supply chain is one expected outcome of the trade war. Higher tariffs and the reduction of corporate income tax will draw some manufacturing back to the US, which will reduce imports. Chinese companies exporting to the US may relocate their facilities to ASEAN member countries which are not subject to the tariff hike.

A lesson can be drawn from the case of rubber tires. In 2009, the US government invoked the safeguard clause and imposed a three-year import duty on pneumatic tires (air-filled tires) from China. Chinese tires factories increased investment in Thailand, a major exporter of natural rubber. The export of tires from Thailand increased about 6% for six consecutive years since 2010.

This tire industry is an example of a broader trend of Chinese investment. Chinese outward investment has increased due to shortage of labor and higher wages in China and demand for raw materials from other countries. This trend is accelerated by the trade war. This also gives more impetus for China to hasten its Belt and Road Initiative (BRI) projects and deepen its commitment to conclude the ASEAN-led trade pact, the Regional Comprehensive Economic Partnership (RCEP).

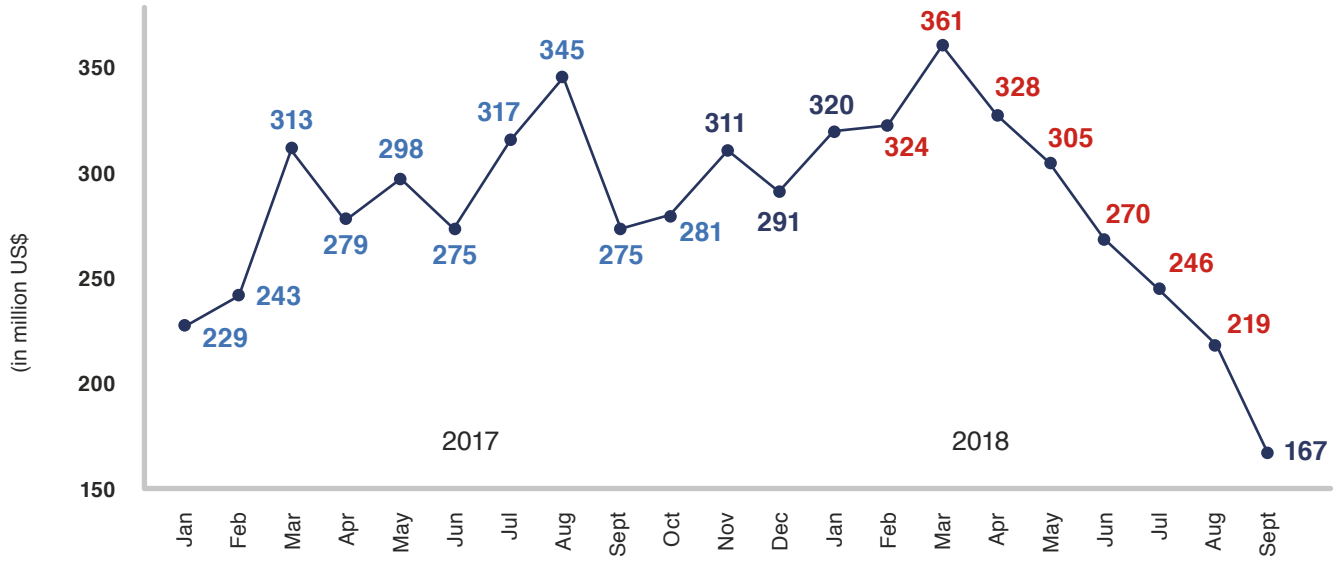
Light at the end of the tunnel – not quite!

In response to the challenging economic conditions, China's central bank, the People's Bank of China, reduced the required reserve ratio four times this year to 15.5% for large banks resulting in a US$109 billion injection into the economy, lowering credit and increasing export competitiveness. If the US proceeds with a second tariff sanction package, it could prompt China to draw on its large international reserve, which is mostly held in the US dollar, as a defensive measure and to sustain its economic competitiveness. The flooding of the US dollar would weaken the currency and make it even more difficult for Washington to manage the maturity of the large debt created by the Quantitative Easing (QE) since 2008.

For Thailand and other ASEAN countries, trade uncertainty and a drop-off in tourist arrivals will be balanced with gains from trade and investment divergence as supply chains adjust. The result will be net positive. The most significant and long-term impact will come from adjustments in the financial market, which will affect the dominance of the US dollar in global trade.

Dr Suthad Setboonsarng is a member of the National Reform Council of Thailand and sits on the Board of the Bank of Thailand. He served as Deputy Secretary-General of ASEAN from 1997-2000.

Number of Chinese Tourists in Thailand



Source: Tourism Authority of Thailand

Vietnam Amidst the US-China Trade War: High Risks, Big Gains

Luc Can analysed the complex and multi-dimensional impacts of the US-China trade war on Vietnam's economy.

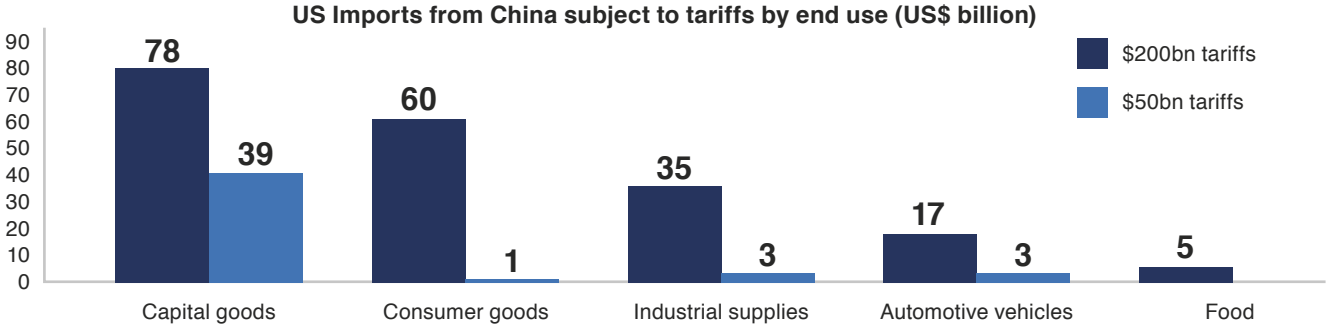
As the US-China trade tensions are unfolding, global GDP growth is forecast to lower by 0.12% over 2018 and 0.3% over 2019, according to Citi Research. Meanwhile, projections by the International Monetary Fund (IMF) expect these trade tensions to cost the global economy about US$400-450 billion or to decrease by 0.1-0.3% in 2019, due to the decline in trade and investment, and disruption in the global supply chain. There is a sigh of relief after the announcement of the 90 day-truce deal between US President Trump and his Chinese counterpart President Xi Jinping in early December 2018, but it remains uncertain how the two sides will resolve the underlying US concerns over China's trade barriers, subsidies for its state-owned companies and alleged technology theft.

The US-China trade tensions would have both direct and indirect impacts on Vietnam's economy, bringing about not only opportunities but also challenges for Vietnam, especially on trade, investment, and other economic indicators.

