REGIONAL OUTLOOK FORUM 2018

Trends, Uncertainties, Opportunities

9 January 2018, Island Ballroom, Shangri-La Hotel Singapore

Session 1: US-China Relations and Implications for Southeast Asia

Moderated by **Ambassador Ong Keng Yong**, the first session featured **Dr Michael J. Green** (Senior Vice President for Asia and Japan Chair, Centre for Strategic and International Studies) and **Professor Jin Canrong** (Associate Dean, School of International Studies, Renmin University of China), who shared their views on the dynamics of US-China relations and the implications for Southeast Asia, from both the US and Chinese perspectives.

Representing the US perspective, Dr Michael Green began by emphasising that there was perhaps no other bilateral relationship in the world that had a full range of cooperation US-China relations had, from nuclear weapons to enormous economic and educational exchanges, to working together in the United Nations security Council.

While acknowledging that the structure of US engagement with China was quite robust, Dr Green pointed out that China's "New Model of Great Power Relations" had both positive and negative impact on US-China relations. It could avoid confrontation with the US, however, as the model excluded important US allies like Japan and South Korea, as well as India. Washington perceived it as a strategy to weaken US influence and interests in the Asia-Pacific region. The diverging vision of emerging regional power dynamics would be a source of tension in US-China relations.

Dr Green noted that the last thing ASEAN countries wanted was to choose sides among the major powers, and the most ideal situation for ASEAN would be soft American leadership enmeshed in ASEAN-centric multilateral institutions with some balance within Asia provided by China and Japan. While ASEAN centrality had moderated great power rivalry in the past, the disunity among ASEAN members following Beijing's rejection of the Permanent Court of Arbitration ruling in July 2016 was a disturbing precedent.

Dr Green also acknowledged that the US withdrawal from the TPP (Trans-Pacific Partnership) had harmed its credibility in the region. In addition, the Trump administration's disdain for multilateral agreements including the Paris climate accord, had weakened the confidence of allies and partners in US leadership, thereby reducing Washington's diplomatic toolkit to "zerosum unilateral measures" such as trade actions and military instruments, which in turn emboldened China's expectations.

Despite the increased US-China competition on the global stage, Dr Green highlighted several factors that could enhance cooperation between the US and China: Xi Jinping's adherence to strong elements of Dengism and the avoidance of direct confrontation with the US, the American public and elites' rejection of containment, the historic economic interdependence between the two countries, as well as active participation in international and regional structures, including APEC, EAS (East Asia Summit) and ARF (ASEAN Regional Forum).

Professor Jin shared his insights on US-China relations from the Chinese perspective. He noted that even though US President Donald Trump had criticised China in a hostile way for more than 200 times since taking office, China had nevertheless spent substantial efforts in trying to cultivate good relations with the new administration, such as giving Trump over US$250 billion worth of "gifts" (business agreements) during his state visit to China last November.

Although relations between the US and China were generally stable, Professor Jin predicted that the future of US-China relations could be in trouble, largely due to several recent moves by the Trump administration. In the latest National Security Strategy Report, the US government defined China as a "revisionist country" and a "strategic competitor", and the US Congress had also made some "provocative suggestions" regarding Taiwan, such as authorising mutual visits by navy vessels between Taiwan and the US. Washington's Indo-Pacific strategy, put forward by Donald Trump during his first trip to Asia-Pacific, was also seen as a strategy to contain China.

In addition, due to the pressure of US midterm elections, Donald Trump would likely play up the issue of trade imbalance with China to rally support for the Republicans. Prof Jin believed that there would be more trade frictions between the US and China in 2018, but the trade issue should be controllable.

Despite the difficulty in dealing with a "New America" under the Trump administration, Prof Jin asserted that China had become more confident in its relations with the US and was playing a more proactive role in global governance. The Chinese leadership under President Xi Jinping now defined

China as a global power, not just a regional power. However, he pointed out that the newly-gained Chinese confidence was perceived by Washington as "triumphalism" and posed a challenge to its dominance in the Asia-Pacific, rather than an opportunity for cooperation.

The **Q&A** session focused on US-China cooperation on curbing North Korea nuclear threat, Indo-Pacific strategy, changes in China's foreign policy, Singapore's role amid major power rivalry, as well as ASEAN centrality.

Ambassador-at-Large Professor Tommy Koh asked if China refused to cooperate with the US on resolving the North Korea nuclear threat, would the US turn against China? Dr Green responded that China was capable of "pulling the plug" on North Korea, but Xi Jinping did not want to bear the consequences of the North Korean regime collapsing. Although Donald Trump was frustrated, it was unlikely that he would initiate a trade war with China because of North Korea. However, the Trump administration would continue to impose sanctions on Chinese companies that had business links with North Korea.

In response to Prof Tommy Koh's question on whether the US strategy of a "Free and Open Indo-Pacific" was meant to replace the geopolitical classification of Asia-Pacific, Dr Green explained that the concept was taken out of a Japanese doctrine, and adopted by Trump's advisors as a theme for his Asia trip, partly in response to China's Belt and Road Initiative (BRI). The countries involved in this Indo-Pacific strategy, the US, Japan, India and Australia, had originally formed a task force to help the 2004 Indian Ocean tsunami victims, but it had now evolved into a military partnership, which was perceived by China as a containment strategy to counter its rise.

