



**ISEAS** YUSOF ISHAK  
INSTITUTE

ISSN: 2424-8045

# ASEANFocus



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## ASEANFocus

is published by the  
ASEAN Studies Centre at  
ISEAS-Yusof Ishak Institute  
and available electronically  
at [www.iseas.edu.sg](http://www.iseas.edu.sg)

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# ASEAN

**2016** has proven to be an exhilarating year even as it is drawing to its last weeks. The biggest uncertainty of the year found its resolution on 8 November with the election of Donald J Trump as the 45<sup>th</sup> President of the United States of America. For Asia, Trump's election rekindles concerns over the sustainability of the rebalance strategy – a foreign policy signature of the Obama administration. One would also wonder whether Trump would follow the footsteps of Obama as the most ASEAN-friendly US president in history. As President-elect Trump assembles his cabinet in the upcoming weeks of transition, we will see hints of his possible stances on Asia and ASEAN. *ASEANFocus* has invited four renowned thinkers and experts – Ambassador Bilahari Kausikan, Mr. Manggi Habir, Dr. Aries Arugay and Dr. Nguyen Vu Tung – to share their thoughts on what the Trump administration would mean for Southeast Asia.

Trump's election also casts doubts on the Trans-Pacific Partnership Agreement (TPP). The high-quality and comprehensive trade deal involves some of the biggest and most vibrant economies in Asia-Pacific, including four ASEAN member states (Brunei Darussalam, Malaysia, Singapore and Vietnam). It was once lauded as a game-changer in US-Asia relations and the regional economic landscape. In explaining what lies ahead for the TPP, *ASEANFocus* features leading scholars and practitioners from the TPP participating countries who will give us their insights into the importance of the TPP and implications to the region if it does not take off as planned.

Meanwhile, closer to home, Philippine President Rodrigo Duterte is charting out a more independent foreign policy in redefining his country's longstanding relationship with the US, particularly their security alliance. His comments during a recent state visit to China on "separating from the US" has rattled many in the region who continue to value the importance of American presence to peace and security in Asia. President Duterte's overtures to China were followed by another official visit by Malaysian Prime Minister Najib Tun Razak, who also used this occasion to deepen both economic and security ties with China. In this issue, we will feature the thoughts of seven experts from across the region on the future of the US-Philippines alliance and its impacts on the regional security landscape. This is accompanied by Dr. Tim Huxley's analysis of military expenditure and procurement trends in the ASEAN region over the past few years.

*ASEANInfo* highlights the Chiang Mai Initiative Multilateralisation (CMIM), which was established in the wake of the 1997 Asian Financial Crisis as a regional emergency response mechanism to future financial crises. This is complemented by a look at the contributions by ASEAN member states to various multilateral financial institutions in *ASEAN in Figures*. We are pleased to feature an interview with Dr Chang Junhong, Director of the ASEAN+3 Macroeconomic Research Office, for *Insider Views*.

With King Bhumibol Adulyadej's passing at the age of 89, Thailand has lost a beloved monarch who has steadily guided his country through close to 70 years of tumult and changes. The *ASEANFocus* team conveys our deepest condolences to the people of Thailand in this time of sorrow, and pays tribute to the late King by showcasing His Majesty's Royal Projects in Northern Thailand for *Places*. As for *People*, we are proud to carry the profile of Eka Kurniawan – one of the most promising writers in the region who hails from Indonesia.

# Southeast Asia in a Time of Trump



Donald J Trump is set to become the 45<sup>th</sup> President of the United States after registering what is considered one of the most improbable upsets in American political history. 8 November was also a momentous day for the Republican Party, which regained control of Congress by maintaining its majority in the Senate and House of Representatives, giving the GOP control of the executive and legislative branches of government. The Republican Party would also make their mark in the judiciary as Trump will have the opportunity to add a fifth Republican nominee to the nine-member Supreme Court. With wide influence spread across the three branches of government, Trump and the Republican Party are poised to take the US to a new direction.

Not much is known about Trump the politician and even much less is known about Trump the statesman, strategist and command-in-chief as he will be the first US president without a track record of public service. Inevitably, analysis on Trump falls on his track record as a successful businessman. In this respect, he is expected to be “business-like” and transactional in his dealings. And yet, in the first few weeks after his victory,

Trump has shown a conciliatory side that was well-hidden during the bruising Republican primaries and subsequent presidential election campaign.

Much remains a big unknown since Trump’s foreign policy proposals on the trail lacked both specificity and coherence, which gives hope for a pragmatic adaptability once he takes office. With such uncertainties, what would be the US’ Asia agenda under a Trump presidency? Much is at stake, including US bilateral alliances and partnerships and its participation in ASEAN-led multilateral processes that have advanced substantially under Obama’s rebalance towards Asia. There are valid concerns over a Trump administration’s backsliding from or significant alterations of the rebalance to pursue narrowly defined American interests.

Given Trump’s criticism of Obama’s Asia policy, what and how would Trump reorient Washington’s approach to Asia, including the all-important US-Sino relations, as well as its strategic partnerships in the region and ties with ASEAN? ■

*ASEANFocus is fortunate to have four distinguished public intellectuals and prominent analysts to share with us what a Trump presidency might mean for a region that has enjoyed much diplomatic attention from the US over the past eight years.*

# What will the Trump Presidency mean for ASEAN?

BY BILAHARI KAUSIKAN

**M**r Trump won the White House by tapping an anti-globalisation mood. He said he will bring jobs back to America, 'Make America Great Again' and put 'America First'. He will therefore want to project strength and his approach is likely to be highly transactional. He will be less interested in broad principles than in specific deals; he will expect action to bring immediate and tangible rewards. This is how he lived his life and ran his businesses.

From these reference points we can draw some tentative conclusions in three areas: trade, regional diplomacy and geopolitics.

The Trans-Pacific Partnership (TPP) is dead. Trump thinks that America has not got a fair deal from trade agreements. He will be more aggressive on trade through such measures as anti-dumping and Section 301 actions which provide for retaliatory measures against unfair practices. The main targets will be China, Japan and South Korea. ASEAN is secondary because we are relatively small players, but we will not be spared.

He cannot stop American investment. What drove American jobs overseas were changes in the structure of the global economy, driven by technological changes that are irreversible. Putting America First contradicts his anti-globalisation instincts – if he really has any; what a Candidate says is not always what a President does – because American companies have been among the chief beneficiaries of globalisation. But he may make it more difficult for American companies to shift operations overseas by changing the balance of incentives and costs through taxes.

This is an important factor for the next phase of ASEAN economic integration that aims at making Southeast Asia a common production platform. But the crucial success factors for economic integration are internal to ASEAN. The costs of the TPP's loss are in opportunities forgone and US credibility since it was not yet in force. China will loom larger, but this is an existing trend and the US and its allies will remain important economic partners. The Regional Comprehensive Economic Partnership (RCEP) is moving at a glacial pace and in any case will be a low quality agreement if it is ever concluded.

**“Putting America First contradicts his anti-globalisation instincts – if he really has any; what a Candidate says is not always what a President does – because American companies have been among the chief beneficiaries of globalisation.”**

A transactional approach will be impatient with the most salient characteristics of ASEAN diplomacy which stresses form and processes: discussion as an end in itself and the incremental accumulation of small steps. President Trump will not put the same priority as President Obama on attendance at the East Asia Summit or on the elaboration of a new regional architecture. The emphasis of a Trump administration's Southeast Asia diplomacy will be more bilateral than regional. Together with the loss of the TPP, a less engaged Trump administration feeds the Chinese narrative of an unreliable America.

To keep the US engaged and maintain balance and manoeuvre space, ASEAN must invest the slogan of its 'centrality' with substance and redefine and restructure regional processes and forums so that they can produce significant and concrete outcomes immediately relevant to the interests of the US and other Dialogue Partners. Over the last decade, ASEAN has slipped into a pattern of privileging form over substance. We must shed the mentality of being a recipient of largesse and acquire the capacity to be a genuine and not just nominal partner.

Competition in the South China Sea (SCS) has become a proxy for broader strategic adjustments as the US and China grope towards a new *modus vivendi* with each other and other countries in the region. A Trump administration will probably continue the Obama administration's policies for some time and the ritualised pattern of patrol and protest will hold, at least for now. But a transactional approach will give less weight to upholding general principles like freedom of navigation and a rules-based order.

A Trump administration may well calculate that any attempt to impede the 7<sup>th</sup> Fleet's operations in and through the SCS would be a risk that China will not in any case take because it would be a *casus belli* that puts the Chinese Communist Party (CCP) rule in jeopardy. With this key American interest secure, it may be tempted to tacitly accept the idea of spheres

of predominant influence – not exclusive influence: China has neither the capacity nor the interest to entirely exclude the US – that is one interpretation of the 'new model of major power relations' that China has proposed. This will leave ASEAN exposed.

By his own admission, Trump hates to lose. He will not give up anything for nothing. Although it is difficult at this stage to envisage what inducement the Chinese could offer to persuade the Trump administration to accept such a tacit arrangement – and it has to be very significant – the possibility nevertheless cannot be dismissed. Much would depend on his administration's sense of strategy and how it defines its interests with China. Economics may be given more weight.

A Trump administration would, however, not want to look weak, as his comments on issues such as terrorism suggest. We are not going to be hearing anything more about the "pivot". But projecting a strong America means that a Trump administration will not forgo geopolitical engagement in East Asia. However, the priority that Southeast Asia will have vis-à-vis other regions such as the Middle East is unclear. Even if the worst case does not materialise, it will almost certainly expect ASEAN to shoulder more of the risks and burdens of maintaining balance whether through financial contributions or providing capabilities for example through joint patrols.

The geopolitical impact of a Trump administration is still largely speculation. Nor will it be an unqualified advantage for China. Trump's record suggests that he sees every deal as separate and discrete and he will be less susceptible to the Chinese trap of posing false dilemmas and forcing false choices. But it is not too early for ASEAN to think through what individually and collectively it is prepared to do to maintain equilibrium. ■

*Mr. Bilahari Kausikan is Ambassador-at-Large, Ministry of Foreign Affairs, Singapore.*

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# Is Duterte's China Pivot worth considering in the post-Obama era?

BY MANGGI TARUNA HABIR

The reassessment by Philippine President Rodrigo Duterte of his country's longstanding strategic links with the US and his first steps to warm up to China have raised a lot of eyebrows, especially because of his crude style and recent call for US armed forces to leave the Philippines within two years. Most read his move as an effort to get more Chinese aid and investment as well as to find some form of arrangement to address its territorial disputes with China over a string of contested features in the South China Sea.

Duterte's shift is rooted in his belief that "America has lost" which is not without ground. President Barack Obama's Asia pivot did little to prevent China from unilaterally reclaiming and building military installations in its occupied features in the South China Sea. The economic plank of his pivot – the Trans-Pacific Partnership (TPP) – was strongly objectionable to both presidential candidates, especially Donald Trump who is now the President-elect.