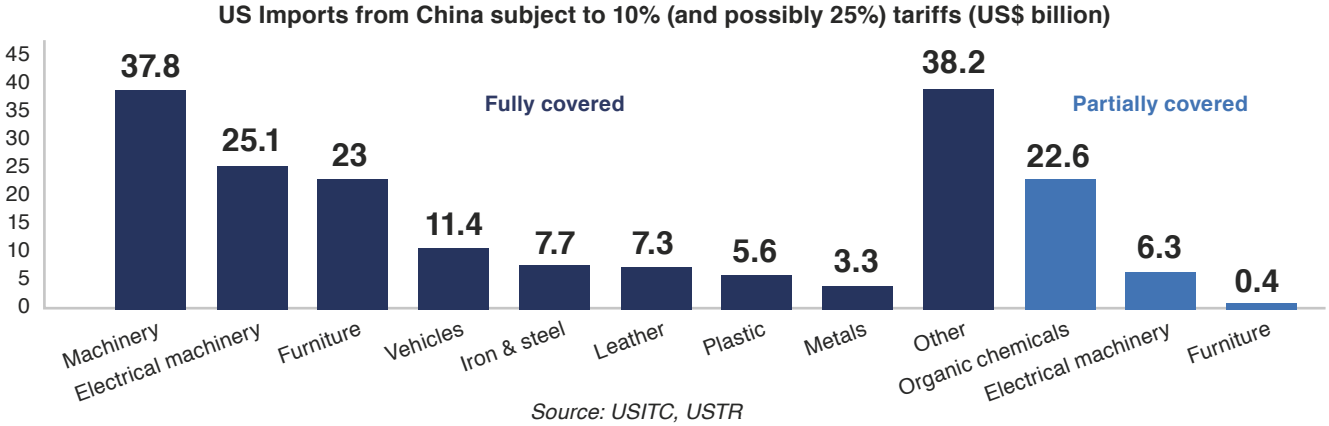
On the trade front

As far as trade is concerned, according to Citi Research, apart from Canada and Mexico, Vietnam would see the most substantial opportunities from trade diversion and production reallocation. Based on the list by the United States Trade Representative (USTR), a number of key Vietnamese exports would benefit from the US tariffs imposed on Chinese products, especially consumer goods (US$58.3 billion, accounting for 27% of the tariff lines). Many of these products are similar to Vietnamese goods exported to the US, such as garment, footwear, seafood, agricultural products (coffee, tea, fruit juice and vegetables, among others), computers, electronic products and components, and furniture.

In this regard, Vietnamese companies need to be nimble and proactive in searching information and capitalise on such opportunities to boost their market share. Besides, they should also focus on structural reform and improve their capacity in meeting such an export demand.



Source: USITC, USTR, and Citi Research



Source: USITC, USTR

However, as mentioned above, escalating US-China trade tensions would negatively impact global trade and GDP growth, which in turn would decrease aggregate demand. If global trade demand declines, it will negatively affect export performance of Vietnam, a heavily export-oriented economy with total exports valued at about US$245 billion in 2018 (equivalent to 100% of its GDP). Vietnam can be particularly vulnerable since the US is its largest export market and China is the third largest, accounting for 19.4% and 17% of Vietnam's total exports respectively in 2018.

Furthermore, with the new and future tariffs announced by both sides, prices of the tariff lines exported from the US and China to Vietnam will rise. In fact, several Chinese exporters have requested their Vietnamese importers for sharing higher costs. These higher materials prices would in return increase production costs for Vietnamese companies, thus adding inflation pressure to Vietnam.

In another negative spill-over effect, excessive Chinese goods which can not be exported to the US would switch to other markets, especially Vietnam due to geographical proximity. Chinese products are becoming more competitive in terms of price as the Chinese yuan has depreciated by 6% versus the US dollar (compared to the Vietnamese dong's depreciation of only 2.7%) in 2018. This would incentivise Vietnamese firms to import more from China, resulting in Vietnam's greater trade deficit with China. In 2018, Vietnam's trade deficit with China was around US$24 billion, US$1 billion higher than that in 2017, and this figure is expected to increase in the near future.

It is also likely that Chinese goods are exported to and re-made in Vietnam, then exported to the US to avoid high taxes. This scenario may be a rationale for the US to increase scrutiny and impose higher tariffs for Vietnamese exports to the US. Lastly, the trade tensions would disrupt the global supply chain, which has a negative impact on all countries in the chain, including Vietnam. A recent study by Citi Research has indicated that Vietnam could be among the top four economies vulnerable by the disrupted supply chain, together with Chinese Taipei, Singapore and South Korea.

On the investment side

Foreign direct investment (FDI) in Vietnam mainly depends on major partners, such as South Korea, Japan, Singapore and Chinese Taipei, who are strategic and long-term investors in Vietnam. It is therefore unlikely for the FDI inflows to be reversed, at least in the near term. In fact, in 2018, total FDI registered capital in Vietnam was about US$35.5 billion (similar to that in 2017); but FDI implemented capital increased by 9% year-on-year to reach US$19.1 billion.

Given the increasing anxiety over the trade tensions, it is anticipated that Chinese and foreign investors in China may consider shifting their manufacturing sites to ASEAN, in which Vietnam is considered a top priority. A recent survey by Amcham China shows that around 30% of US firms in China have shifted or considered shifting their production bases to overseas countries, in which ASEAN is a top priority. Several Korean investors also look for such shifting opportunities. This trend will continue if the US-China trade tensions do not cool down. Firms may not shift all, but part of their investment sites out of China. In fact, some Chinese companies are relocating part of their operations to Vietnam. For example, Chinese Sintai Furniture is shifting 20% its production to Vietnam to avoid higher tariffs. As of December 2018, China (without Hong Kong) ranked 7th in the top list of investors in Vietnam with accumulated registered capital of US$13.35 billion for 2149 projects, while the US ranked 11th with US$ 9.33 billion for 900 projects.

For portfolio investments, Vietnam is the only emerging economy with positive net inflows. In 2018, foreign investors' net buy was about US$2.5 billion, which indicates their confidence in long-term prospects of Vietnam's economy and stock market. In this regard, Vietnam is seen to have good opportunities for attracting and selecting FDI projects, which should be environmentally-friendly, high value-added and meeting the development objectives set by the central and local authorities.

There might be other economic impacts on fiscal and monetary policies. The US-China trade tensions have contributed to the depreciation of the Chinese yuan, which has increased pressure for weakening the Vietnamese dong since it is pegged against an 8-currency basket which includes both the yuan and the US dollar. However, the dong devaluation is forecast to be small (about 2-3%) in 2019 thanks to the country's expected strong macro-economic performance, marginal depreciation of the yuan and appreciation of the US dollar. In addition, inflationary pressures from higher import prices would also contribute to higher interest rates in Vietnam.