Prof Tommy Koh noted that under President Xi Jinping's leadership, China's foreign policy seemed to have taken a turn from the "good neighbourliness" and "keeping a low profile" doctrine advocated by Deng Xiaoping and his successors Jiang Zemin and Hu Jintao. Prof Jin responded that although Xi Jinping partly inherited Deng Xiaoping's low profile strategy, on the whole, he had changed the style of Chinese diplomacy from reactive to proactive. He elaborated that China's foreign policy used to have four areas of focus: dealing with big powers, its neighbours, developing countries and multilateral organisations. But the focus now had shifted to new areas: The Belt and Road Initiative, protecting China's overseas national interests, spreading its soft power, and trying to take the lead in global governance. As for China's attitude towards its neighbours, Prof Jin said that China used to "show a smiling face to everybody" and offered only “carrots”, but now it was also using “sticks” when dealing with some countries.

Ambassador Ong Keng Yong, who was former Secretary-General of ASEAN, noted that in the past few years, China seemed to see ASEAN centrality in a different light. He asked how did China see ASEAN’s role in the region? Prof Jin responded that the official stand of the Chinese government still regarded ASEAN as playing a central role in the region; however, in practice, China was giving more attention to relations with individual ASEAN members, especially those middle power countries such as Vietnam. Dr Green added that the US approach in Southeast Asia was in “temporary pause” because the Trump administration was not paying enough attention to it, but now that ASEAN centrality had supposedly been broken by China because of the arbitration court ruling, the US would likely return to deeper engagement with more military exercises and trade cooperation.

A participant observed that China was now gaining more friendship through its “carrot”, the BRI, while the US was losing its “stick” (global dominance). He thus asked if Singapore still had a role to play in balancing and hedging between these major powers. Prof Jin responded that Singapore’s balancing strategy was largely economical, and as China was trying to extend its soft power to Southeast Asia, it would increase the economic and cultural exchanges with ASEAN members. In the case of Singapore-China relations, Prof Jin believed that China had treated Singapore in a special way and that Chinese elites still appreciated Singapore’s assistance since China’s reform and opening up era. He noted that China was in fact on its way to becoming a “large Singapore”, by learning from Singapore’s model of governance.

Liu Tingting, a Phoenix TV network reporter pointed out that although the US and China seemed to be maintaining good bilateral relations, they often expressed unilateral interests, so how would both countries balance these conflicting needs? Prof Jin responded that China was realistic, it had only wanted to be a “limited partner” of the US and resolve issues through cooperation. Dr Green agreed that globally there was no intention by China to replace the US at present and that there were many global issues for both countries to cooperate and work on.

REGIONAL OUTLOOK FORUM 2018

Trends, Uncertainties, Opportunities

9 January 2018, Island Ballroom, Shangri-La Hotel Singapore

Session 2: US-China Relations and Implications for Southeast Asia

Both speakers of this session, **Associate Professor Razeen Sally** (Lee Kuan Yew School of Public Policy, National University of Singapore) and **Mr Manu Bhaskaran** (Partner, Centennial Group International and Founding CEO, Centennial Asia Advisors, Singapore) provided a positive outlook on the global and regional economies.

Professor Sally spoke on the "Global Economic Trends and Impact on the Asia-Pacific," and noted the positive global growth in the US, Europe and many of the developed economies and emerging economies in Asia. He questioned whether this growth could be sustained, and cautioned with warning signs that pertained to productivity issues, China's banking system, and its closing-off democratically. He observed that there had been more growth in manufacturing than in services during the Peak Trade period of 2012-16, but noted there had been exponential growth in digital trade. Professor Sally observed that there had been a return of "creeping protectionism" since the Global Financial Crisis, but that this had so far been contained by the Global Value Chains.

Professor Sally also discussed the prospects for mega-regional trade agreements, the TPP and the RCEP. He discussed the possibility of the US returning to the TPP in the future. He predicted that the TPP, even without the participation of the US at this point, was still likely to have a significant impact when in force. In contrast, the RCEP might have a more limited impact because it was still unclear how Chinese leadership on trade and infrastructure in Asia would look like. Professor Sally argued that in order for the Asia-Pacific to overcome the ongoing challenges, the economies have to be pro-market and pro-trade, and concluded that there was macro-stability, but lagging structural reforms in policies and institutions, especially in the upper-middle and high-income Asian economies.

Mr Bhaskaran spoke on "ASEAN Economic Trends in 2018." He had a positive outlook about the global economy's impact on Asia, especially Southeast Asia. He noted that there were strong signs of recovery in capital spending, and positive domestic engines of growth that contributed to Southeast Asia's growth and recovery. Domestic consumption was strong, and infrastructure spending was fuelling that growth. He warned of some important risks and mentioned three in particular. First, geopolitical risk, in particular, the Korean Peninsula. Second, Middle Eastern risk, because of the potential for conflict, and the potential spike in oil prices. Third, financial risks in imbalances, particularly in China.