It is not surprising that questions are being raised about the US' ability to effectively influence events in our region and act as a dependable counter-weight against China's growing power and presence. This concern is widespread given the fact that the US' attention is scattered worldwide. It is facing a more assertive Russia in Ukraine which poses a renewed strategic challenge in Europe; and in the Middle East, it is involved in flash points in Syria, Iraq and Afghanistan. Now, with Donald Trump soon to assume the US presidency, what is at stake for Asia and more specifically ASEAN?

On economics, US priorities will be directed to immigration and unemployment – two hotly debated topics during the election campaign. A more selected filtering of immigration and foreign worker inflows into the US is on the horizon. In addition, there will be reassessments of existing free trade agreements and potential modifications to better protect American workers in selective industries. As a result, the globalised trends of free trade and people movement, in their current forms, will be affected and their flows will no doubt slow down.

Global trade will be impacted for sure, but it most likely will not translate into a major reversal of globalisation. The

new US administration will attach priority to addressing negative side-effects of globalisation, especially the changing industrial landscape and disruptions to the well-being of workers in manufacturing industries that are pervasive across the developed world. In sum, what is unfolding is a move to slow down disruptive impacts of globalisation and allow more time and breathing room for American society and workforce to adjust, catch up and get better prepared.

On the political front, the incoming US President has asked its allies to bear more cost in defending their own countries, so that the US can bring back its troops stationed overseas and close several military bases abroad. This will change the balance of power in Europe and Asia, inviting powers such as China and Russia to fill the strategic vacuum while compelling others like Japan to re-arm and strengthen their military. The US is also expected to tilt more towards flash points across the Atlantic to Europe and the Middle East than across the Pacific to Asia. As a result of a distracted and increasingly distant US, we should be more aware and realistic about imminent changes to the balance of power in the region, with a powerful China on the rise and other powers such as India and Japan jostling one another for regional influence.

It is in this changing landscape that each ASEAN member state needs to carefully assess whether and in what areas they should 'go at it alone' and negotiate with external parties on a bilateral basis, or be part of ASEAN and take a more time-consuming but hopefully stronger multilateral approach. The ultimate objective of each country, whether individually or collectively, is to become stronger and more resilient in this increasingly multi-polar world and not to overly rely on any one major regional or global power. Therefore, following closely President Duterte's China pivot, including its consequences and impacts, is important in an endeavour to come up with a collective ASEAN approach that is attuned to new regional realities. ■

*Mr. Manggi Taruna Habir is Independent Commissioner for PT Bank Danamon Indonesia, President Commissioner of PT Asuransi Adira Dinamika, and a columnist for Indonesian newsweekly TEMPO.*

# Engagements and Disengagements

BY ARIES A. ARUGAY

**T**rump's electoral victory is the "black swan" in the US' Asia policy. For several years, geopolitical tensions and major power competition have defined the regional landscape. Many expected Obama's pivot-turned-rebalance to Asia to have a new and improved version under a Clinton presidency. But just like all best laid plans, it was not destined to be the case. Asia in a time of Trump will likely entail disengagements in security and maybe more engagements in economics. In the meantime, countries in the region will benefit from diversifying security alliances and cooperating on the basis of mutual interests rather than shared values.

Philippine President Rodrigo Duterte seemed to be a leader in the region that made this foreign policy strategic recalibration. Though wrapped in acerbic and unpleasant rhetoric, Duterte saw the weaknesses of purely relying on the US for its security needs. His "pivot" to China was interpreted as a repudiation of an age-old alliance with its former colonial master. Beyond the foul-mouthed remarks of the maverick Filipino president lies a pragmatic strategy shared by other leaders in Southeast Asia. Security cooperation with the US will continue as planned but now under terms acceptable to Duterte's vision of a more independent foreign policy. In the meantime, there has been a revitalisation of relations with China with the Philippines not just getting a share of its economic largesse but cooperation and assistance in areas such as piracy, illegal drugs, and disaster response.

While other countries around the world are scrambling to adjust to the US new normal, countries in Asia have survived the ebb and flow of US presence in this part of the world. And they will continue to do so under a Trump administration. Duterte's foreign policy was responding to this compelling geostrategic logic that previous Filipino presidents have failed to appreciate. Small countries like the Philippines rely more on savvy and realpolitik as they do not have the luxury of attaching themselves to lofty foreign policy goals. To date, Duterte warmly congratulated the new US president, appointed Trump's business partner as the country's US trade envoy, and expressed a desire to rekindle ties between the two countries.

A Trump presidency might further erode the US-led regional order in Asia, but it is more sober to adopt a wait-and-see attitude. The transition from being a candidate to a leader will entail accepting political and institutional realities that will limit Trump's room for manoeuvre. This is where party politics and the role of the Republican Party leadership will matter. It will make a critical difference who Trump will appoint as members of his Asia foreign policy team. This is where policy change and continuity will be reconciled.

The new US president will have to be convinced that investing in the region is lucrative and will amount to big payoffs to his "America First" vision. In the meantime, countries like the Philippines should engage a Trump-led US on the basis of mutual interests on specific areas of cooperation. ■

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**“A Trump presidency might further erode the American-led regional order in Asia, but it is more sober to adopt a wait-and-see attitude. The transition from being a candidate to a leader will entail accepting political and institutional realities that will limit Trump’s room for manoeuvre.”**

# A New Start in US-Asia Relations

BY NGUYEN VU TUNG

The US' presence and influence have become an important factor in the strategic landscape of Asia-Pacific. Over the eight years under the Obama administration, US relations with most of the regional countries have developed in many positive ways. In addition, Washington's recognition of ASEAN centrality and its active participation in ASEAN-led security structures have been largely welcomed by regional countries. As a result, expectations of the US' continued presence in and engagement with Asia are high in the region.

Against this background, the outcome of the US presidential election in November seems to highlight residual concerns in the region over the continuity of Washington's Asia policy under the Trump presidency. If his statements made before November 8 were the guide to understand his Administration's foreign policy preferences, then the

**“Washington’s Asia policy continues to rest on a bipartisan belief that the region defines the US’ leadership and contributes to its economic wealth – those are essential attributes of America being ‘great again’ as championed by Trump.”**

rebalancing strategy might suffer setbacks. US relations with allies and partners might become more conditional while the likelihood of American exit from the TPP much greater as and when Trump wants to focus more on domestic priorities. In addition, it might take a longer time for the President-elect to be personally acquainted with the diplomatic processes and practices in the region. Last but not least, the selection and confirmation of key officials in charge of the US foreign and Asia policy would also take

time, depending on the healing process in the aftermath of such a divisive campaign. Against this context, the region might face greater uncertainty about the US' continued presence in and commitment to the region. Washington might be less proactive in the management of both Sino-US relations and regional hot spots including the Korean Peninsula and Taiwan as well as the East China Sea and South China Sea disputes.

Yet, the importance of Asia in economic, political, and geostrategic senses still gives rise to an optimistic case about US involvement in the regional affairs. Washington's Asia policy continues to rest on a bipartisan belief that the region defines the US' leadership and contributes to its economic wealth – those are essential attributes of America being “great again” as championed by Trump. Of equal importance, many regional countries have shown the willingness to work with the Trump administration for the sake of peace, stability, and prosperity in the region. A new good start in the US-Asia relations could therefore be expected.

To facilitate this new stage of development in the US' engagement in the region, the new President's Asia agenda should be based on the well-established internationalist, not isolationist, principles that uphold the rule of law enshrined in the international institutions and organisations that the US helped to build and maintain over the last several decades. At the same time, it is also expected to be based on the recognition of regional processes and practices embodied in ASEAN-led arrangements and mechanisms. The new agenda should attach priority to carefully managing Sino-US relations so that Washington and Beijing could avoid the infamous Thucydides trap by joining the collective efforts of ASEAN and other regional countries to improve the performance of the existing regional institutions. ■

*Prof. Nguyen Vu Tung is the President of the Diplomatic Academy of Vietnam.*

# The Future of the TPP

The Trans-Pacific Partnership (TPP) was long touted to be the game-changer that would intensify American engagement in the region, but the Obama administration's inability to pass the agreement through the US Senate, coupled with Donald Trump's unexpected victory in the US presidential election, will have a lasting impact on the future of the administration's economic centrepiece in its rebalance to Asia.

The TPP had its beginnings in the Trans-Pacific Strategic Economic Partnership Agreement (TPSEP) that was signed in 2005 by four Pacific (P4) economies – Brunei Darussalam, Chile, New Zealand and Singapore. Its transformation from the TPSEP to the TPP started in 2008 when the United States announced it would begin negotiations with the P4 to enter into the TPSEP. US' participation would eventually attract interest from Australia, Peru, Malaysia, Vietnam, Mexico, Canada, and Japan. Together, the twelve participating countries, with a combined population of 824.5 million, have a sum GDP of over US\$27.5 trillion (37.4% of the world's GDP), and account for more than US\$8.7 trillion in trade in 2015 – roughly 26.3% of global trade.

The rise of protectionist and anti-globalisation sentiments in the US, as evidenced in the recent US presidential election, effectively put paid to the TPP. With Trump's election, hopes for the TPP's ratification by the US have all but evaporated. Trade negotiations across the Pacific might even get more acrimonious under an American president who has vowed to adopt a more transactional approach in international negotiations as he pledges to put "America first".

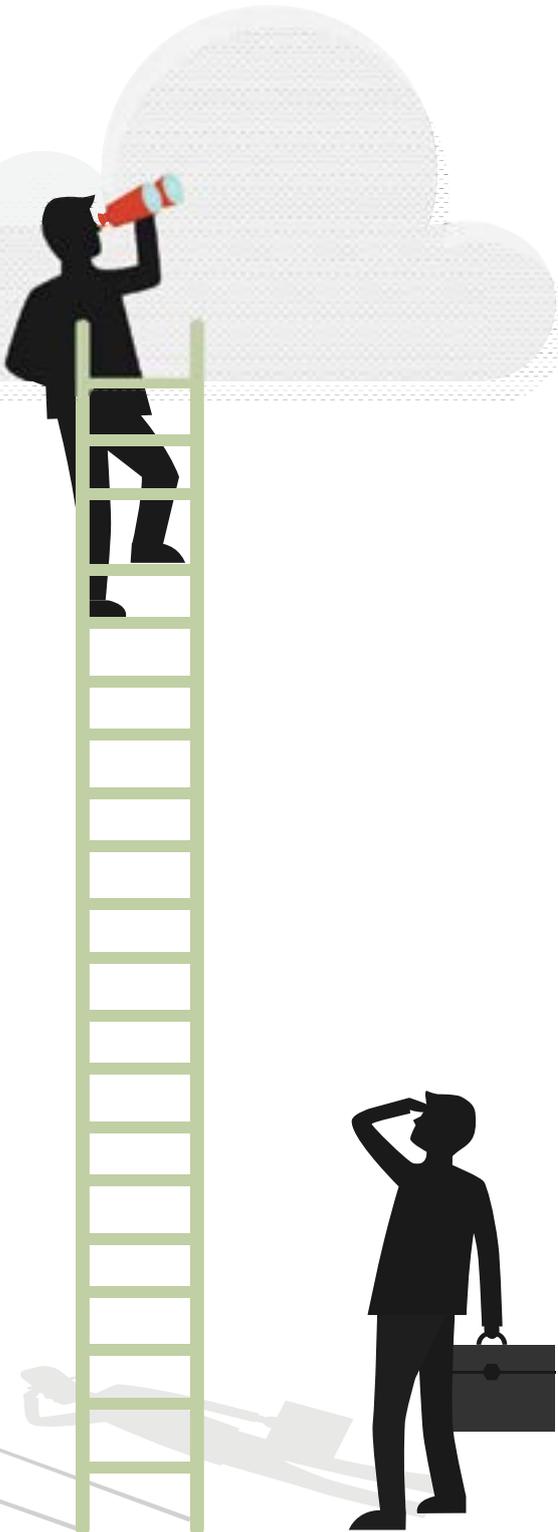
Trump's supposedly protectionist tendencies may spell doom for the TPP, which requires ratification by six out of the 12 countries representing 85% of the combined GDP – something near-impossible at this stage given that the US itself comprise 65% of the combined GDP.