In conclusion, the US-China trade tensions will likely last long since the underlying dynamic is the unfolding strategic competition between the two major powers. The US' trade deficit with China is just a superficial reason. What really puts Washington on guard is Beijing's ambition to expand its geo-economic footprint and become the world's innovation leader as demonstrated in the Belt and Road Initiative and "Made in China 2025" plan, thereby threatening the US' superpower position on the world's geopolitical and economic map. The trajectory of this competition is full of pitfalls and its negative effect on global trade, investment and economic growth has been observed. For Vietnam, there might be more opportunities than downside risks. However, the complexity of impacts and the uncertainty of future developments require Vietnam's policy makers and companies to closely monitor and adapt to various scenarios, and proactively enhance their capacity to seize forthcoming opportunities and minimise impending risks.

Dr. Luc Can is Chief Economist of the Bank for Investment and Development of Vietnam (BIDV), and Director of BIDV Training School. This article is prepared with assistance of BIDV Research Center.

ASEAN in Figures

Impacts of the US-China Trade War on ASEAN

Trade Exposure [1]

Most dependent on China

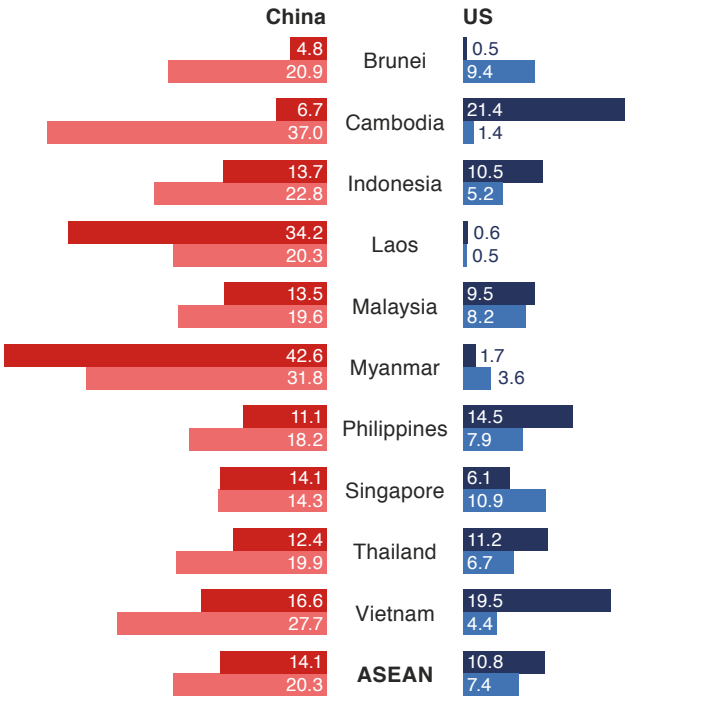
Myanmar	36.3%
Laos	26.3%
Vietnam	22.1%
Indonesia	18.1%

Most exposed to the US

Vietnam	12%
Philippines	10.5%
Cambodia	10.2%
Malaysia	8.9%

Trade Exposure to China and the U.S. in 2017 (in %) [1]

Share to total **exports**
Share to total **imports**



The trade war could wipe out about **0.2%** to **0.3%** of the ASEAN region's GDP. [4]

Singapore economy is expected to grow by: [6]

3.0-3.5% in 2018 and **1.5-3.5%** in 2019

The 2018 growth forecast for **ASEAN-5**

was cut by **0.1** of a percentage point to **4.9%** as the US-China trade war heats up. [5]

Top immediate goods exporters to China among ASEAN countries in 2016: [2]

Singapore
US$ 3 billion
(9.4% of GDP)

Thailand
US$ 2.8 billion
(11.6% of GDP)

Intermediate goods account for up to

of Southeast Asian exports and imports with China. [9]

Survey result by AmCham China and AmCham Shanghai in September 2018 to 430 companies:

30.9% seek to source components and/or assembly outside of the US; and **30.2%** seek to do so outside of China.

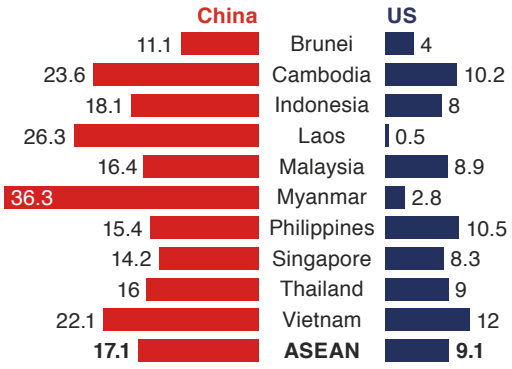
64.4% have not relocated or are not considering relocating manufacturing facilities out of China.

18.3% are considering relocation out of China.

18.5% that have relocated or is considering relocation out of China choose Southeast Asia.

3% are considering exiting the China market.

ASEAN's Trade with China and the US as Share to Total Trade in 2017 (in %) [1]

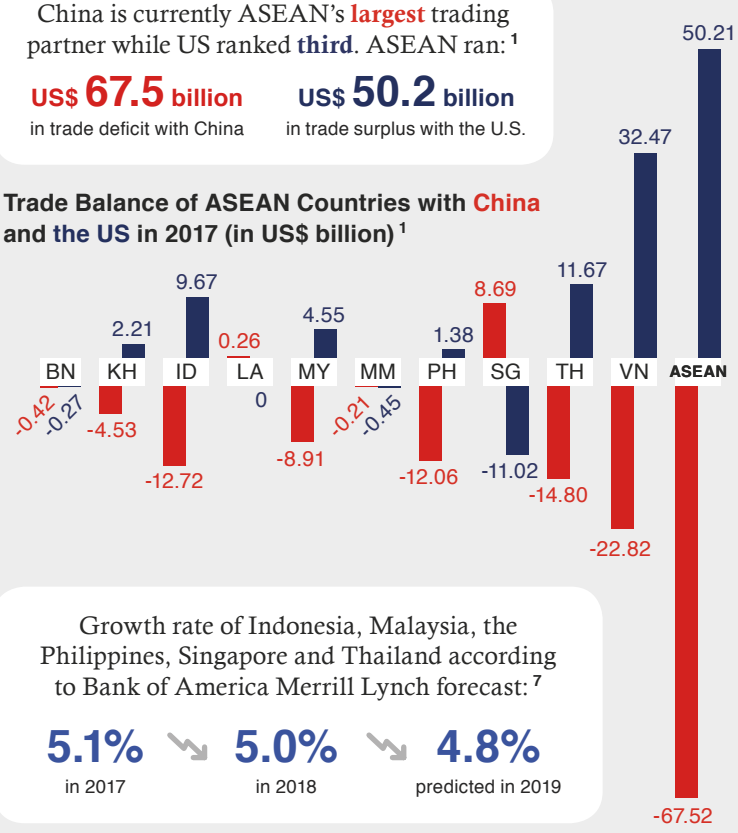


China is currently ASEAN's **largest** trading partner while US ranked **third**. ASEAN ran: [1]

US$ 67.5 billion in trade deficit with China

US$ 50.2 billion in trade surplus with the U.S.