Mr Bhaskaran also discussed in greater detail Indonesia and Malaysia, and found their prospects to be generally positive. Indonesia was poised to recover lost momentum and Malaysia was the outsized winner from the global rebound. He also noted that Southeast Asia had improved in its resilience in responding regionally to economic challenges, but there was still potential for growth from economic transformation.

The moderator for the session, **Professor Euston Quah** (Head, Division of Economics, NTU; President, Economic Society of Singapore) asked the panellists about the US tax cuts and if this would result in capital flow-back to the US. Mr Bhaskaran was optimistic this would occur, but Professor Sally was not.

REGIONAL OUTLOOK FORUM 2018

Trends, Uncertainties, Opportunities
9 January 2018, Island Ballroom, Shangri-La Hotel Singapore

Session 3: Counter ISIS: The Marawi Aftermath

Ms Amina Rasul-Bernardo (President of the Philippine Center for Islam and Democracy) and **Ms Sidney Jones** (Director of the Institute for Policy Analysis of Conflict) shared their insights on the terrorist situation in view of the Marawi Siege in Mindanao, the Philippines. The attacks had raised concerns about the proliferation of terrorism, the radicalization of Islam and the possible opening of a "second front" in Southeast Asia, as well as the key implications for the Philippines and Southeast Asia as a whole.

Ms Rasul-Bernardo began with a socio-economic overview of pre-conflict Marawi. Due to the lack of basic sanitation facilities such as electricity and piped water in the Muslim provinces, the region had faced extended periods of economic marginalisation. Martial Law had contributed to the destruction of infrastructure, which led to further problems such as brain drain and flight of capital. A combination of these factors had inevitably created a hotbed for terrorism to thrive, as idealistic, vulnerable youths were enticed into joining the different factions. On the other hand, extending Martial Law was necessary in order to mitigate the continuing threats posed by remnant Maute groups yet to be completely neutralised. Today, Muslim Mindanao was "the most marginalised and poorest", as a result, the peace process advocated by the Duterte administration remained in deadlock. Ms Rasul-Bernardo expressed concern that rebel groups remain segregated from the community which would inevitably fuel their desire to establish a caliphate.

She followed up with an analysis on the significant drivers of extremism. First, the military response to conflicts. The Marawi conflict had mirrored previous sieges in the Philippines such as the 2015 Mamasapano Incident, in which the peace process was derailed and eventually became an inviable option. Following which the rise of discrimination and anger against Muslims rose. At present, the Philippine government's solution of passing the Bangsamoro Basic Law remained a tenuous and undecided process. Supposedly to be passed by March 2018, the likelihood of it materialising remained low.

Ms Rasul-Bernardo emphasized the need for socio-economic growth and a comprehensive programme to combat extremist thought. Recent survey findings showed that the locals trusted religious leaders more than the police. Yet, barely any progress had been made to allow these religious leaders to contribute towards peacebuilding and development. She added that religious leaders have the substance to convey the right messages and should instead be conceived as “allies” to create capacity building with the aim of neutralizing the ISIS message. Likewise, women and youth could play a significant role in containing violent extremism. Ms Rasul-Bernardo questioned why these vulnerable groups continued to be disengaged and worst still, denied the capacity to contribute towards nation building. She elaborated that doing so would tackle terrorism at its roots, as a large proportion of MILF and Abu Sayyaf fighters were teenagers or young adults. The lack of employment opportunities was the main factor these young adults partook in rebel groups.

Ms Rasul-Bernardo also suggested improving the literacy rates of another high risk group: the half a million illiterate adults in Mindanao. At present, only 15% of the Mindanao workforce were salaried employees. The tumultuous nature of labour and employment were catalysts of discontent that contributed to the rise of extremism. A combination of these solutions would pave the way for a strong peace process.

Ms Jones began with an analysis of the Marawi conflict’s impact on the region. She asked, what did the people who commandeered the Marawi conflict wanted to accomplish? She argued that the aim was to create “a new Mosul” by controlling territory with an Islamic form of governance. The conflict had attracted fighters from Indonesia and Malaysia, who were already training in the Philippines since mid-2016. One of Marawi’s impacts was the setting of “higher standards” for extremists across Southeast Asia, where they could aspire towards setting up new frontiers and implement full Islamic law. Coordination between Syria and Southeast Asia was not only gaining traction but had become more organised.

On the downside, the Marawi conflict had exposed major flaws in international cooperation unlike the cause of containing the Jemaah Islamiyah in the early 2000s. Ms Jones stated that a vast shift in global jihadism that would turn the Marawi region into a second front was highly unlikely. However, it was evident that the Philippine government had made futile efforts to comprehend the process of Islamic radicalization. It was not only the poor who were attracted by the ISIS ideology but also scholars from the wealthier classes. This raised broader questions on the possibility of foreign fighters returning from Syria to assume leadership roles. Ms Jones opined that there would not be a flood of returning fighters, but was certain that Marawi would remain a training ground that Indonesian radicals could draw inspiration from. Although an apocalyptic view of religious extremism in Southeast Asia was an overstatement, many challenges remained unsolved.