It remains to be seen if the Trump administration will come around the TPP. Upon looking closely at the "TPP books", Trump the businessman may find that the TPP does indeed make good business sense, as well as providing the US the added bonus of strategic dividends. In the meantime, what should the other signatories do?

At the very least, the signatories should preserve and proceed with on-going efforts to ratify the TPP agreement in their respective countries. Doing so will keep the TPP alive and its momentum may provide the impetus for the US to consider coming back into the TPP's fold at a future appropriate moment.

In addition, if the remaining 11 countries can come to an agreement soon and showcase its successes in the near future, it could possibly provide the US a conducive environment to return to the TPP after its "sabbatical". The challenge for the US as well as the other participating countries would be for governments and interested parties to materialise the benefits of the TPP to those who might not have felt the gains of globalisation, as seen in the widespread discontent in the US which led to Trump's election. ■

*For this issue of ASEANFocus, we are proud to showcase a wide range of insights from some of the TPP participating countries on the less-than-certain future of this ambitious free-trade deal, and the possible "Plan Bs" their countries might consider.*



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National University.*

Ratification of the TPP by the US looks very unlikely following the election of Donald Trump. While the TPP can enter into force without all parties ratifying, under its current terms it cannot do so without the US' ratification. The impact of a failure to ratify is as much a question of perception as reality. The TPP was touted as the economic ballast of the US' rebalance to Asia. However, it is neither the beginning nor the end of the US' strong economic engagement, investment and linkages into the region including ASEAN. The US is still the number one foreign investor in Australia. It would be wrong to read the TPP as some sort of precondition for economic linkages in the region.

However, the US' lead through developing the TPP also held a strong symbolic message. If the US fails to ratify, it will have ceded the opportunity to set the ground rules and normative framework for regional trade liberalisation, investment and economic integration to other countries – including on sectors that matter to the US. Most proximately this means to the countries negotiating the Regional Comprehensive Economic Partnership (RCEP) where China may seek to play a leadership role. At this point, the future of the TPP seems to be less significant than broader questions about what will be the US' approach to trade liberalisation more generally under the new Administration.

While a failure by the US to ratify and the TPP not entering into force would be unfortunate for Australia, from a trade and investment perspective it would not be enormous. Economic growth forecasts from it were modest. Australia already has free trade agreements with most of the TPP member states including major partners like Japan and the US. Some benefits would of course be lost, including making business across the members easier through setting common standards and rules.

Trade liberalisation pursued on parallel tracks is a key priority for the Government. Australia is a member of all major regional plurilateral trade negotiations currently underway including the RCEP and the Free Trade Area of the Asia-Pacific (FTAAP), and is negotiating an FTA with Indonesia. Australia already has FTAs with its key regional economic partners: the US, Japan, China, Republic of Korea and ASEAN. The TPP would have built on those agreements and added advantages.

Hypothetically, the TPP is possibly of sufficient benefit for Australia even without the US across the other 11 member states – with a few important exceptions. I would not imagine Australia implementing some of the concessions (e.g. on Investor-State Dispute Settlement) that were pushed by the US without the counter-balancing benefit. Australia might unilaterally implement the new investment screening thresholds. US non-ratification also means that key agricultural sectors which have a constituency in the Coalition Government (e.g. beef and sugar) will lose out. The TPP has attracted a lot of negative public attention in Australia, and Parliamentary scrutiny.

The US has been at the forefront of shaping the rules-based global order since World War II, and the TPP is another means of doing that in the region. It would have been a stepping stone to an FTA among 21 members of the Asia-Pacific Economic Cooperation (APEC). In the absence of a TPP on the economic front, there may be scope for the new administration to take a greater leadership role in APEC which does important work in enhancing regional economic integration and removing behind-the-border barriers to trade. Importantly, APEC does this through promoting business linkages and voluntary means rather than imposing binding legal rules. This might appeal to a Trump administration. If so, we could see the US seek to take a stronger role in APEC as part of its economic commitment to the region.



**We see the Trans-Pacific Partnership as an important economic manifestation of the United States' presence in our region. Should the TPP not go ahead, then the vacuum that would be created is most likely to be filled by RCEP, the free trade agreement that comprises the ASEAN countries, China, Australia and others, at its core.**

*– Australian Minister for Foreign Affairs Julie Bishop, 9 November*

*Mr. Yuen-Pau Woo is Senior Fellow in Public Policy at the Institute of Asian Research at the University of British Columbia, former president of the Asia Pacific Foundation of Canada, and was recently appointed to the Senate of Canada by Prime Minister Justin Trudeau.*

Already late to the party, Canada arrived at the TPP as the band was winding down and the buffet mostly eaten. Such is Ottawa's predicament on the TPP, an agreement that was negotiated by the previous Conservative government after much foot-dragging and announced in the middle of a general election which they lost. Justin Trudeau's new Liberal government is ostensibly pro-free trade but Trade Minister Chrystia Freeland will not accept a *fait accompli* and has asked for fresh input from the public before ratification. The consultation period ended only on 31 October, making it highly unlikely that ratification can be considered before the New Year, if it is considered at all, given President-elect Donald Trump's highly-publicised opposition to the deal.

The Liberals have little incentive to be a first mover when US ratification is unlikely. All of the signatories to the TPP are in the same boat, but there is a further reason for Canada to be cautious, since the benefits of the TPP, even by official accounts, are not game-changing. Estimates of the welfare gains for Canada range from C\$3 billion-C\$6.5 billion by 2035 – a trivial amount in a C\$2 trillion economy. The latest estimates produced by government economists looked at economic losses if Canada did not join the TPP, and put that figure at C\$5.3 billion.

The fact that Ottawa has shifted its focus to the cost of not joining is consistent with the view that Canada's membership in the TPP is best understood as a defensive strategy. As a member of the North American Free Trade Agreement (NAFTA), Canada has long enjoyed preferential access to the US and Mexico. By not joining TPP, those preferences would be eroded, with no offsetting gains in access to other markets. If Ottawa was counting on the silver lining of preferential access to the US market in the event of TPP failing, that prospect now seems more uncertain given the incoming US president's determination to also re-negotiated NAFTA.

The new government has been more proactive on the Canada-EU Comprehensive Economic and Trade Agreement (CETA), which survived a near-death experience in mid-October but has since been signed by both sides, and awaits ratification by all member states. Canada had hoped for a double ratification of both CETA and the TPP, which would have given Ottawa bragging rights as the only NAFTA member with preferential access to major markets in Asia and the EU. With TPP almost a lost cause and NAFTA itself open to renegotiation, Canada is looking for fresh options. As trade agreements go, the night is still young.

*Senior Japanese Official*

Economic integration is necessary for the Asia-Pacific region. Together with Singapore, the Japanese government has led the integration effort for decades, utilising various platforms such as the APEC, the ASEAN-plus forums and the WTO. Japanese businesses have expanded their supply chains all over Asia. We can observe more than 50,000 Japanese companies, including many small and medium enterprises (SMEs), across Asia, and the number keeps on growing. Under such realities, Japan's basic attitude towards Asian economic integration will not change in the future. Rather, it will be accelerated by new economic and business realities, such as new in-depth strategic alliances between Japanese and ASEAN businesses as well as e-commerce and digital business expansions. The emergence of talented people and venture businesses across the region, which have resulted in increased foreign visitorships to Japan, will urge Japan to be more integrated into Asia-Pacific economies.

Therefore, the Japanese government has been proactive towards free trade agreements and economic partnership agreements. Among them, the TPP is very important as it provides the next-generation rules for trade and business in this region. The e-commerce rules within the TPP is necessary for the healthy expansion of international e-commerce businesses. The simplified customs rule is essential for SMEs' utilisation of FTAs. Fair

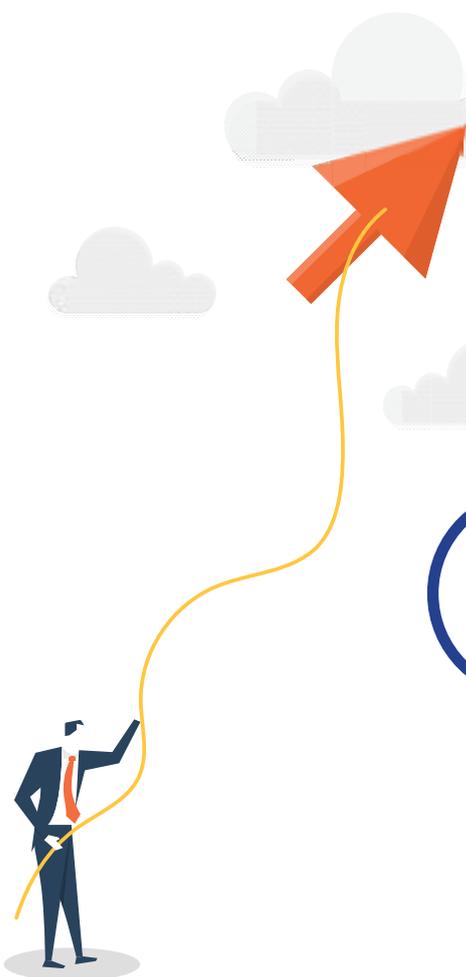
competition would be assured with the common understanding of treatment for state-owned enterprises, which will encourage foreign direct investments into emerging economies. The Japanese government is also making efforts to pass the TPP in the current Diet session, and would urge the other countries to do the same. Japan will also make every effort to accelerate and achieve high-level mega FTAs such as the China-Japan-South Korea Free Trade Agreement, the Regional Comprehensive Economic Partnership, and the EU-Japan Economic Partnership Agreement. Japan will continuously pursue an open and rules-based Asia-Pacific economic integration.