Trade Balance of ASEAN Countries with China and the US in 2017 (in US$ billion) [1]



The trade war will drive Chinese investment in ASEAN from: [3]

US$ 150 billion (in 2018) to **US$ 500 billion** (in 2035)

and will drive ASEAN's investment in China from: [3]

US$ 60 billion (in 2018) to **US$ 200 billion** (in 2035)

Growth rate of Indonesia, Malaysia, the Philippines, Singapore and Thailand according to Bank of America Merrill Lynch forecast: [7]

5.1% in 2017 ↘ **5.0%** in 2018 ↘ **4.8%** predicted in 2019

A survey by AmCham South China in October 2018 among 219 companies having business in China shows:

50% do not plan to relocate manufacturing facilities out of China at this moment.

More than **1/3** choose Southeast Asia as the first choice when they consider relocation.

70% of the **American** companies & **50%** of the **Chinese** companies are considering delaying/cancelling investment in China or relocating out of China.

Industries Most Likely Affected from a US-China Trade War [8]

↑ Gain ↓ Loss ⊙ Mixed

Brunei: Relatively insulated

Cambodia: Relatively insignificant

Indonesia
- ⊙ Base metals and articles
- ⊙ Local steel industry (diverted steel exports from other countries)

Laos
- ↑ Machinery & manufactured products exports to the US

Malaysia
- ↑ Palm oil and exports
- ↑ Possible gain in chemical & LED products exports to the US
- ↓ Solar panel exports (▲30% tariff)
- ↓ Machine parts and components sold from China to the US
- ↓ Electronics (China is a large trading partner on electronics)

Myanmar
- ↑ Cattle export to China
- ↑ Chinese manufacturing FDI inflows

The Philippines
- ↑ Increase of port exports to the US
- ↑ Decreasing price for steel imports
- ↓ Electronic sector may suffer
- ↓ Spillover effects into finance

Singapore
- ↑ Maritime activity and shipping
- ↓ Exports of solar cells and modules, washing machines, steel and aluminium (US tariffs)
- ↓ Slower demand for electronics sold from China to the US

Thailand
- ↑ Fresh and processed fruits exports to China
- ↑ Shifting of auto manufacturing facilities to Thailand
- ↓ Immediate goods for final products assembled in China
- ↓ Greater US scrutiny due to high trade surplus with the US

Vietnam
- ↑ Boost in textiles and garments
- ↑ Investment diversion of Chinese firms to consumer goods industry
- ↓ Machine parts and components for products assembled in China
- ↓ Steel exports (US tariffs)
- ⊙ Benefits of trade & investment diversion may be offset by the dumping of Chinese products

1 ASEAN Secretariat, 2018. **2** World Bank, UOB Economics & Market Research. **3** Asean+3 Macroeconomic Research Office (AMRO), 2018. **4** AMRO experts quoted by THEEDGE Markets, July 2018. **5** The Japan Center for Economic Research and Nikkei, September 2018. **6** Singapore Ministry of Trade and Industry, November 2018. **7** Nikkei, November 2018. **8** OCBC, July 2018. **9** Korea Institute for International Economic Policy

American Businesses for Free and Fair Trade

Alex Feldman, President & CEO of the US-ASEAN Business Council (US-ABC) shares with us how American businesses operating in the region are dealing with the US-China trade war.

AF: *Media coverage claims that some Southeast Asian economies will reap benefits from the US-China trade war as a result of trade diversion and investment relocation. Is it happening on the ground?*

FELDMAN: Even without the US-China trade disputes, ASEAN has been one of Asia's most competitive FDI destinations, receiving almost US$330 billion in cumulative FDI from the US alone. The pressures from the US-China tariff conflict which brings uncertainty to American businesses in the short- and medium-terms, combined with the incentives from those ASEAN countries participating in free trade agreements such as the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP), are pushing companies to explore opportunities to adjust their regional supply chains and diversify their investment plans in ASEAN and other parts of the world. There has also been a tendency for American and other investors to pursue a "China plus one" strategy, as they become increasingly dissatisfied with the business environment in China with increasing production costs and predatory practices, including intellectual property theft. The trade war has intensified this search for alternative sites for new investment.

However, it remains premature to identify those companies that have decided to completely withdraw their production facilities from China. It is impractical for many companies to completely pull out of China. The sheer size of the Chinese market and its productive capacity are hard to ignore. Given the high risk and cost of transferring capital to other countries, most companies are employing a wait-and-see approach, while continuing to adjust their activities in response to the new tariffs. The decision to move one's supply chain is a long-term, strategic choice, and the chances of relocating these supply chains back into China, once they are moved, are highly unlikely. Relocation therefore would create some irreversible effects on a number of our member companies' supply chains. Investment decisions still depend primarily on the companies' long-term strategy and the actual trade and business environment in each country, as opposed to making snap decisions in reaction to tariff conflicts.

AF: *What are the challenges that businesses are facing in terms of relocation? What do you suggest in terms of an ASEAN response that will facilitate the relocation process?*

FELDMAN: Relocation or new investment is complicated and expensive. It necessitates thorough and long-term strategic assessments and projections, taking into consideration possible policy and regulatory changes in the future as well as political, currency and economic risk assessments. To attract companies that are relocating, looking for greenfield investment or pursuing a "China plus one" strategy, ASEAN countries should maintain reasonable production costs, lower tariffs and import barriers for production inputs, increase human capital skills, develop the digital and physical infrastructure, and improve the ease of doing business, and step up regulatory harmonisation. ASEAN is moving in the right direction through many regional trade agreements that help its member states increase market access for investors. We would also like to see more ASEAN member states join the CPTPP, the Regional Comprehensive Economic Partnership (RCEP) negotiations be concluded early, and ASEAN pursue other bilateral FTAs, including possibly with the US.

Furthermore, ASEAN should prioritise reducing non-tariff barriers (NTBs), provide secure yet open regulatory environments by discouraging protectionist behavior, and support initiatives such as the ASEAN Single Window which harmonise customs procedures across the region. Besides, the digital economy, and ASEAN's regulatory framework to support it, will be critical factors to be considered by corporate FDI decisions in the coming years. ASEAN should try to build an open, inter-operable regulatory framework that permits cross-border data flows in a secure manner.

AF: *There is a concern that if investments relocated to ASEAN are heavily dependent on inputs from China, the US might impose a second round of tariff hikes on imports from ASEAN countries. What should ASEAN countries do to avoid this situation?*

FELDMAN: In 2017, five ASEAN countries were identified by the Trump Administration as having significant trade surpluses with the US. To date, the US government's policy approach has focused more on reducing barriers to US exports via talks under various Trade and Investment Framework Agreements (TIFAs) with ASEAN countries, as opposed to raising tariffs on their exports.

At the recent ASEAN Summit, Vice President Mike Pence affirmed the US' strategic engagement with ASEAN, upholding the region's centrality in the Indo-Pacific strategy. My confidence in US-ASEAN cooperation is therefore not wavering despite the on-going trade war and its spill-over effects. For their exports to the US not to be caught up in the US-China tariff conflict, ASEAN countries should rigorously enforce anti-transshipment export measures, explore ways of expanding bilateral trade with the US, and continue to support initiatives which sustain a rules-based multilateral trading system.