Several interesting questions and observations were posed during the **Q&A** session. Amongst which, Prof Dewi Fortuna Anwar asked Ms Jones about her concerns on the strengthening ISIS ideology in Indonesia given the rise of identity politics. Her second question was on regional cooperation. She wondered how effective was the Malaysia-Indonesia partnership in preparation for the spill-over effect of Marawi. Ms Jones answered that splinter groups would inevitably survive in new, virulent forms. It would not disappear entirely. Furthermore, Indonesia had accelerated trilateral efforts to bring Malaysia, the Philippines and itself together, but it did not translate into a "real" working relationship. At present, there had not been much improvement in information sharing. Ms Rasul-Bernardo concluded that the biggest worry to date was the mobility of terrorist groups to traverse across transnational borders, as shown in the recent Rohingya crisis and in Southern Thailand. These frontiers signalled subtle makings of an Islamic caliphate.

REGIONAL OUTLOOK FORUM 2018

Trends, Uncertainties, Opportunities
9 January 2018, Island Ballroom, Shangri-La Hotel Singapore

Session 4: Outlook for Indonesia and the Philippines

This panel featured **Mr Meidyatama Suryodiningrat** (President Director of Antara News Indonesia), and **Professor Julio C. Teehankee** (Department of International Studies, De La Salle University). The discussion was moderated by **Dr Malcolm Cook** (Senior Fellow, ISEAS – Yusof Ishak Institute).

Mr Suryodiningrat, who was asked to focus on the "Political Dynamics of Indonesia: Lead Up to the 2019 Elections," gave a presentation entitled "The Year of Political Noise." He believed that in the next 18 months there would be a lot of complaining in various forms of media and other platforms in the lead up to the 2019 elections. He said that the "Silly Season is truly upon us," where every mistake would be amplified, every claim would need to be verified, and every goodness would often be viewed with suspicion. In previous presidential elections, the "Silly Season" normally usually lasted 3-4 months prior to an election, however the next "Silly Season" would be prolonged due to new regulations which required political parties to announce presidential candidates for the 2019 presidential election by mid-August 2018.

Mr Suryodiningrat agreed with Mr Manu Bhaskaran (from Session 2) that Indonesia's economic outlook was positive for the near future, with investment ratings looking positive for 2017. He argued that the early part of Jokowi's presidency was marked by the signs of the first truly civilian-elected government where the ruling coalition needed to learn how to govern. In 2014 when Jokowi came to power, his coalition had the position of a "minority government". Controlling only 37% of the seats in parliament, it had experienced difficulties in getting things done. Jokowi's coalition government had since then been able to consolidate further political alliances to increase their overall parliamentary legislative power to 69% of the seats, into an "unbeatable coalition."

Mr Suryodiningrat predicted that the 2019 elections would be a two-horse race between Jokowi and Prabowo, with no political party being able to achieve an absolute majority in parliament. The PDIP party would likely capture the largest percentage of votes in the parliament, receiving about 22-23% of votes.

With nearly 200 million eligible voters and an estimated half of those voters being under the age of 35, Mr Suryodiningrat argued that Islam, anticommunism, and xenophobia (in particular, anti-Chinese sentiments) could be the tripwires that could be manipulated for political purposes during the elections. He characterized Indonesia's 2019 single-day elections as the largest in the world, with over 20,300 elected positions in contention, and the elections as primarily a battle for votes in Java island, as it was a critical battleground in the 2014 elections. He predicted that of the eligible voters, one third would be swing voters, who would be more difficult to predict.

Finally, Mr Suryodiningrat argued that the real issues for Indonesia continued to be economic reform, infrastructure, structural reform, and corruption. He cautioned that organised corruption would often be able to defeat disorganised democracy.

Prof Teehankee presented on "Philippine Politics and Security in the Age of Duterte." He argued that Duterte's rise might be seen as a major rupture in Southeast Asia's oldest democracy. Rather than the presidency changing Duterte, it was Duterte who had changed the Philippine presidency, as he was able to tap into the electorate's anger and the growing desire for a strong leader.

Prof Teehankee opined that Duterte's initial year was successful as he was able to point to a common problem that had not been adequately addressed by his predecessors. He was able to use the "War on Drugs" as a compelling branding of a crisis and as a result, he was able to captivate his followers, despite his unconventional behaviour. At the height of the war on drugs, Duterte lost some political capital due to the negative media coverage on the issue, but he gained some political capital after the victory in Marawi, rebounding to an approval rating of 71% according to one poll.

Prof Teehankee agreed with other scholars in analysing that Duterte's success was not so much a revolt of the poor (as had occurred in previous populist nationalist movements) but more of a protest by the new middle class who had suffered from the lack of public services despite promises of greater government service delivery. Unlike the pro-poor policies of Estrada which were hated by the middle class and elite, Duterte's support came mainly from the middle class and elites. Overseas Filipino workers were the major part of this disillusioned new middle class, because even though their tax dollars were propping up the Philippine economy, their families were often the victims of the rising criminality and the drug epidemic. It was these workers who felt that their tax money was not being used efficiently and was instead being siphoned off to unknown places due to corruption.