*Dr. Saori N. Katada is Associate Professor at the School of International Relations, the University of Southern California.*

The Abe administration was counting on the TPP to boost Japan's economy through expanded export and investment access as well as externally-imposed domestic structural reform, and to beef up the country's foreign policy leverage in East Asia, particularly against China. That plan was shuttered by the surprising electoral victory of the anti-TPP Republican candidate Donald Trump in the US presidential elections.

Now what? In pursuit of the regional trade framework, the Japanese government is bound to take a multi-pronged approach. First, Japan will insist on the current form of TPP by ratifying it. After passing the lower house of the Diet, the TPP bill is currently moving through the LDP-majority upper house. Second, Japan will continue to negotiate the "Western Pacific" Regional Comprehensive Economic Partnership (RCEP) to make it conform as closely to TPP as possible, and use the RCEP and its exclusion of the United States as a lever to entice American re-engagement. Third, Japan could move the regional free-trade platform to the APEC-based Free Trade Area of the Asia-Pacific (FTAAP) to revive the remains of TPP rules and standards that Japan has helped shape for the last three years. Finally, the WTO is still on the table, especially if trade protectionism becomes a large concern.

Japan will take an "all of the above" strategy to stay relevant. With the death of the TPP, Japan's domestic front becomes much more concerning. Now that the prospect of immediate TPP-stimulus to the country's economy is no longer there, what can the Japanese government resort to in order to move the economy forward? There seems to be no simple solution; but Japanese political leaders should think of this as an opportunity to take serious risks on their own accounts, rather than relying on external pressures, to implement necessary and fundamental reforms to revive the Japanese economy.



**There's no doubt that there would be a pivot to the Regional Comprehensive Economic Partnership if the TPP doesn't go forward... RCEP doesn't include the United States, leaving China the economy with the largest gross domestic product.**

*—Japanese Prime Minister Shinzo Abe, 15 November*

*Tan Sri Dato' Dr. Mohd Munir Abdul Majid is the Chairman of Bank Muamalat Malaysia, the CIMB ASEAN Research Institute, the Malaysian Financial Services Professional Board, and the ASEAN Business Advisory Council – Malaysia.*

The TPP is as good as dead with Donald Trump's election on 8 November as the next President of the US. There is no need for any other country to kill it off since the US is going to do so. This has not been Malaysia's cynical approach, but it might just as well be.

The Malaysian official position remains in full support of the TPP. It had not put off ratification as Vietnam did. However, it is nowhere near it since a number of laws and various bits of legislation will have to be amended before ratification. Then again, neither is Malaysia close to the Japanese position of wanting to ratify so that the package cannot be reopened without everything being unravelled.

Every which way one looks at the TPP situation, it is America which is the problem, when before it was the prime mover. So why unnecessarily be the villain, even if for non-TPP reasons Malaysia might have cause to want to turn its back on the US for non-TPP reasons.

Although the Republicans – traditionally firm supporters of free trade – control the Congress, it is not likely that a champion would emerge willing to cross Donald Trump's opposition to the TPP. Even if Hillary Clinton had prevailed, the best that could have been expected was full renegotiation. The 12-nation pact will simply break up.

The geo-political setback in the region for the US will be far-reaching and would confirm ASEAN-wide anxiety that American regional strategic commitment is not dependable. Singapore Prime Minister Lee Hsien Loong had described the TPP as a "litmus test" of US credibility in the region; his deputy, Tharman Shanmugaratnam, has said America's allies in Asia fear the collapse of the deal will become an emblem of US retreat from the Pacific.

The outcomes for Malaysia are not too difficult to imagine. First, a "Get out of Jail Free" card which would save the government from having to make policy and legislative changes on such matters as greater transparency, open tenders and compulsory dispute settlement mechanisms to the satisfaction, I daresay, of many members in the ruling coalition, of government-managed funds and linked companies, and even of some NGOs – a bedlam of strange bedfellows. Second, a shift to be even closer to China – and away from the America – which already is in train following the civil suit pertaining to 1MDB by the US Department of Justice.

*Mr. Wan Saiful Wan Jan is the Chief Executive of the Institute for Democracy and Economic Affairs, Malaysia.*

When Malaysia signed the TPP in February 2015, the country was divided about its benefits. That division continues until today. Now that Donald Trump is President-elect of the United States, many are suggesting that the deal is dead.

I was in Washington D.C. on Election Day and attended the Republican National Committee post-election party. The mood was rather uncertain when the party started but the crowd was jubilant when the outcome was called. However, none of the party officials could give a definitive answer when I asked them about the future of the TPP. The same sentiment was shown by officials at the State Department whom I met the day after.

Trump opposed the TPP during his campaign. He believed the TPP was a bad deal because American jobs could move outside. This is important to note. His opposition was because he believed it is a bad deal for his country, not because he is against trade.



**In its current guise, the TPP agreement cannot come into force without the US' involvement. As such, it is not a question of whether or not Malaysia – or any other country for that matter – could still proceed with its ratification. ... Whether TPP proceeds or not, we remain committed to strengthening our economic and trade ties with the US and the other countries involved.**

*– Malaysian Prime Minister Najib Tun Razak, 15 November*

Hence, I think it should not be too difficult to get him back on the path of trade liberalisation. The only thing that needs to be done is to tweak the current TPP so that Trump's concerns about American jobs, as well as his desire to check China's growing influence, are addressed. Under a different name and with a tweaked content, there can still be a trans-pacific free trade agreement.

Until a certainty is created in the US, I suspect Malaysia's attention will shift to the Regional Comprehensive Economic Partnership (RCEP). Malaysia could not afford to not liberalise and needs to continue looking for new partners, and enhance the relationships with existing ones. One way or another, Malaysia will be joining a new trade bloc. The question is whether Malaysia would be doing it with China first or the US first.

*Dr. David Skilling is the Director of Landfall Strategy Group, a Singapore-based economic and political research and advisory firm.*

The potential demise of the TPP generates significant challenges for New Zealand. The TPP has long been a strategic priority for the country. Indeed, New Zealand was present at the creation of the TPP, through the establishment in 2005 of the P4 along with Singapore, Chile and Brunei.

There are three ways in which New Zealand is exposed to costs and risks from a failure to pass the TPP.

First, there are direct economic costs. For example, better access for New Zealand's agricultural exports to markets like Japan and the US would have generated gains. The World Bank estimated that New Zealand was one of the largest beneficiaries of the TPP, projecting that New Zealand's exports and GDP would be 10% and 3% higher respectively by 2030.

Second, a failed TPP would be another signal of the fading prospects for international trade liberalisation. New Zealand has secured free trade agreements (FTAs) with key partners, notably China and ASEAN. But FTAs are challenging for small economies, and the TPP is the only realistic way in which New Zealand could get a deal with the US or Japan. The TPP failure would also mean reduced prospects for progress in New Zealand's current trade negotiations, such as with the EU. This environment is deeply challenging for a small economy.

Third, New Zealand is exposed to the strategic fallout from a failed TPP. As Singapore has frequently noted, the TPP is a signal of US commitment to Asia-Pacific. The failure of the TPP would have strategic economic and geopolitical consequences, making it more difficult for New Zealand (and other small economies in Asia) to balance against over-exposure to China. Although New Zealand is part of the Regional Comprehensive Economic Partnership (RCEP) negotiations, and has a portfolio of good relations in Asia, the TPP is a valuable strategic option for New Zealand.

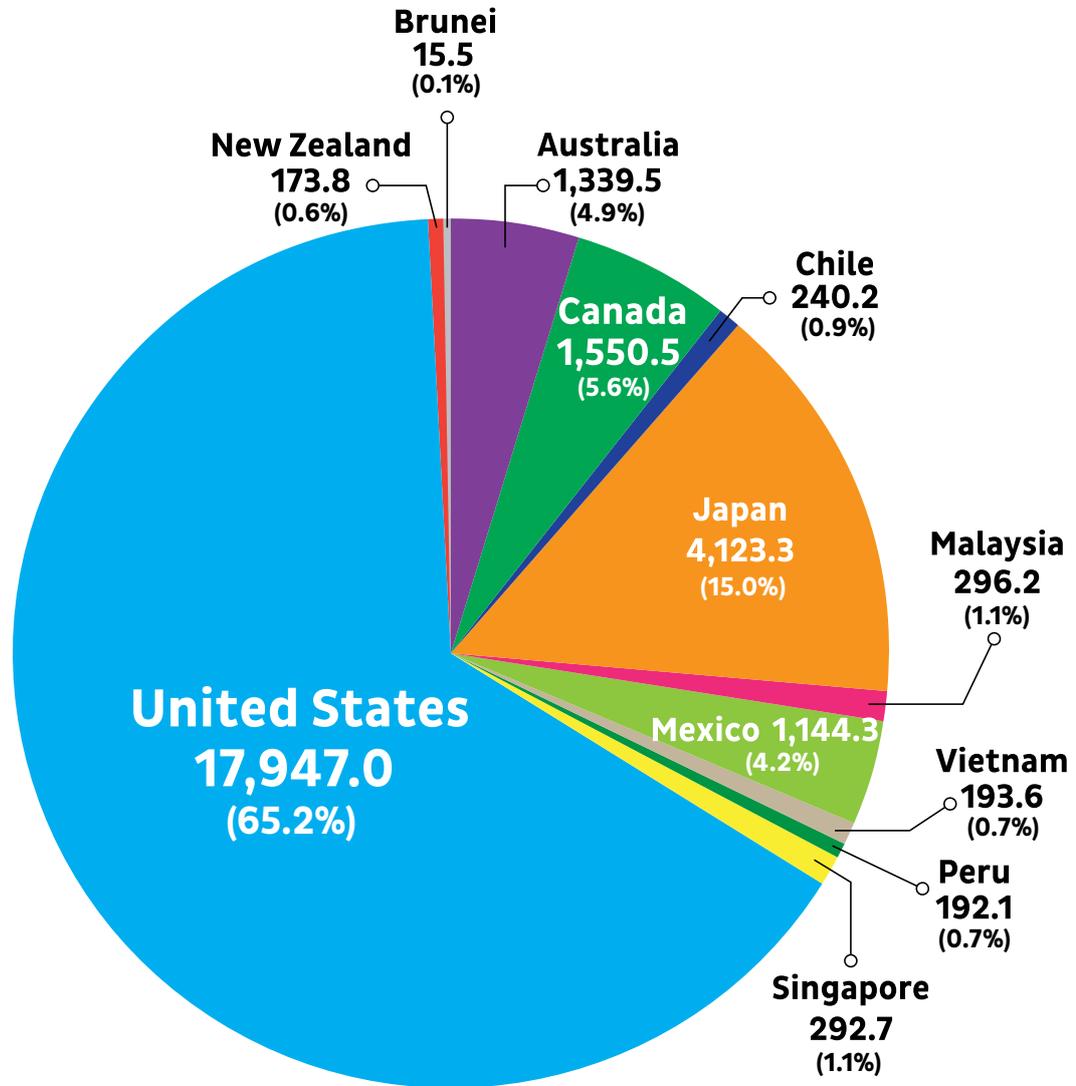
Overall, the potential loss of the TPP is a source of economic and strategic risks for New Zealand. And it raises fundamental questions about how New Zealand should seek to position itself in a rapidly changing region.