AF: *Greater risks of the trade war for ASEAN could come from capital flows and currency fluctuations, and financial market effects tend to be larger than trade effects. What is your view about this?*

FELDMAN: Tariff conflicts increase trade uncertainty and disruption, thus affecting business and consumer confidence. This can be a factor in generating potential systemic risks in terms of global financial market volatility and rapid changes in capital flows to emerging markets. Such risks may spread not only to ASEAN countries but also advanced economies to varying degrees. In the first instance, China faces the risk of capital outflows due to decreasing investor's confidence. China's slowing GDP growth and the weakening yuan pose a risk of competitive devaluation and a race to the bottom. Using currency as a weapon in the US-China trade skirmish could also be very detrimental as it causes more instability and uncertainty in an already complicated environment. Fortunately for ASEAN, twenty years of financial and institutional reforms after the 1997 Asia Financial Crisis have made its economies much more resilient to such risks.

AF: *In your long-term perspective, as the US and Chinese economies are on the trajectory towards decoupling, will there be a significant relocation back to the US or other North American countries?*

FELDMAN: The United States-Mexico-Canada Agreement (USMCA) engenders new opportunities for investment in North America. However, I do not project a significant relocation at this juncture, particularly not from one region to another. In fact, due to rising costs of inputs to businesses in USMCA, some global companies have chosen to delay business expansion or invest outside of North America. There is a difference in the comfort levels between North America and East Asia for corporate operations, taking into account the available resources, market size, and production costs. Furthermore, it is still premature to ascertain that the USMCA would effectively add value to the precedent North American Free Trade Agreement (NAFTA) and benefit its members as a whole. Therefore, while there is likely to be some degree of permanent decoupling between the US and China, the economic facts on the ground are such that large-scale decoupling is unlikely. We will have to see what compromise the US and China will reach – there will probably be some sort of compromise though the timing is yet unclear – and what it would mean in terms of value proposition for American firms in China.

"It is impractical for many companies to completely pull out of China. The sheer size of the Chinese market and its productive capacity are hard to ignore. Given the high risk and cost of transferring capital to other countries, most companies are employing a wait-and-see approach, while continuing to adjust their activities in response to the new tariffs."

AF: *"Fair trade" is re-emerging as a buzzword in the global trade discourse but its interpretations are different across countries. From the perspective of American companies operating in the region, what does "fair trade" mean?*

FELDMAN: Our members in the region envision ASEAN to offer an open, outward-looking, and dynamic platform that connects business operations in a coherent and transparent manner, embracing stakeholder engagement. Ease of doing business is an important catalyst to forge fair trade in the region. Fair trade means trade within a framework of coherent, easy-to-understand rules that do not differentiate between market players and protect their intellectual property equally. American companies, therefore, wish to see a level playing field that would promote competitiveness in an equitable manner for both domestic and foreign companies, and encourage the relevant stakeholders to play by the rules and have a voice in policy and regulation formation.

AF: *At least five ASEAN members have significant trade surplus with the US. Are there any potential trade remedy measures that the US government might take to address them? And how will the US-ABC assist in this issue?*

FELDMAN: I do not speak for the US government, but the US-ABC notes the Trump Administration's preference for bilateral trade agreements to rebalance trade deficit with ASEAN countries. The US-Singapore FTA is currently in place, and talks with the Philippines could be launched in 2019. The US-ABC supports trade modernisation initiatives – bilaterally or multilaterally – which expand business opportunities for our member companies and promote freer trade between the US and ASEAN. Having said that, the US government should also focus on incentives that can boost American productivity and competitiveness ahead of other countries to make American goods and services the most desirable in the world. In short, we should be looking for positive incentives to make America competitive rather than negative ones that may, in fact, hurt the US as much as they hurt our trading partners and competitors.

AF: *The US are outside of both the CPTPP and RCEP. What could be the impact on American companies when these frameworks come into effect?*

FELDMAN: Most American companies are supportive of regional trade agreements including the CPTPP and RCEP

"We believe that trade modernisation initiatives and free markets – not protectionism – lead to inclusive and sustainable growth, and that regional integration initiatives including regulatory harmonisation across ASEAN will help ASEAN reach its full potential."

despite the US not being part of them. Many companies have global supply chains and operate in countries that are members of these agreements. Exclusion from these mechanisms could partially limit American-based companies' access to the dynamic regional markets and interrupt the global supply chains in general. In the event there is less trade by being "America First", there is a very real possibility that investment will go outside of the US to participate in a robust multilateral network of agreements, including investment in CPTPP countries.

***AF**: The US-led Indo-Pacific vision still lacks a positive trade agenda. How will the US-ABC persuade the Trump Administration to do more to upgrade its trade and other economic ties in the ASEAN region?*

FELDMAN: In Washington, DC, we continue to engage the bipartisan congressional ASEAN Caucus to increase awareness of ASEAN in the US, and highlight that "ASEAN matters for America". This is also the name of a publication which we co-produced with the East West Center and your ASEAN Studies Centre, highlighting the statistical importance of US-ASEAN economic relations right down to each congressional district.

In addition, the US-ABC engages key business leaders, policy makers and government officials at the highest levels through Ambassadors' tours in both the US and throughout ASEAN. We also reach out to country and sectoral business missions and conduct other on-the-ground activities to leverage trade and investment agreements in the ASEAN markets. In most of these activities, we involve the US government in one way or another, and encourage the current Administration to formulate a positive trade agenda including bilateral trade agreements with ASEAN countries under the Indo-Pacific strategy.

***AF:** Are American multinationals and banks interested in investing in infrastructure projects in the ASEAN region? If affirmative, what are the competitive advantages that American companies could offer compared to East Asian countries?*

FELDMAN: Certainly, infrastructure is one area where our members have interest. American companies are particularly strong in energy and digital infrastructure. Renewable energy and ICT are therefore vital segments that provide American companies with competitive advantages. They can also add value to various air, road and port infrastructure projects, especially in safety and surveillance aspects. Furthermore, the US government has provided a platform to facilitate American private sector engagement through the Better Utilisation of Investments Leading to Development (BUILD) Act. Under this Act, the overall budget for the US government investment assistance will double, with a focus on infrastructure, to US$60 billion.

More ASEAN countries are realising the value of incorporating life-cycle cost analysis as they evaluate tenders for infrastructure projects. They are therefore looking beyond the cheapest option to assess the long-term financial and commercial viability of projects, as well as impacts on local environment and local employment benefits. American companies, with their strengths in technology, could help in the design of better projects, build up government capacity in project management, and utilise corporate social responsibility efforts to make these projects more inclusive.