Prof Teehankee outlined three strategic imperatives that Duterte's administration would need to address in the coming years. Firstly, to secure peace and order, Duterte's administration would have to engage and address external security issues. Prof Teehankee argued that Duterte administration's reaffirmation of a constitutionally-backed independent foreign policy had given them better flexibility in engaging with major powers like the US, China, Japan, and Russia. Internally, the Duterte administration would have to secure public order against criminality and terrorism by professionalizing the police and the national armed forces. Prof Teehankee was in agreement with Ms Amina Rasul-Bernardo (Session 3) who argued that the Duterte administration would have to make sure that the negotiated political settlement with the MILF was successful.

Secondly, Duterte's administration would need to sustain economic growth of 6.3%, which the Philippines had been experiencing since 2010. Thirdly, Duterte would also be seeking to fulfill his campaign promise of changing the constitution to allow a structural shift from a unitary to a federal form of government. Although Duterte's coalition government was empowered with a supermajority in Congress and this was likely to occur, Prof Teehankee argued that "the more things change, the more they remain the same."

During the **Q&A** session, the moderator Dr Cook posed questions as there were none from the audience. For Prof Teehankee, Dr Cook asked whether federalism might actually be accomplished during Duterte's presidential term. Prof Teehankee replied that barring any untoward incidents, federalism might occur during Duterte's presidency. Furthermore, Prof Teehankee mentioned that Duterte's term would likely be the only window of opportunity for such a change in the next few decades.

Dr Cook asked Mr Suryodiningrat whether the old political elites would be able to make a comeback even if Jokowi won a second term as president. Mr Suryodiningrat replied that it was unlikely, given that the old political elites such as those from the Soeharto-era generation would be near retirement. Furthermore, Mr Suryodiningrat saw the 2019 elections as one where two full generations of electorates would have only known a post-Soeharto style of governance. Most importantly, Mr Suryodiningrat argued that as a "complete maverick", Jokowi would be the start of the changes which resulted from having learnt the best and worst aspects of democracy.

REGIONAL OUTLOOK FORUM 2018

Trends, Uncertainties, Opportunities

9 January 2018, Island Ballroom, Shangri-La Hotel Singapore

Session 5: Outlook for Myanmar and Thailand

The fifth session, moderated by **Professor Joseph Chinyong Liow** (Dean, S. Rajaratnam School of International Studies, Nanyang Technological University), focused on recent developments in the political and economic landscape of Myanmar and Thailand, the challenges that these countries were likely to face in the near future, as well as what they could hope for.

Dr Thant Myint-U (Founding Partner, Ava Advisory Group, Myanmar) reflected on the peace process and civil-military relations in Myanmar. He noted that the "fairy tale" of the country's miraculous transformation from a dictatorship to an emerging economy on the path to peace and prosperity, which had been played up by the Western media and obfuscated the complex reality, had come to an end. The optimism of 2013 to 2015 had led to no one questioning this narrative, but the undeniable crisis of violence and displacement of late-2016 deeply shocked Western observers and shifted foreign perceptions of Myanmar. People were catching up with reality – there had been signs of growing conflict, communal violence, and uncertainty about the country's development path and economic reforms even in the highs. The country was not meant to simply embrace the values of free-market capitalism and liberal democracy.

Dr Thant recommended discarding the dichotomy between "the army and the rest". After all, the opposition and the West had accepted a constitution that the army proposed but dismissed by them in the mid-1990s. Positive changes and political progress had begun in 2011 when senior generals sought leadership succession and President Thein Sein set in motion political liberalisation just as Washington was looking to engage Nay Pyi Taw, leading to their relaxation of regulations and the consolidation of the shift from a military regime. Rapid social and economic changes had also been taking place in Myanmar, with growing Chinese influence, the remittance economy of Myanmar migrants to Thailand, escalating urbanisation, rising inequalities, severe degradation of the environment and public services, violence and displacement in its uplands, the telecommunications revolution, and greater media freedom.

He noted hope among Myanmar's youth but also that the country faced extreme challenges. These were similar to those elsewhere in the region, but Myanmar was coming into the game later. It remained burdened by poverty and the mental legacies of self-imposed isolation and international sanctions. A key issue central to its (unfinished) nation-building project was the identity politics of race and ethnicity. The country had dozens of languages and religions, and its uplands never came under direct rule or state control, even in modern times. The Rohingya crisis in Rakhine State could be traced back to questions of inclusion and exclusion, which had informed the debate regarding the Myanmar body politics for a century, and how the country would settle this remained to be seen. He doubted that the government would aid the repatriation of refugees as promised in the near future, and communal violence could potentially spread.