**We'll work our way through it. It's bad in the sense that it's very hard to see the TPP progressing now in that lame duck period. You'll have to be a real optimist to believe that. I think over time Donald Trump has said he just doesn't like the deal, not so much that trade can't work. ... Our economy was cranking, with growth rates of at least 3.5%. ... The reality is we've done all that without the TPP. So it's just a bit of a lost opportunity in the short term for us.**

*– New Zealand Prime Minister John Key, 10 November*

# TPP Participating Economies by GDP in 2015



In billions US\$

Sources: World Bank, WTO



“I believe that the TPP (with its high standards, strong protections for workers, the environment, intellectual property, and human rights) is a plus for America’s economy, America’s workers, American jobs. Not moving forward across the region and our ability to shape the rules of the global trade in a way that reflects our interests and values.”

– President Barack Obama, 20 November 2016

“I have asked my transition team to develop a list of executive actions we can take on Day One ... on trade, I am going to issue a notification of intent to withdraw from the Trans-Pacific Partnership, a potential disaster for our country. Instead, we will negotiate fair, bilateral trade deals that bring jobs and industry back onto American shores.”

– President-elect Donald Trump, 22 November 2016

“The Trans-Pacific Partnership Agreement, which has some serious flaws, will not be acted upon this year, but it will still be around. It can be massaged, changed, worked on during the next administration, so I hope America can stay in the trading business.”

– Senate Majority Leader Mitch McConnell, 26 August 2016

# The State of Play of the TPP

TPP Signatories	Steps to take toward ratification (as of 21 November 2016)
<b>Australia</b>	<p>The TPP is currently at the Parliamentary inquiry stage, which involves scrutiny by the Joint Standing Committee on Treaties, where the majority of its members are Government MPs. The final ratification of the agreement will take place only after the implementing legislation has been passed by both the House of Representatives and the Senate.</p> <p><i>(Parliament of Australia; Australian Department of Foreign Affairs and Trade; Australian Fair Trade and Investment Network Ltd.)</i></p>
<b>Brunei Darussalam</b>	<p>The Sultan of Brunei Darussalam, as the country's "supreme executive authority", can enter into a treaty without further action. Assenting to the agreement is tantamount to ratification. However, Brunei Darussalam would need to revamp existing labour and intellectual property laws in order to comply with the TPP.</p> <p><i>(Freshfields Bruckhaus Deringer; Jones Day)</i></p>
<b>Canada</b>	<p>On April 2016, the Standing Committee on International Trade of the Canadian House of Commons announced that it would begin open-ended consultations on the TPP, fulfilling a pledge made by Prime Minister Justin Trudeau and International Trade Minister Chrystia Freeland during the 2015 election campaign. Consultations remain ongoing as of now, and no decision has been made to table the TPP in Parliament.</p> <p><i>(Parliament of Canada; Global Affairs Canada)</i></p>
<b>Chile</b>	<p>On 25 August 2016, Chilean President Michelle Bachelet announced that it would submit the TPP to the Congress for its approval by the end of 2016. There have been no developments on that so far, but President Bachelet reiterated the need for free trade and ratification of the TPP during the APEC Economic Leaders' Meeting.</p> <p><i>(Government of Chile)</i></p>
<b>Japan</b>	<p>On 10 November 2016, the House of Representatives (the lower house of the National Diet) voted to ratify the TPP. Following the vote, the decision will automatically stand after 30 days even if the House of Councillors (the upper house) does not vote in favour.</p> <p><i>(Nikkei Asian Review)</i></p>
<b>Malaysia</b>	<p>On 27 and 28 January 2016, the Dewan Rakyat and Dewan Negara (the lower house and upper house of the Malaysian Parliament) voted to approve the TPP respectively. However, Ministry of International Trade and Industry (MITI) Secretary General Datuk J Jayasiri said that only after 18 pieces of related legislation have been amended will Parliament consider ratification.</p> <p><i>(New Straits Times)</i></p>
<b>Mexico</b>	<p>On April 2016, the Mexican government formally sent the TPP to the Mexican Senate for ratification. Even though the TPP was expected to be ratified by the end of 2016, the Senate is still studying the TPP. On 18 November 2016, Mexican Economy Minister Ildefonso Guajardo said that Mexico, Japan, Australia, Malaysia, New Zealand and Singapore are aiming to continue with the TPP with or without the United States.</p> <p><i>(Reuters; Government of Mexico)</i></p>
<b>New Zealand</b>	<p>On 15 November 2016, the TPP Agreement Amendment Bill, which would amend 11 New Zealand laws in implementing the TPP, passed the Third Reading stage in Parliament. It now awaits Royal Assent – the final stage in the ratification process.</p> <p><i>(Parliament of New Zealand)</i></p>
<b>Peru</b>	<p>The TPP was submitted to the Peruvian Congress for its approval on 21 July 2016, where it is still being discussed until today. On the sidelines of the APEC Economic Leaders' Meeting, Peruvian President Pedro Pablo Kuczynski and Japanese Prime Minister Shinzo Abe both agreed to expedite the completion of "domestic procedures" to implement the TPP. At the same time, speaking to Russian press, President Kuczynski said that the TPP could be replaced with a new deal without the US.</p> <p><i>(Andina; Nikkei Asian Review; Russia Today)</i></p>
<b>Singapore</b>	<p>On 18 November 2016, Singapore Prime Minister Lee Hsien Loong stated that Singapore "is pushing ahead to amend its legislation and bring into effect the Trans-Pacific Partnership (TPP) by early next year".</p> <p><i>(TODAY)</i></p>
<b>Vietnam</b>	<p>On 17 November 2016, Vietnamese Prime Minister Nguyễn Xuân Phúc announced that the government will not be submitting the TPP to the National Assembly for its ratification given latest developments in the United States. This came after an announcement on 16 September 2016 that ratification of the Trans-Pacific Partnership (TPP) will not be included on the National Assembly's agenda for its next session because the government's proposal was not yet complete.</p> <p><i>(Reuters)</i></p>

*Mr. Ho Meng Kit is the Chief Executive Officer of the Singapore Business Federation.*

The TPP embodies what we see as the future of Asia-Pacific and is one of the pathways to achieve APEC's Bogor Goals. It will transform the region by reducing tariff and non-tariff barriers substantially for both goods and services, encouraging greater investment, and addressing new trade challenges in the modern economy.

The TPP is a high standard regional agreement. First, it will strengthen regional production and supply chains by lowering tariff rates for goods that are produced in stages across multiple TPP economies. Second, TPP rules will bring about greater coherence and transparency to trade-related regulations across TPP markets, making it simpler for businesses to operate. Third, the TPP will establish a new regional standard for future trade agreements that will promote good governance, encourage robust but balanced regional standards in intellectual property, and grow the digital economy.

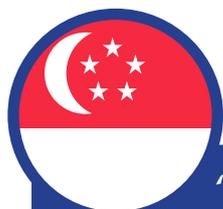
The role of the US is pivotal for the TPP. If it does not ratify the TPP, there will be no agreement. The fate of the TPP now rests with President-elect Donald Trump as there is currently no legislative support for it during the lame-duck session of the Obama administration. However, the desire to pursue greater regional economic integration in our region is still thankfully strong. Focus will shift to the other pathways to a wider Free Trade Area of the Asia-Pacific (FTAAP) which will include the Regional Comprehensive Economic Partnership (RCEP). While the RCEP is not as high standard as the TPP, its negotiation is not concluded yet. Thus, there are still opportunities for businesses and governments to push for a higher standard agreement that will improve the business environment in our region for companies to invest and grow.

Meanwhile, we hope that the US will come to a quick conclusion that they cannot erect walls against globalisation. It is technology that is taking away jobs, not trade. They cannot protect sunset industries but should introduce US domestic programmes to make the US competitive and attractive for sunrise industries.

*Mr. Manu Bhaskaran is the Director of Centennial Group International, and the Founding Director and Chief Executive Officer of Centennial Asia Advisors.*

Singapore would have been a major beneficiary of the TPP. The TPP, being a high standard economic integration agreement, would have substantially increased the flow of goods, services, capital and people within the region. A regional hub like Singapore thrives on such flows since our port, airport, logistics, warehousing, business services and related activities would all have benefited. In addition, the TPP would enable our companies to have access to 40% of world GDP, opening up a massive market to us. That would give our exporters not only more scope to sell their products but also a unique ability to scale up which we do not have right now given the tiny size of our consumer market. That ability to scale would also encourage more businesses from all over to set up in Singapore. For example, we could attract even more start-ups than we already did.

Therefore, the US' failure to ratify the TPP would be a big setback for Singapore in terms of lost opportunities. What is more worrying is that the same political forces that are stymying the TPP ratification – populism and inward-looking nationalism – could lead to more protectionism and more policies to curtail the globalisation and trade integration that have benefited Singapore tremendously in the past 50 years. We have seen a substantial increase in protectionist measures since the global financial crisis of 2008. Initiatives such as the TPP were necessary to counter this unfortunate trend.



**"I still believe that trade liberalisation is a win-win proposition, and important for getting growth for the world. I know why there was a reaction against the trade agenda, and the political difficulties of pursuing a pro-trade agenda. Each country has to make sure that the benefits of trade are shared widely. ... We must not do things that will hurt ourselves, which lead other countries to retaliate, and undo the progress over many decades. The TPP was one of the highest-profile, major trade initiatives over the last half a dozen years. While it may be delayed for now, but there are still other pathways to free trade in the Asia-Pacific."**

*– Singapore Prime Minister Lee Hsien Loong, 18 November 2016*

The political implications of the TPP failing are also important. Singapore sees a need to anchor the US presence in Asia and the TPP is one mechanism for doing so. A US that is present and active in the region would be a stabilising force, helping to balance a rising China. The US' failure to pass the TPP, due to domestic political constraints, would severely dent the credibility of its pivot to Asia in which Singapore occupies an important and comfortable position.

Sadly for Singapore, there is no Plan B. Other trade integration initiatives such as the Regional Comprehensive Economic Partnership could still go ahead but they do not come close to achieving the scale of increase in goods, services, capital and people flows that the TPP offers.

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of Government, Harvard  
University.*

The National Assembly of Vietnam, which is currently in session, has decided not to put the TPP on its agenda. This is a strategic and, from hindsight, wise decision given that the US Congress itself will not consider the TPP in its lame-duck session. The fate of the TPP is now uncertain at best. What implications does this hold for Vietnam?

Since *Doi Moi* (economic renovation) in 1986, trade and foreign direct investment have always been two main engines of growth in Vietnam. While the TPP or, more generally, international economic integration can create potential opportunities, realising these opportunities depends on the country's internal capability which, in turn, requires fundamental institutional and structural reforms. A vivid example for this is Vietnam's accession to the World Trade Organisation (WTO) in 2007. Despite numerous promises, failures in implementing necessary reforms have prevented the WTO accession from promoting industrialisation, enhancing productivity, and thereby putting Vietnam back to a high-growth path. Similarly, due to inherent structural weaknesses, even if the TPP were implemented today, the benefit from the TPP of even the most promising sector, namely textile and garment, would be quite limited because over 90% of Vietnam's exports are not qualified yet for the yarn-forward rules of the TPP.