***AF:** The Trump Administration has abandoned economic multilateralism to focus on "America First" whereas ASEAN persistently pursues rules-based multilateral trade regimes. Where do American businesses stand in between these divergent outlooks?*

FELDMAN: American businesses support open and fair trade where intellectual property rights are honored and protected. We are committed to supporting multilateral rules-based trade and economic systems with strong dispute resolution mechanisms, as well as stable and transparent political systems that promote good governance. We believe that trade modernisation initiatives and free markets – not protectionism – lead to inclusive and sustainable growth, and that regional integration initiatives including regulatory harmonisation across ASEAN will help ASEAN reach its full potential. Regional agreements, such as RCEP and CPTPP, can help ASEAN deepen and further integrate regional supply chains to enhance economic growth in the region.

***AF:** What do you think the recent Trump-Xi truce deal would mean for US-China trade relations? What are your hopes and concerns over the future negotiations in the next 90 days?*

FELDMAN: The truce deal is a positive development but a final deal will take a great deal of effort and compromise from both sides. The 90-day timeframe may not resolve all of the issues between the two countries and there is an urgent need to be more realistic about the goals and timeframes. For the sake of American businesses in ASEAN, we hope that the two sides will find ways to improve their economic ties and step back from the tariff war.

Mr. Alexander Feldman is President & CEO of the US-ASEAN Business Council. Mr. Feldman served in the Administrations of Presidents George H.W. Bush and George W. Bush. He has been involved in the ASEAN region for over 25 years in a career spanning both the public and private sectors. He resided in Asia for more than a decade, and has conducted business in all ten ASEAN member states. Mr. Feldman is a graduate of the University of Pennsylvania and an Eisenhower Fellow.

Sights and Sounds

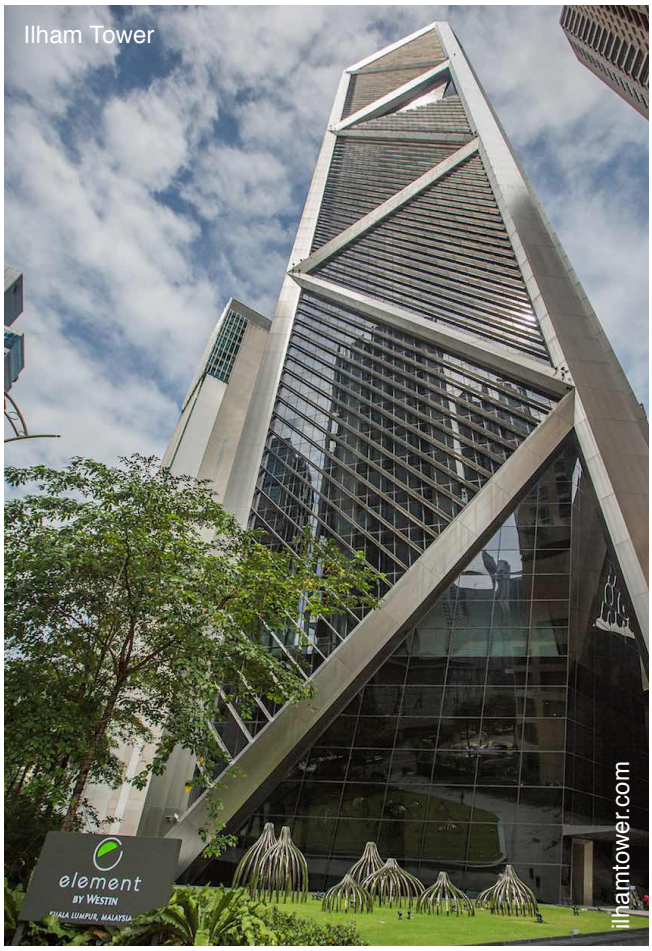
When Concrete Meets Greenery: Smart and Green Buildings in Southeast Asia

Nur Aziemah Aziz takes a tour of "smart and green buildings" across ASEAN.

As modernity rapidly transforms Southeast Asia, the region's urban landscape has been going through a massive makeover. Low-rise buildings and old shop houses with mismatched tiles and wooden window panes are disappearing. In some countries, they have ceased to exist, becoming a distant memory of the good old days when life was simpler and slower. Taking their place are new residential developments, sardine packed shopping enclaves, and skyscrapers that adorn the skyline. More and more cities in Southeast Asia are becoming concrete jungles where buildings of all sorts compete for space while urban planners and developers keep searching for "smart and green" ways to provide a liveable home for their burgeoning dwellers.

In the midst of towering concrete slabs and monochrome structures, the sight of a building decked in green shrubs juts out like a welcome oasis. One such building is CapitaGreen, a 40-storey structure standing tall in the heart of Singapore's central business district. True to its name, the building's façade of green vegetation covering approximately 55% of its perimeter offers a breath of fresh air in the island's tropical heat. Completed in 2014, this vertical garden tower was crowned "The Best Tall Building Award Winner" in Asia & Australasia Region in 2015 by the Council on Tall Buildings and Urban Habitat. More than just a green look, "going green" dictates the whole conceptualisation, design and construction of CapitaGreen.

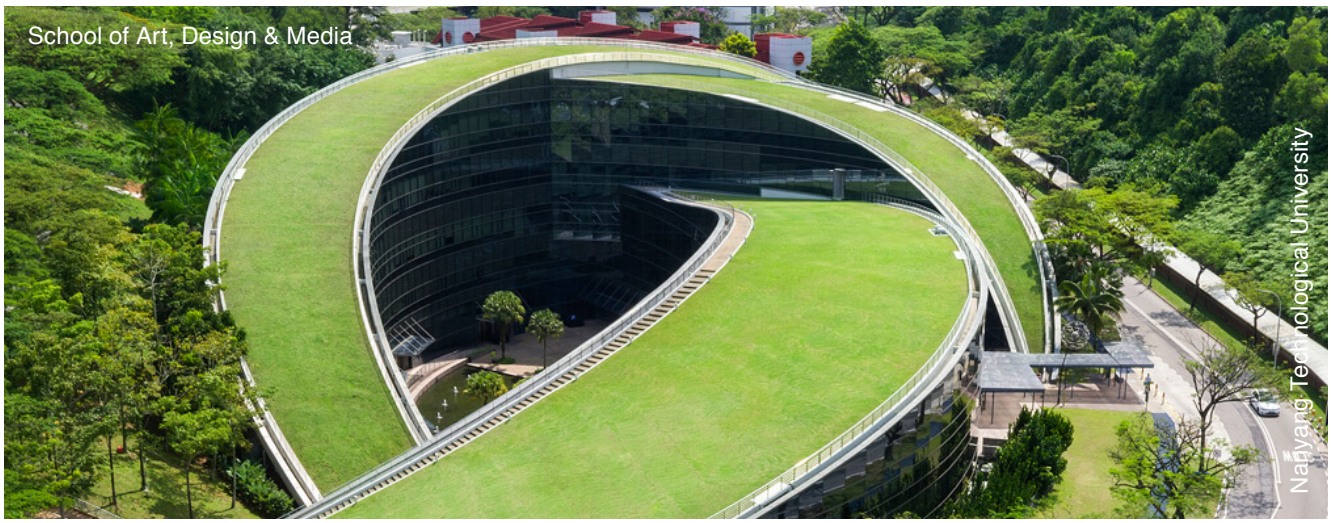
The presence of vast greenery with plentiful lush plants, sky terraces and a big sky forest helps CapitaGreen minimise solar gain. Glass walls having low-emissivity coatings (low-e glass) with double-skin façade allow natural light to radiate the space while keeping the urban heat from seeping in. Many technological developments in the industry have been utilised such as the use of super-concrete to streamline the construction process and minimise the amount of cement required, or a smart elevator system with a strategic selection of destination control services and regenerative drive technologies. The crown jewel of CapitaGreen's design is its signature Cool Void which looks like a huge flower on top of the building, its red petals being wind funnels that channel cool air to the centre core of the tower, thus allowing air flow throughout the building and effectively controlling its overall inner temperature. The building is also equipped with energy-saving features such as rainwater harvesting for plant irrigation, motion sensors for staircases and toilets, and recovery of demolition materials for recycling to minimise as much as environmental impact as possible. All these "smart" features help CapitaGreen save around 4,563,420 kWh of electricity and 34,536 cubic metres of water every year.