Dr Thant highlighted a few significant developments in Myanmar today. First, the insertion of the old opposition, the National League for Democracy, into a new and evolving state, with State Counsellor Aung San Suu Kyi and her colleagues working in Nay Pyi Taw with former and current generals, a coming together that had yet to mature. Second, an inchoate nationalism still growing. Whether this would be more exclusive or inclusive would be clearer by the 2020 elections. Third, the government wished to attract investment in infrastructure and Chinese offers to finance projects were attractive, with relations with the West cooling. How this would link up with the peace process and economic reform would be of interest. Fourth, whether political parties articulate an economic platform in the new political space, which as in danger of being filled by a much more ethnocentric, race-based nationalism, would shape the country for years.

Dr Wong Yit Fan (Co-Founder, Emerging Markets Entrepreneurs-Myanmar) then shared his thoughts on the economic performance and challenges in Myanmar. He opined that the situation defied forecasting because of its complexity and emerging forces, such as the connectivity revolution and political change. Investors and businesspeople had been and would be wrong-footed by dynamics in a fluid space, with different areas of the economy moving in different directions. The cross-currents at play in Myanmar were more powerful than those in other frontier economies, taking on a different degree in Yangon, especially for businesses on the ground. Observers were extremely disappointed by how Aung San Suu Kyi's government had been running the economy, but Thein Sein's regime had set a benchmark in passing a wave of regulatory reforms well. The low-hanging fruits had already been taken in this first new wave.

The real challenge that Myanmar faced was in implementing and executing these on the ground, a very difficult phase. It was not surprising that the government had been viewed as incompetent; it had excessively prioritised peace-making process to the detriment of the economy and did not have advisors who could operationalise policies effectively. Dr Wong also suggested that the banking sector risked crisis in the next 2-3 years. Expanding state-owned enterprises and business conglomerates were borrowing from banks with property as collateral, grabbing every asset possible, and pursuing all sorts of development, especially in tourism and real estate. If authorities failed to take firm action against the strong banking lobby to open up the sector to competition from foreign and consumer banks, other regional economies, predicted to grow in the next 3-4 years, would steal investors' interest and business opportunities from Myanmar.

Dr Wong identified the segment of start-ups and small and medium-sized enterprises (SMEs) as a key area of potential for Myanmar. For the first time in the country, a more level-playing field was present for start-ups and SMEs, especially in Yangon, with the communications revolution increasing the speed and reducing the cost of connectivity and different types of funding (e.g. crowdfunding, private equity) now available. Smaller companies were not bounded by the old methods and were beginning to take market share from bigger conglomerates. He saw this as a positive trend, since SMEs greatly contributed to job creation, income distribution, and nurturing a dynamic, creative society. Myanmar youth were hungrier in a start-up environment, reconfiguring politics and reversing connections. Achievements on this front were encouraging, since it could set Myanmar on a different trajectory from what regional economies were used to.

Associate Professor Thitinan Pongsudhirak (Director, Institute of Security and International Studies, Chulalongkorn University) followed with his analysis of the military, the monarchy, and democracy in Thailand's new politics in three points. First, he opined that elections would take place sometime in 2018 because of mounting pressure on senior Thai leaders after the royal cremation. Suspicion surrounding Deputy Prime Minister Prawit Wongsuwan's assets, especially luxury watches, had driven him into hiding. Anti-corruption officials loyal to him were trying to buy time but to no avail. Since the junta came into power in 2014 until King Bhumibol Adulyadej's passing, it could get away with crafting a "twisted constitution", imposing a "crooked referendum", marginalising parties and politicians, and empowering its appointed agencies and individuals, but small matters like the aforementioned were not triggering large reactions.

The military government, meant to be the midwife of the royal transition, had stayed too long. Elections were expected in November but could be delayed again, this time perhaps because of Queen Sirikit. Of greater importance was what would happen before and after the elections. Associate Professor Thitinan believed that the junta would manipulate the political landscape to remain in power by keeping the opposition down, promoting small and medium-sized parties. Second, he was excited and wary that Thailand's imminent twin structural and fundamental transitions, from a military government to an elected one and from an established monarchy into an uncertain one, could mean that the leitmotif of elections and victories, protests and coups, a cycle alternating between the red shirts and yellow shirts, may no longer hold as they had been in recent years. Sensing the end of this clear, repeated pattern, the junta would seek to cover its rear.

Finally, Associate Professor Thitinan opined that truly bridging the gap between elections and democracy – since elections were neither tantamount nor equivalent to democracy – for a 21st-century constitutional monarchy where democratic rule was sustained would be messy and nasty, like it had been elsewhere. For him, Thailand should work towards strengthening institutions, increasing accountability, and reducing corruption. A civil-military power-sharing agreement would be one-solution, with the military fading away for civilian politicians. However, if this failed, greater turmoil, confrontation, and violence may erupt, with no backstop currently in sight for Thai society. He maintained that Thailand would find lasting stability without settling through compromise, but was hopeful that the next few years would see a negotiated outcome setting the country back on track and that the Thai people would always "find a way to find a way".