It should also be stressed that Vietnam has been undertaking a historical wave of more than a dozen free trade agreements (FTAs), in which the most significant ones recently are the TPP and the EU-Vietnam Free Trade Agreement (EVFTA). Vietnam today is one of the most active integrationists in ASEAN. Indeed, it is not easy to envisage its next major FTAs because Vietnam seems to have either signed or negotiated them all.

Metaphorically speaking, Vietnam's economy in the past three decades has been flying with two wings, namely domestic reform and international integration. The country will definitely deepen its economic integration even without the TPP. The bigger question is whether there is sufficient political will to overcome vested and entrenched interest groups to implement long-needed domestic institutional reforms. Reforms always come with a price, yet postponing them would be more costly in the long run.



**"The United States has announced it suspends the submission of TPP to the parliament so there are not sufficient conditions for Vietnam to submit its proposal for ratification. ... We already have signed 12 free trade agreements, so joining the TPP is good, but without joining TPP we will still continue to further the economic integration under programmes we have joined. ... The party, the state are implementing a policy aimed at diversification and multilateral ties, considering all countries as friends."**

– Vietnam Prime Minister Nguyễn Xuân Phúc, 17 November 2016



# Spending on Defence

*DR. TIM HUXLEY discusses the emerging trends in defence and military procurement across Southeast Asia.*

Although they spend much less on defence than the main powers of Northeast Asia (China, Japan and the Republic of Korea), over the last 50 years Southeast Asian governments have incrementally increased their defence spending, with a long-term cumulative effect in terms of the scale of resources they channel to their armed forces. Prominent among the factors that have influenced this process has been the rapid expansion of Southeast Asia's economies: it is often pointed out that ASEAN member governments have generally managed to spend more on defence in real terms while not increasing their military spending as a proportion of GDP. An equally influential factor, though, has been a prevailing sense of insecurity in the region which persisted even after the end of the Cold War a quarter-century ago. This insecurity has derived not only from changes in the

role of major powers – including the US semi-withdrawal from mainland Southeast Asia during the 1970s in the wake of President Richard Nixon's Guam Doctrine and the communist victories in Indochina, a perceived threat from the Soviet Union during the 1980s, and Chinese growing maritime assertiveness during the current decade – but also rumbling distrust and disagreement over numerous bilateral matters among Southeast Asian countries.

While the general trend in Southeast Asian countries' defence spending has been upwards, this trajectory has not been consistent. For example, the Asian financial crisis of the late 1990s severely undermined government spending including defence budgets in the larger ASEAN member states. Whereas in the mid-1990s, Indonesia, Malaysia, Singapore and Thailand each spent roughly the same



amount on defence (around US\$4 billion annually), the financial crisis led to significant cuts in Indonesian and Malaysian military spending, and a drastic reduction in Thailand. But Singapore escaped relatively unscathed from the crisis, and its defence spending continued to grow. Subsequently, the city-state's strong economic performance has allowed it to continue outspending its fellow ASEAN members despite its small size and population: Singapore's 2015 defence budget of US\$9.7 billion was significantly bigger than the military allocations of Indonesia (US\$7.6 billion), Thailand (US\$5.4 billion), Malaysia (US\$4.7 billion) and the Philippines (US\$2.2 billion). Calculating defence spending by Myanmar and Vietnam is difficult because of their political and economic systems, but the annual IISS *Military Balance* publication estimates their military budgets at US\$2.2 billion and US\$4.3 billion respectively. More recently, the precipitate decline in oil prices has disrupted the rising trend in Southeast Asian states' defence spending, with Brunei Darussalam and Malaysia being significantly affected.

Because there is a wide range of influences on ASEAN member states' defence spending, it is difficult to discern precisely the extent to which their defence spending has been stimulated by concern over China's activities in the region, and specifically in the South China Sea since 2012 when Beijing commenced rapid, large-scale artificial island construction on some of the features it occupies and the militarisation of the resultant islands. However, it seems fair to say that China's behaviour has contributed significantly to an increasingly acute sense of insecurity in the region which is encouraging Southeast Asian states to continue increasing their defence spending, if their economies allow them to do so without compromising other government expenditure. It is also clear that Southeast Asian governments are in many cases emphasising the expansion and modernisation of navies and air power against the backdrop of rising tensions in the South China Sea and, in some cases, infringement of their Exclusive Economic Zones. For example, Indonesia is buying new frigates, submarines and multi-role combat aircraft. The Philippines is also acquiring new frigates, and has revived its jet combat aircraft force. Vietnam is establishing its submarine flotilla from scratch, while continuing to strengthen its surface fleet and buy new maritime patrol and combat aircraft. Several Southeast

Asian countries – including Indonesia, the Philippines and Vietnam – are also strengthening their coast guard and other maritime paramilitary forces, but these are usually funded from separate non-defence budgets.

Only a few Southeast Asian countries have successfully developed their own defence industries. Most prominently, the Singapore Technologies Engineering conglomerate supplies Singapore's armed forces with their surface ships, artillery, a large proportion of their armoured vehicles, and small arms and ammunition. Indonesia's defence industry went into decline following the ouster of President Soeharto in 1998, but efforts are underway to revive its capacity to produce transport aircraft, helicopters, ships and other equipment. Southeast Asian armed forces derive the great preponderance of their major military equipment from the international market, and mainly from the United States, Europe (France, Germany, Italy, the Netherlands, Sweden and the United Kingdom) and Russia. During the present decade, the Republic of Korea has emerged as an important

arms supplier to Southeast Asia, Korean industry supplying submarines to Indonesia, and frigates and jet training aircraft to the Philippines and Thailand. In 2015, Japan loosened its longstanding self-imposed constraint on exporting arms and may in the future sell naval vessels, patrol aircraft and other defence equipment

**“it seems fair to say that China’s behaviour has contributed significantly to an increasingly acute sense of insecurity in the region which is encouraging Southeast Asian states to continue increasing their defence spending, if their economies allow them to do so without compromising other government expenditure.”**

to Southeast Asian countries. Despite its important and growing economic links with Southeast Asia, China's arms contracts in the region have so far been few and far between. In the past, Southeast Asian military chiefs questioned the reliability and effectiveness of Chinese equipment. Malaysian Minister of Defence Hishammuddin Tun Hussein's announcement in early November that the Royal Malaysian Navy would buy four Littoral Mission Ships to be built in a joint venture between a local shipyard and a Chinese state enterprise indicated a significant inroad by China into an important Southeast Asian defence market. However, concern over the political complications of buying arms from a country which is at odds with some ASEAN members over its claims and activities in regional waters may limit further such opportunities for China. ■

*Dr. Tim Huxley is Executive Director of the International Institute for Strategic Studies-Asia (IISS-Asia), Singapore.*

# Duterte and the US-Philippine Alliance

*In a recent speech to a gathering of Chinese and Filipino businessmen during his state visit to Beijing, Philippine President Rodrigo Duterte announced his country's "separation from the United States" – a declaration that could signal an epochal change in the longstanding military and economic relationship between a superpower and its former colony-turned-strategic ally. In view of that, ASEANFocus invited six experts from the across the region to share with us their thoughts on what this possible change might mean for the US' place in the Asia-Pacific.*



Philippine President Rodrigo Duterte reviewing a military parade

Rappler.com

*Mr. Endy Bayuni is  
Editor-in-Chief of  
The Jakarta Post,  
Indonesia.*

President Rodrigo Duterte's announcement of his separation from the US is consistent with his foreign policy moves since coming to office. We see a clear pattern of Duterte trying to break out of America's influence in order to pursue a more independent foreign policy which allows Manila to move closer to China.

Every country must realign its foreign policy more attuned to the new geopolitical reality now defined by the rise of China in parallel with the weakening role and diminishing presence of the US. This does not mean the end of the US role in the region, but it does mean recognising the power and the new place of China as the big elephant in the room. Such a recognition would also compel Beijing to use its power more responsibly.

Indonesia has never been part of any security alliance as it is consistently pursuing an active and independent foreign policy. If Indonesia under President Joko Widodo is perceived as shifting closer to China, that is because Indonesia sees this in its national interests.

However, Indonesia will never completely ally itself with one over the other power, although in practice it may be tilting closer to one of them. International relations is not a zero-sum game of "you are either with us or against us" that alliances usually impose. For Indonesia, a more independent foreign policy still best guarantees its security and prosperity.

Duterte is simply trying to follow a course Indonesia has pursued all along. The difference is that first he has to break free from the Philippines' old alliance with the US. Break-up is a hard thing to do, but if this is in the interest of the region, countries should help the Philippines and the US go through this process.

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Singapore.*

The twists and turns in the saga of Philippine President Rodrigo Duterte's visit to Beijing this October, his extraordinary claim of "separation" from the US, and his equally astonishing volte-face – Duterte would insist, following his China trip, that maintaining the US-Philippines relationship was "in the best interest of [his] countrymen" – probably surprised even the most jaded observers of regional affairs. The Philippine President's subsequent visit to Tokyo yielded a joint statement with Japanese Prime Minister Shinzo Abe that underscored their shared reliance on their alliances "to help promote the peace, stability and maritime security of the region," implying continuity rather than change.

What to make of Manila's "pivot" to China? At least one Southeast Asian leader, Singapore Prime Minister Lee Hsien Loong, seems to believe Duterte was not posturing when voicing his displeasure with the US and desire to part ways with America. However, since Donald Trump's victory in the just completed US presidential election, Duterte has promised to honour his country's defence pacts with the US and indicated his desire to resume military exercises with the US which he had earlier claimed would be terminated. But should the Philippines tilt unequivocally away from the US and towards China, it could spell the end of the US-Philippines alliance as we know it. It could lead Singapore to enhance its already robust facilitation of the US forward presence in the Asia-Pacific, not unlike what Singapore did following the closure of Clark and Subic Bay military bases in the Philippines in the early 1990s. Furthermore, it could lead countries like Vietnam to deepen their security ties with the US.

Interestingly, Duterte's chief lesson in this game could well be this: that it pays to play the big powers off each another. Duterte's Beijing visit reportedly netted him US\$13.5 billion in deals. And when US Secretary of State John Kerry visited Manila in July, he came bearing a US\$33 million gift for the Philippines, despite Duterte's offensive language against US Ambassador Philip Goldberg. To which Duterte purportedly responded, "OK, maybe we should offend [the Americans] more". That Manila's China pivot possibly reflects classical hedging behaviour – albeit festooned with presidential melodrama – rather than a one-way ticket on the Chinese bandwagon cannot be ruled out.