CapitaGreen is just one of the "green marks" that increasingly sprout across the city-scape of Singapore. Constantly seeking to overcome its space constraints to provide a pleasant botanical living experience for its residents – one that is closer to the nature and kinder to the environment – the city-state has taken the lead in incorporating sustainability and greenery into urban design, construction and operation. Another pioneering "green landmark" in Singapore is the School of Art, Design and Media (ADM) at Nanyang Technological University – a perfect blend of art and architecture, a marriage of form and functionality. The iconic structure is nestled in between three turfed arcs that slope upwards from the ground and converge somewhere in the centre, creating verdant roofs that help reduce heat penetration for the building and offer a scenic common space to stroll around.

In neighbouring Malaysia, the 60-storey Ilham Tower situated in Kuala Lumpur's Golden Triangle features not only an elegant form but also eco-friendly building performance. The fourth tallest building in Malaysia leaves many in awe of its appealing façades with diagonal brise-soleil oriented in response to the sun's path to reduce daylight glare and heat gain. The windows of the building are made of high performance intelligent glass which provides shade and allows optimal temperature control. Smart elements are embedded in the functioning of Ilham Tower with the use of a centralised building automation system (BAS) to monitor and control mechanical and electrical systems such as ventilation, lighting and temperature. Ilham Tower also installs energy-saving light fittings, a non-chemical water treatment facility, a landscape irrigation system using harvested rainwater, and a carbon monoxide monitoring system at its parking areas where vents will open up to ensure there would not be a build-up of toxic fumes from vehicles.

As the journey brings us further afield to Bangkok, one of the must-stops is Siam Green Sky – Thailand's largest rooftop garden covering 2,000 square metres on the 7th floor of the Siam Square One shopping mall. Developed by Chulalongkorn University, Siam Green Sky serves as a learning centre to foster public awareness of agriculture and horticulture as well as the application of innovative

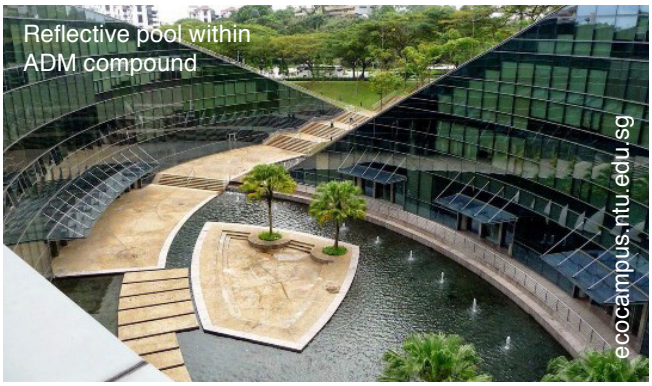


farming techniques in urban settings. During certain days in a week, locals are invited to do farming in the garden's rice terraces. Other hands-on planting workshops are available to encourage urban dwellers to grow their own vegetables within their limited living space, be it on a rooftop or a balcony.

With sustainability in mind, Siam Green Sky has installed a solar panel system and showcased an organic fertilizer-producing machinery to promote nature-friendly farming practices. Local businesses in the vicinity are encouraged to partake in this waste management process by bringing their organic waste to the garden which will be used as compost. It has a water catchment system to slow down the flow of water during downpours in monsoon season. The verdant vegetation also helps reduce the temperature inside the building and around the green area, which in turn brings down electricity consumption. This green dot on Bangkok sky has indeed inspired local communities to "go green" in many ways.

As more and bigger cities will transform the landscape of ASEAN countries in the future, "going green through smart solutions" will be the central theme of urban governance and architecture. Research on smart ways to improve and add on to current green elements in urban design and construction is blooming. Thus the hope to see more green buildings across the region to provide comfort and connection to the nature for city dwellers while leaving behind the least environmental footprint. Ultimately, more than just a green appearance, "going green" must embrace sustainability at its core to preserve this Earth for many generations to come.

Ms. Nur Aziemah Aziz was Research Officer at the ASEAN Studies Centre, ISEAS-Yusof Ishak Institute, and is currently in public service in Singapore.



Sights and Sounds

Rice: The Grain that Binds Southeast Asia Together

Hayley Winchcombe explores how rice and life are entwined as one in Southeast Asia.


Aerial view of paddy fields in Ubud, Bali

Joel Vodell@Unsplash

A steaming bowl of white rice is passed between strong calloused hands in a small shelter alongside a rolling terraced rice field in Ubud in Bali, Indonesia. The warm plain rice is a welcome balance to the strong spices flavouring the soups, satay and sambal it is paired with, sustaining the farmers for the long day of working the fields ahead.

Wherever you go throughout Southeast Asia, it is perhaps the most common sight your eyes will feast on, and the most common word you will hear around every street corner. Indeed to say 'to eat' and 'to eat rice' is often synonymous in Southeast Asian languages, for example you would say *kin kâao* in either case in Thai, *ngajengang* in Balinese, *ăn cơm* in Vietnamese, *toh hob buy* Khmer, and *htamin sarr pyee bi lar* in Burmese. A simple bowl of rice is the staple food that sustains everyday life across Southeast Asia. In 2013, eight ASEAN member states, bar Brunei and Singapore, made the Top 10 list of rice consuming nations per capita. Rice appears in the region's most popular dishes from *nasi goreng* (fried rice) in Indonesia, *nam kao tod* (crispy rice salad with fermented pork) in Laos and Thailand, *nasi lemak* (rice cooked in coconut milk) in Malaysia, and *arroz caldo* (chicken rice porridge) in the Philippines.