During the **Q&A** session, Dr Tin Maung Maung Than (Associate Fellow, ISEAS-Yusof Ishak Institute) asked whether Dr Thant thought that the top-down and state-driven nation-building project in Myanmar had failed in relation to the peace process. Dr Thant said that government talks to get all ethnic armies to sign a nationwide ceasefire agreement had stalled. There was less violence near the Thai border but more conflicts near the Chinese border with new armed groups and alliances. Nation/state-building had not succeeded in pulling the country together, and Myanmar was still facing great challenges in desegregation. Three factors must be considered. First the conflict between the military and ethnic armies in the northeast would be informed by closer Myanmar-China bilateral relations. Second, deciding on constitutional reform for federalism or greater autonomy would be up to the people's elected representatives. Third, crafting a more inclusive Myanmar identity for all of the country's people to feel a sense of belonging, regardless of their race and religion, must include a wider range of stakeholders.

Dr Tin asked whether Dr Wong felt that the call from the business sector for a fiscal stimulus because of the drop in private investment would be a smart move, since businesses expected the government to do deficit spending. Dr Wong opined that Myanmar's fiscal deficit was not that excessive because it was in the early stages of infrastructural development and could not access funding before. However, better ways of boosting investment would be to improve liquidity, which had dried up in Myanmar's economy, and tax revenues, such as providing a tax amnesty of some sort. Nonperforming loans were increasing and banks may fail as debtors may not pay even if they could, since the issue of requiring white money (proven to be clean or taxed) prevented even lenders from repaying their loans – the government had to confront this. He lamented that Myanmar did not have the liquidity to support the economic growth of 6-8%.

Finally, Dr Termsak Chalermpalanupap (Fellow, ISEAS-Yusof Ishak Institute) asked Associate Professor Thitinan whether there had been any changes in the quality of Thai voters, especially those in the rural areas, since external observers had heard about the awakening of the Thai rural electorate or money politics would remain the most decisive factor in Thai politics. Associate Professor Thitinan replied that replied that there had been a partial awakening brought about by greater connectivity and access to information through social media and new technologies. However, provincial networks, patron-client ties, and money politics remained prevalent and powerful. Opposition (Thaksinite) parties had not been able or allowed to strengthen or institutionalise (the only one that could go far was the Democrat Party) – Thailand was seeing the same new faces. People were looking to the elections for a change in government and a constitutional makeover, but the present constitution was written for a stalemate that would render Parliament ineffective.

ISEAS YUSOF ISHAK INSTITUTE

REGIONAL OUTLOOK FORUM 2018

Trends, Uncertainties, Opportunities

9 January 2018, Island Ballroom, Shangri-La Hotel Singapore

Session 6: 60 Years of Merdeka: Quo Vadis, Malaysia?

Moderator of the panel, **Dr Francis Hutchinson** (Senior Fellow and Coordinator for Regional Economic Studies Programme and Malaysian Studies Programme, ISEAS – Yusof Ishak Institute) commenced the session by laying out the complex state of political affairs in Malaysia. Besides the fracturing of the two coalition system into three political groupings, the new and dissolving alliances had also seen the birth of new political parties: *Parti Amanah Negara* (Amanah) and *Parti Pribumi Bersatu Malaysia* (Bersatu), and the departure of *Parti Islam Se Malaysia*'s (PAS) from *Pakatan Harapan* that had resulted in a rebranded and recomposed opposition coalition. The two panellists then took the stage to navigate the audience through the trends, forces and facets of the current state of affairs, and shared their opinions regarding the uncertainties and opportunities the upcoming elections – GE-14 – would present to Malaysia.

It was a consensus between the two panellists that moving forward, GE-14, billed as the "Mother of All Elections", was shaping the prevailing dynamics of Malaysia today. GE-14 was forecasted to take place before August 2018, and likely during the March school holidays (24 March 2018). Both panellists expressed uncertainty about GE-14 outcome for Malaysia's longest ruling party *Barisan National* (BN), citing the declining support for BN in the past two elections (2008 and 2013). However, they were confident that the cornerstone of GE-14 was BN's ability to secure "safe" and "fixed" deposit states – Sabah and Sarawak – which accounted for a quarter of seats in Parliament. The vast rural electorate in Sabah, Sarawak and FELDA states had traditionally and overwhelmingly voted for the BN since the first elections of 1955 and 1963 after the formation of Malaysia, with the exception of 1969. Both panellists also contended that the two prized states, Selangor and Penang, that had upheld their economic status would be intensely contested.

The first panellist, **Dato' Seri Kalimullah Hassan** (Chairman of ECM Libra Financial Group Berhad and a veteran journalist), emphasised the heightened uncertainty Malaysia was facing in the short-term and long-term, as well pre- and post-election. The short-term uncertainties lied in the unpredictability of GE-14, especially for BN. He contended that despite the "psychological block" in society, it was not unthinkable for BN to lose. He attributed the reduced voter confidence in BN to two factors. Firstly, the relatively poor socioeconomic conditions, such as scarcer job opportunities, higher cost of living, and a weakened ringgit against other currencies. Secondly, the growing opposition had positioned itself as a viable alternative, having won the prized states Selangor and Penang, reduced the majority votes in previous United Malays National Organisation (UMNO) strongholds such as Johore, Kedah and Perak, and making inroads to staunch BN strongholds such as Pahang and Malacca. Furthermore, leading up to GE-14, the opposition had gained strength with the formation of new parties, and inroads to BN's rural vote bank in FELDA schemes with their new ally, Dr Mahathir Mohammad. The second panellist, **Datuk Seri Azman Ujang** (Chairman of Malaysian National News Agency (Bernama), believed that BN would emerge victorious, with an increase in voter-support.