*Dr. Masashi Nishihara is President of the Research Institute for Peace and Security, and former President of the National Defense Academy of Japan.*

President Rodrigo Duterte seems to lack in appreciating how much the alliance with the US actually has helped maintain the Philippine security for the last seven decades. It still contributes to the Philippines today. Without the presence of US visiting forces, the Chinese military would have expanded itself with higher speed than otherwise. Duterte should see the fact that the alliance has also helped maintain the security of international sea-lanes in the South China Sea, which helps trading activities by many nations, including Japan. Over 85% of Japan's oil imports come through the Strait of Malacca and the South China Sea.

President Duterte wants to keep some political distance from the US in order to have rapprochement with China. However, he also wants to bring Japan into his side to balance Chinese power. His meeting with Prime Minister Shinzo Abe on 26 October, immediately after his visit to Beijing in the previous week, was indicative of his balancing act in the Western Pacific. While visiting Japan, Duterte acknowledged the binding power of The Hague's judgement and called for peaceful solution of territorial disputes. He supported the rule of law and showed his recognition of the alliance with the US. Abe thinks his role is to bridge the Philippines and the US.

If the US-Philippines alliance should break down, Japan will have to strengthen its own defence capability to fill in the gap to be created by the withdrawn US forces from the Philippines, and to provide stronger logistic support for the US naval and air power stationed in Japanese bases. Japan has been supporting the Philippine Coast Guard by providing vessels and renting airplanes. This is a step forward to building a multi-national framework to protect the security of international sea-lanes. It is a new role for Japan to play in Asia.

*Dr. Lee Jaehyon is Senior Fellow and Director of the Centre for Regional Studies, ASEAN and Oceania Studies Programme, Asan Institute for Policy Studies, Republic of Korea.*

In the past five months, no national leader in the ASEAN region attracted more media attention than the new Philippine President Rodrigo Duterte. It was not just because of his war against drugs, but also because of his comments on the Philippines' partnership with the US.

Notwithstanding Duterte's rhetoric, the fundamental basis of the alliance will be preserved. Both parties need each other for strategic reasons. What matters is the perception of the regional audience. Despite the sound basis of the alliance, the words and actions from President Duterte may send a wrong signal to regional countries. It creates worries throughout the region that the alliance system and security guarantees from the US could undergo a fundamental revision. If this perception is not managed, it may be perceived as a reality.

Another emerging trend is that the alliance system in Southeast Asia is slowly loosening, unlike in Northeast Asia. There are doubts about the healthy partnership between Thailand and the US since the 2014 Thai coup. Comments by President Duterte on the alliance with the US could exacerbate the existing doubts on the strength of alliances in Southeast Asia. In comparison, the US' partnerships with Korea and Japan have strengthened in recent years as displayed by the Korean government's decision to deploy the Terminal High Altitude Area Defence (THAAD) missile defence system in the rural parts of Seongju County in North Gyeongsang Province. Could Southeast Asia and Northeast Asia take different paths in their alliances with the US in the coming years? Would this imply the divergence of the two regions' security and strategic interests?

Last but not least, US President-elect Donald Trump is an important variable in the future of the alliance system in the region. While the overall alliance system in the region is not likely to face serious challenges given the foreign policy traditions of the Republican Party, there is one important flashpoint between the US and the Philippines – the clash of personality. That Duterte is often called the Trump of the Philippines does not guarantee the two leaders will get along. The strong characters of these leaders have the potential to come into conflict, and might cause severe damage to the alliance between their countries and to the region as well.

*Ms. Elina Noor is the Director of Foreign Policy and Security Studies, Institute of Strategic and International Studies (ISIS) Malaysia.*

President Duterte's political bluster necessitates a closer look at the reality behind his rhetoric. His unraveling of the "vintage" US-Philippines alliance – America's oldest in Asia – is exaggerated. It appears, rather, to be the headstrong pragmatist's approach to rebalancing Philippine foreign policy away from single-power reliance, coincidentally bringing the country's direction closer to that of others in Southeast Asia. His tirades may be his own but the president recognises full well that he faces institutional and popular constraints against any wild policy shifts he may have in mind for the Philippines.

Under the Duterte administration, there will likely be tweaks in existing relationships rather than definitive and wholesale separations. His only sore point seems to be being lectured about human rights, particularly by the West, which is a temper trigger that is not uncommon in this region among strong leaders past and present.

Any assumption made that the Philippines is gravitating into China's orbit and away from the United States is flawed not only because it bifurcates the region between those two powers but also because it is simply wrong. Duterte's topmost priority has to be the national interest of the Philippines and if he can draw on the support of competing major powers in the region to advance that goal, then he is doing no more and no less than what his neighbours have been doing for much longer. Likewise, Malaysian Prime Minister Najib Razak's trip to China in early November should be seen in that light and placed in the larger context of Malaysia's equally close – if not closer – bilateral ties to other regional powers.

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*Dr. Nguyen Manh Hung is Visiting Senior Fellow at ISEAS-Yusof Ishak Institute and Professor Emeritus of Government and International Relations at George Mason University, USA.*

For years, ASEAN leaders, including Vietnamese leaders, have talked about the need of ASEAN's unity and centrality, and the strength of United States' engagement as two major requirements for peace and stability in the South China Sea. The Philippines and the US-Philippines military alliance are the critical anchor in Southeast Asia of such engagement. By a declared policy of tilting towards China and opposition to US military presence in the Philippines, Duterte has blown a hole in ASEAN's common vision, threatened the stability of the regional strategic balance, and seriously limited policy options of other Southeast Asian countries.

For Vietnam, Duterte's tilt towards China away from the US creates difficulty for its policy of soft balancing among the major powers. Vietnam wants American presence as a stabilising force but cannot afford to antagonise China by offering the US a presence on its soil. So far, it has been spared of that difficult choice because other ASEAN countries – Singapore, Malaysia, and especially the Philippines – have provided access to US naval and air forces to project its power in the area. While uncertainty over the US-Philippines military alliance enhances the relative strategic position of Vietnam in America's Asia-pivot strategy, it is difficult for Vietnam to leverage its geographic importance.

Duterte's agreement to make a separate deal with China through bilateral negotiation also deals a hard blow to Vietnam's negotiating position. Vietnam has maintained that there are two sets of disputes in the South China Sea: the Paracel Islands dispute can be negotiated bilaterally because it involves only Vietnam and China, but disputes in the Spratly Islands must be discussed multilaterally because it involves several claimants and Vietnam expects multilateral negotiation would give it the benefits of collective bargaining power. Since Duterte's visit, China also obtained from Malaysia an agreement to conduct bilateral negotiation over their maritime dispute. Separated deals with China by two important parties to the disputes play into China's divide-and-rule tactic, isolating and putting Vietnam in a more difficult position.

Duterte's policy may set off a chain of reactions that make the effort to build ASEAN unity and centrality a pipe dream, and endanger the kind of peace and stability in the South China Sea that small ASEAN countries can comfortably live with.

# Unexpected Meteorite

*Eka Kurniawan is perhaps Southeast Asia's best hope for a Nobel Prize in Literature.*

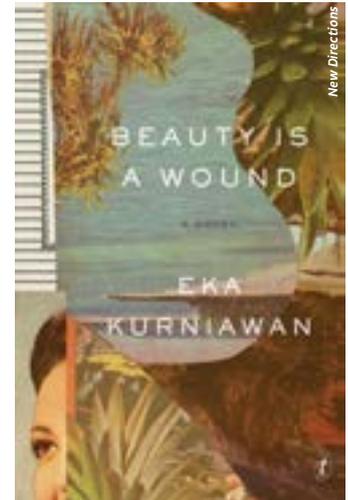
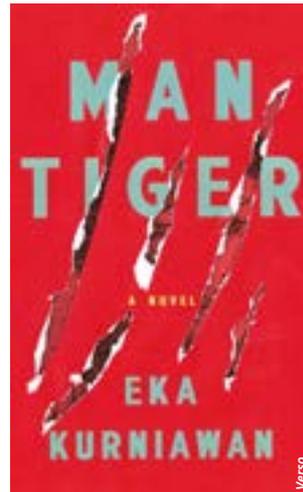
BY JASON SALIM

**“One afternoon on a weekend in March, Dewi Ayu rose from her grave after being dead for 21 years.”**

With that one sentence, readers of Eka Kurniawan's *Beauty Is A Wound* are immediately transported into another world where Indonesia's tumultuous history beautifully melds with the hauntingly fantastical and the surreally macabre. Eka's debut novel, first published in 2002 and translated into English only in 2015, has since won rave reviews for his brilliantly creative exploration into Indonesia's traumatic past. Amidst the many accolades he received from all corners of the world, perhaps it is the late Professor Benedict Anderson, the doyen of Southeast Asian studies, who gave the highest compliment when he called Eka “certainly Indonesia's most original living writer of novels and short stories, and its most unexpected meteorite.”

Born in the beautiful yet isolated coastal town of Pangandaran in West Java, Eka spent his formative years ensconced in a world of stories and books. Growing up, he absorbed not only the legends and magical tales that defined the Sundanese culture and traditions of West Java, but any reading material that found its way to his corner of the world, especially the ubiquitous horror stories that dominated popular Indonesian literature. Forty years on, these vivid vignettes from his childhood would resonate deeply in his critically-acclaimed novels, which are well known for portraying an Indonesia that transcends the placid and the idyllic.

After graduating at the top of his class in high school, he was admitted into Gadjah Mada University, one of Indonesia's most prestigious universities. Located at the heart of Javanese culture in the royal city of Yogyakarta, it was at Gadjah Mada's library that Eka widened his intellectual horizons and came across authors who would be his lifelong inspirations. They included big names who defined their genres like Gabriel Garcia Marquez, Salman Rushdie and Knut Hamsun, as well as local popular literature writers like Asmaraman Kho Ping Hoo and A. Harahap. None of them, however, would have as big an influence on him as Pramoedya Ananta Toer, who is quite possibly the most famous writer to have come out on Indonesia,



Some of Eka's (left) renowned works include *Beauty Is A Wound* and *Man Tiger*.



and whose *Buru Quartet* remains the quintessence of modern Indonesian literature to date. Pramoedya's writing philosophy was the topic for Eka's senior thesis at the end of his longer-than-usual sojourn in university.

Since the publication of the English translations of his novels *Beauty Is A Wound* and *Man Tiger*, the 41 year-old Eka has become well known in the international literary scene. He has been invited to speak at some of the world's most prominent book festivals in Brooklyn, Frankfurt and Melbourne. In 2016, not only did he win the Financial Times' Emerging Voices Fiction Award, but *Man Tiger* was also longlisted for the Man Booker International Prize alongside works by Nobel Literature laureates Kenzaburo Oe and Orhan Pamuk.