Rice cultivation is as old as civilisation itself, being ever present in and essential to the formation of agricultural societies and polities in Southeast Asia throughout history. Rice and irrigation systems accompanied the rise and fall of kingdoms such as Angkor in Cambodia and Bagan in Myanmar. In the past decades, robust rice production has transformed many Southeast Asian economies. Through rice exports, Vietnam went from a poor country in the 1980s to a thriving economy in the 1990s. In 2018, Thailand and Vietnam were the second and third top rice exporters globally while Myanmar and Cambodia placed 5th and 8th respectively. Rice has helped many in the region escape poverty, and continues to help alleviate economic adversity in Cambodia, Laos and Myanmar. Although most ASEAN economies nowadays have embraced the industry and services sectors to drive their future growth, ensuring self-sufficiency in rice production remains a strong symbol of national resilience.

Rice also evokes the timeless serenity of rural landscape, with lush paddy fields stretching across the floodplains of Southeast Asia's big rivers, including the Mekong, Myanmar's Irrawaddy and Thailand's Chao Phraya. From these low-land river plains, rice cultivation has been adapted to even the most precipitous of settings in hill terraces and mountain forests. Picturesque rice terraces are stamped into hillsides in Ha Giang (Vietnam), Ubud and Java (Indonesia), and Chiang Mai (Thailand). Of particular note are the Ifugao Rice Terraces in the central Cordillera Region of the Philippines. Occasionally called the "Eighth Wonder of the World", these stunning terraces are recognised as Globally Important Agricultural Heritage Systems that have helped sustain local Ifugao communities for centuries.

Ingrained in the lives and traditions of Southeast Asians for thousands of years, rice is part of the region's shared cultural and spiritual heritage. Myths and legends in early times of many communities in Southeast Asia about the sacredness of rice have captured the imagination of one generation of farmers after another. Even in far-

part corners of ASEAN such as Cambodia and Sarawak (Malaysia), beliefs such as rice having a soul are common. Rice goddesses and spirits abound in the region such as *Dewi Sri* in Indonesia, *Mae Po Sop* in Thailand, *Po Ino Nogar* in Cambodia, *Thần Lúa* in Vietnam, *Semangat Padi* in Malaysia and *Kelah* in Myanmar. Common themes in rice-lore emphasise the holiness of rice and the gifting of rice to man by the deities, and portray rice as the creation from earth and water unification – the symbol of fertility that gives birth to life.

There are countless rituals, ceremonies and festivals across the region that celebrate various stages of the traditional rice growing cycle, from planting seeds to first ploughing, young seedling, grain formation, harvest and thanksgiving. Sarawak's Iban families each have their own *padi pun*, a ceremonial, sacred rice which they protect and revere, planting it at the heart of their farm. In the Philippines, the Bagobos people plant rice as a community, advancing in lines across fields in time to music. The split ends of their bamboo sticks clack together in rhythm as they drive shallow holes into the soft earth, followed by women dropping in seeds. In Thailand and Cambodia, Royal Ploughing Ceremonies celebrate the start of the rice season with oxen drawing the plough through colourful crowds of onlookers. The Red Dao ethnic community in Vietnam's northern mountains dedicate offerings when the harvest season comes to appeal to rice souls for bountiful crops.

Apart from being a staple diet, rice is used as a base for many traditional delicacies across the region, from rice noodles in *Pho* or *Laksa* to rice paper rolls like *Chee Cheong Fun* and popular snacks such as rice cakes, rice crackers, rice cones, steamed rice in bamboo, or sticky rice with coconut and golden mangoes oozing tropical warmth. More recently, changing diet preferences, especially among a growing health-conscious population, are shifting away from white rice, which makes red, brown and black rice


Rice terraces in Mu Cang Chai, Vietnam

Josephine Huong Giang


A farmer carefully plants next season's rice

Eduardo Prim@Unsplash


A traditional meal in M[illegible] Philippines

Avel Chuklanov@Unsplash


A woman carrying her child while working on a rice field in Vietnam

Josephine Huong Giang


Hard work in the rice paddies of Cambodia

Kevin Evans@Flickr


Dry Fields, Drought in Bogor Regency

Danumurthi Mahendra@Flickr


Shower in Jatiluwih Rice Terraces, Indonesia

Sebastian Staines@unsplash


Paddy field in Myanmar

Josep Castell@Flickr


Rice fields fill the plains in Aceh, Indonesia

Sandy Zebua@Unsplash

in several varieties increasingly popular. Trend-setting agri-entrepreneurs have introduced organic, "healthier" varieties to their farms to cater to this emerging market.

In recent times, rice has had to compete with an ever increasing number of alternatives from bread, corn and potatoes to fashionable grains such as quinoa and bulgur. Rice production is also under increasing pressure from the trends of urbanisation and industrialisation. City life lures away the next generation of farmers, and land-loss to non-agricultural uses occurs across the region. In Vietnam, rice land reduced from 4.3 million hectares in 1995 to 4.03 million hectares in 2015, and is expected to diminish further to 3.76 million hectares by 2020.

To continue to feed Southeast Asia's growing population, modern production techniques have been adopted around the region to increase productivity. This remains a particular challenge as rice cultivation in Southeast Asia is largely done in family plots of around one hectare that belong to smallholder farmers. Recent sustainable development initiatives have supported these smallholder farmers with access to credit, information and new technologies such as mobile weather forecasting. This will be key to ensuring the region's food security against disruptive climate change effects including more frequent floods and droughts. Furthermore, in the spirit of "sharing a rice bowl among kinship", ASEAN together with China and Japan and South Korea have set up an emergency rice reserve of nearly 800,000 metric tons to provide rice supplies for affected communities in times of emergency.

Food security is a legitimate concern that requires due attention and investment from regional governments. However, for many Southeast Asians, rice is not just a source of sustenance. It is the embodiment of timeless qualities that they hold dear: the hardship of farmers who toil the fields in rain or shine, the sense of gratitude one must feel holding a rice bowl in their hands, the harmony between earth, heaven and man for bountiful harvests, and the communal values of "sharing is caring" through a shared bowl of rice in times of adversity. Rice is an enduring tie that binds Southeast Asians together as both a source of their life and a cradle of their traditions.

Ms. Hayley Winchcombe was an Intern at the ASEAN Studies Centre, ISEAS-Yusof Ishak Institute. She is the first recipient of the New Colombo Plan ASEAN Fellowship.

ISEAS YUSOF ISHAK INSTITUTE

Helmeted Hornbill

Rhinoplax vigil

Numbers remaining in the wild:
N/A

Found in Brunei Darussalam, Indonesia, Malaysia, Myanmar, Thailand

The Helmeted Hornbill is a very large species of the hornbill family which populates the forests of southern Myanmar, southern Thailand, the Malay Peninsula, Borneo and Sumatra. Apart from its significant body length which can measure up to 120cm, its central tail feathers are also much longer than other hornbill species. Its solid casque on the upper side of the beak makes it so special in the hornbill family. This highly prized casque, however, is in high demand for carved jewelry and traditional medicine, and has therefore put the Helmeted Hornbill under extensive poaching in the region. Since the Helmeted Hornbill requires very large trees with nest holes topped with a perch for nesting, extensive logging and forest fires have accelerated the decreasing trend of its dwindling population. It is now on the Red List of Critically Endangered Species of the International Union for Conservation of Nature. *(Source: IUCN, BirdLife International Asia)*