Both panellists cautioned that there were problems with the opposition. Dato' Seri Kalimullah stated that the opposition coalition had yet to form a cohesive force and remained a "gang that cannot shoot straight". Also, despite the inroads to FELDA seats, he discerned that the opposition had limited influence on cornerstone states – Sabah and Sarawak – where Dr Mahathir had restricted reach, and where the propensity and ability of BN to dish out monetary incentives would very likely persist with success. Datuk Seri Azman supplemented this point stating that unlike 2008 and 2013 elections where BN lost the popular vote and two-thirds majority due to a strong and united opposition, the present opposition was in fact in "disarray" due to new and "loose" alliances in addition to the absence of their de-facto leader Anwar Ibrahim. Moreover, the recent gestures of support of Malaysian Chinese Association (MCA) for BN could potentially increase BN's Chinese votes.

Datuk Seri Azman went on to highlight that the recent political reawakening in Sarawak and Sabah could impact relations between East Malaysia vote bank and BN. After 54 years of joining Malaysia (then Federation of Malaysia and Singapore), this reawakening spirit had prompted leaders like (the late) Tan Sri Adenan Satem, Chief Minister of Sarawak, to call for the re-evaluation of MA63, more specifically Sarawak and Sabah's rights to federal funds. With the formation of a Cabinet Committee and Prime Minister Datuk Seri Najib Razak's assurance that their rights would be returned, the relations between these pivotal states and BN could well improve substantially.

Conclusively, Dato' Seri Kalimullah remained conservative in his forecast of GE-14 results. While he predicted that BN was likely to win again, it was unlikely the results of 2013 elections (GE-13) in which they won 134 out of

222 parliamentary seats would be repeated, therefore ruling with a smaller majority. Datuk Seri Azman however appeared confident that the BN may garner two-thirds or more majority seats in Parliament.

Dato' Seri Kalimullah furthered the discussion by stressing that, ultimately, Malaysia's state of affairs would go beyond electoral politics. He posited that Malaysia had been "sliding fast down the slippery slope"; becoming a polarised country with inadequate public education systems, high socioeconomic inequality, a lack of an independent media, and corruption that plagued public and private sectors. The long-term uncertainties for Malaysia rested in the post-election scenario where it could either continue to fall back or make a serious attempt at reasserting itself as one of the leading emerging economies in the region. He suggested that these long-term uncertainties could also be opportunities for Malaysians to fix the practices that had become the norm. Rectification required the nation to do away with the incessant politicking and redirect Malaysia's obsession and divisions over race, religion and politics. He opined that at the heart of successful countries, such as Singapore and Hong Kong, were values of embracing diversity and upholding integrity that Malaysia too once flourished in and should restore.

During the **Q&A** session, a total of six questions revolving around post GE-14 and Malaysia's electoral politics were raised. Dr Hutchison stimulated the discussion with a hypothetical question suggesting that if BN were to win but unable to regain the prized state of Selangor, what would be the implications, particularly on Prime Minister Najib's agency?

In response, Dato' Seri Kalimullah dismissed the likelihood of Prime Minister Najib falling out of favour; he affirmed Prime Minister Najib's control and power. Datuk Seri Azman deduced that it was only with a coalition between PAS and UMNO that BN could retake Selangor. The panel then addressed questions on Malaysia's prevalent race-based and identity politics, and the concerns of a worst-case post-election scenario, such as racial riots. Both panellists agreed that Malaysia's case was "not that bad".

Dato' Seri Kalimullah reiterated that Malaysia's shift away from race-based politics would require a reflection on the nation's values and education system, surmising that it was essentially dependent on Prime Minister Najib's political will. He also assured that, although not to be entirely dismissed, racial riots were highly unlikely.

REGIONAL OUTLOOK FORUM 2018

Trends, Uncertainties, Opportunities

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The discussion then took a turn to woman's participation in Malaysia's politics. To this, Dato' Seri Kalimullah remained sceptical about gender equality in Malaysia's male-centric society. Conversely, Datuk Seri Azman adopted a very positive outlook, asserting that "2018 is the year for women". His optimism stemmed from the current government's commitment to this cause, who presently required all companies to have minimally thirty percent of their board members to be female, and were expected to impose this condition on the Senate later this year too.

The final question was posed by DAP Member of Parliament Liew Chin Tong on the possibility of a "Malay Tsunami", particularly in the West Coast, and how this might impact BN. While statistically speaking, a uniform swing would indubitably cause BN to lose, Dato' Seri Kalimullah did not refute the possibility of a "Malay Tsunami" maintaining that GE-14 was unpredictable and largely reliant on the people's pliable sentiments.