In his comments on Chinese writer Mo Yan being awarded the Nobel Prize in Literature for the *New Left Review* in 2012, the late Professor Anderson remarked that Southeast Asia is the only region to have never received the prestigious Nobel in that category. Many have lamented that Southeast Asia lost its most promising prospect for the Prize when Pramoedya passed away in 2006. With Eka's ascent to literary fame worldwide, he is now better positioned to reach the Holy Grail of literature accolades. With names like Haruki Murakami and Ko Un frequently making the rumour mills, considering Eka Kurniawan for that honour might just be the catalyst needed for Indonesian and Southeast Asian literature to widen its reach beyond the region, allowing people across the world a glimpse into our rich literary and storytelling traditions. ■

*Mr. Jason Salim is Research Officer at the ASEAN Studies Centre, ISEAS-Yusof Ishak Institute.*

# Under Royal Auspices

*The Royal Projects in Northern Thailand exemplify economic diversification at its most beneficial.*

BY NUR AZIEMAH AZIZ



Staff at work at Doi Angkhang in Chiang Mai

Wikimedia Commons



King Bhumibol Adulyadej in one of his early visits to Northern Thailand

thailand.sustainabledevelopment.com

In recent years, Northern Thailand has gained a lot of the tourism spotlight, edging out the popular choices of Bangkok's sights and sounds and the allure of Southern Thailand's sun and surf getaway. Chiang Mai, the centre of Northern Thailand, is fast becoming a tourist hotspot especially for those looking for a quiet respite from the hustle and bustle of city life while immersing in Thailand's rich and diverse culture and soaking in the natural beauty of Thai mountain resorts. It is also a place for travellers who wish to experience the wilderness and lush greenery of the lesser known of Thailand's countryside.

Modern-day Northern Thailand, especially Chiang Mai, was once a sleepy impoverished region where local people struggled with poverty and relied chiefly on farming for their livelihood. Opium was a cash crop for the people of the hill tribes who lived on the highlands. During one of the many visits to Thai rural areas by His Majesty the late King Bhumibol Adulyadej in his early reigning days, he discovered that the northern hill tribes not only grew opium but were also involved in unsustainable slash and burn farming practices that seriously damaged the ecology and denuded forests. The King's visits allowed him to witness and understand the plight of his country people whose everyday was a struggle to make ends meet.

After meeting with the people of the hill tribes in Northern Thailand, King Bhumibol established the Royal Project in Chiang Mai in 1969 and the Doi Tung project in Chiang Rai in 1988. Both projects focused on crop substitution to stop the cultivation of opium. Underpinning King Bhumibol's royal

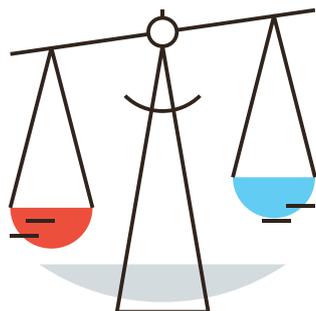
projects was and still is the philosophy of self-sufficiency economy, which emphasises the importance of ensuring a sustainable self-reliant livelihood. Notably, the 1969 opium replacement project in Thailand was the world's first and was hailed as the most successful in eradicating opium production in Northern Thailand. The Royal Project has been studied extensively to be used in countries plagued with opium cultivation problems.

Hill tribe people in Northern Thailand have turned to cultivating high-value vegetables (such as broccoli and carrot) and fruits (strawberry and kiwi) which, though not native to Thailand, were found to be conducive to the cool climate on highlands. The King also established the Royal Angkhang Agricultural Station in Fang District in Chiang Mai, managed by the Kasetsart University, to focus on research and cultivation of temperate fruits, flowers and vegetables.

Today, one can witness the seeds sowed on once a barren land lacking of healthy vegetation reap into a lush and luxuriant place with flower blossoms, coffee beans, temperate vegetables and fruits such as leeks, peaches and kiwis. Apart from farming, King Bhumibol's Royal Project also extended to teaching valuable skills such as making handicraft and hill-tribe souvenirs for sale to tourists, as well as encouraging local enterprises by marketing these cash crops to domestic and external bigger markets in neighbouring countries such as Malaysia and Singapore.

His Majesty's great foresight and love for his people are clearly reflected in over 4,000 development projects initiated under his royal auspices. A visit to Northern Thailand will be an excellent opportunity for many to not only learn more about the projects but also to support the great cause for humanity pioneered by the Thailand's beloved and revered late monarch. ■

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# Chiang Mai Initiative Multilateralisation: Averting Crises

*SANCHITA BASU DAS introduces one of the more important ASEAN financial cooperation initiatives.*

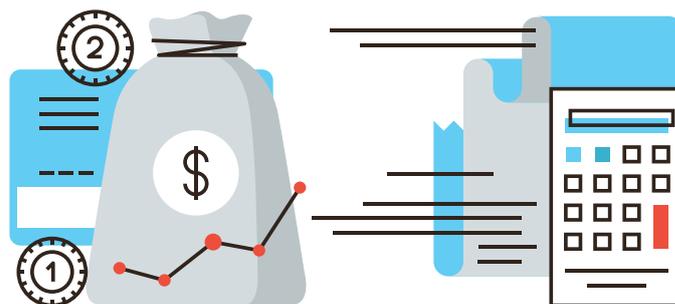
The Chiang Mai Initiative Multilateralisation (CMIM) is a multilateral currency swap arrangement among the finance ministries and central bank authorities of ten ASEAN countries, China (including Hong Kong), Japan and the Republic of Korea (ROK) that came into force on 24 March 2010. The mechanism evolved from the Chiang Mai Initiative (CMI) in 2000 which was a network of bilateral swap arrangements among the ASEAN Plus Three countries.

The CMIM aims to provide financial assurance for real or potential short-term liquidity issues in the region and is expected to supplement international financial institutions such as the International Monetary Fund (IMF). Conceived in the wake of the Asian financial crisis in 1997, the CMIM is widely hailed as a concrete and successful expression of the ASEAN Plus Three cooperation framework, manifesting the political will and capacity of East Asian countries to deepen regional integration and resilience against such future crises.

The initial size of the CMIM Arrangement was US\$120 billion, which was doubled to US\$240 billion in 2012. Of this, the ASEAN countries collectively contribute US\$48 billion and China, Japan and ROK contribute US\$ 192 billion. The CMIM applies 'purchasing multiples' which is a pre-determined number used to multiply with a member's contribution to calculate the maximum amount that it could borrow. Accordingly, the larger ASEAN economies like Indonesia, Malaysia, the Philippines, Singapore and Thailand have access to US\$22.76 billion each. However, of that amount, only 30% is de-linked from the IMF programme, meaning that members could draw up to 30% of their maximum borrowing amount without having to conform to IMF lending conditions.

Since 2012, the CMIM, has taken on two additional functions – crisis resolution through the CMIM Stability Facility (CMIM-SF) and crisis prevention through the CMIM Precautionary Line (CMIM-PL). While CMIM-SF allows member countries to draw upon funds to help restore market stability to a currency in crisis, CMIM-PL could be invoked if a member government believes a currency swap is required to head off a national financial crisis in advance.

The structure of the CMIM has been set up in a way that ensures that no single member is dominant. China, Japan and the 10 ASEAN nations have equal vote share at 28.41%. South Korea's vote share is smaller (14.77%), but the two-



thirds supermajority voting system allows the country to cast a determining vote under certain circumstances. Neither ASEAN nor any of the Plus Three countries can block a collective decision on its own.

As a crisis-management system, the operational framework of CMIM assumes special importance. The process begins with a swap request from a crisis-hit economy to the coordinating countries (one ASEAN country and one Plus Three country), who then subsequently inform the Executive Level Decision Making Body (ELDMB) within two days. The ELDMB, which is composed of the Deputy-level representatives of the ASEAN Plus Three Finance Ministries and Central Banks and the Hong Kong Monetary Authority, then reviews the economic situation of the requesting country and decides on the swap request. Within two weeks of the request, the ELDMB casts their votes. If two-thirds or more of the total votes are in favour of the swap, lending is approved. Following this, the ELDMB facilitates the disbursement of the fund from the providing countries to the requesting one. This process is to be completed within one week after the disbursement is approved.

One of the key features linked to the CMIM is the establishment of the ASEAN Plus Three Macroeconomic Research Office (AMRO) based in Singapore in May 2011 as a surveillance arm of the CMIM. AMRO monitors the economies of the region and tries to identify any potential triggers that may lead to a liquidity crunch. During normal times, AMRO submits periodic reports on the macro-economic situation of ASEAN Plus Three and individual member countries. During crisis times, AMRO is expected to assess the basis of a request for disbursement and subsequently monitor the use of the disbursed funds. ■

*Ms. Sanchita Basu Das is Lead Researcher (Economic Affairs), ASEAN Studies Centre and Fellow at ISEAS-Yusof Ishak Institute.*

*ASEANFocus is pleased to have Dr. Chang Junhong, Director of the ASEAN+3 Macroeconomic Research Office (AMRO), share with us her thoughts on the future of the Chiang Mai Initiative Multilateralisation (CMIM) and AMRO.*



**Dr. Chang Junhong**, who was appointed to a three-year term as AMRO Director on 27 May 2016, has two decades of experience as a career Chinese government official and in various multilateral financial institutions. Before assuming the role of AMRO Director, she was the Deputy Director-General of the International Economic Relations Department, the Ministry of Finance of the People's Republic of China. Dr. Chang holds a PhD from the National Institute of International Strategy, the Chinese Academy of Social Sciences.

**AF: What is the mandate of CMIM and how does CMIM help address the risk of financial crises like the Asian Financial Crisis of 1997?**

**CJ:** Having evolved from the CMI bilateral currency swap network, the CMIM is by nature a multilateral currency swap arrangement which covers all ASEAN+3 members. The CMIM is a large facility of US\$240 billion that aims at addressing balance of payments-related and short-term liquidity difficulties in the region, and at supplementing existing international financial arrangements. With these core objectives, the CMIM has further enhanced regional capacity to safeguard against downside risks and challenges in the global economy and is an important component of the global financial safety net.

The CMIM plays the role of regional insurer against crisis risks by providing a USD liquidity support mechanism that is available to members to strengthen their reserves position and manage shocks emanating from capital flow volatility, or to augment the financing available from the International Monetary Fund (IMF) in the event of a balance of payments crisis.

The CMIM is a more flexible financial arrangement that is tailored to meet the needs of regional members. Since the mechanism is owned by the members, it does not carry the stigma of other financing mechanisms and members are more open to using the facility. Because of its large size, the CMIM has acted as a deterrent against currency speculation in ASEAN+3 region. In the event of a balance of payments crisis, members can draw on the CMIM to augment their reserves in order to contain the crisis and prevent a contagion to other member economies.

One of the accomplishments of the CMIM is the establishment of AMRO. Since 2011, AMRO, as the surveillance arm of ASEAN+3, has played an important role in monitoring and analysing regional economies, in contributing to the early

detection of risks, and in providing policy advice to deal with emerging risks during peacetime. AMRO is consistently conducting regional surveillance with its in-depth knowledge of local/ regional economic circumstances and situations.

In times of near-crisis or crisis, AMRO needs to give members advice on appropriate policies and support the CMIM decision-making process. In terms of crisis prevention, rigorous and independent surveillance itself is regarded as the first line of defence in addressing the threats of financial crises and in securing the region's financial stability.

**AF: What are the current challenges to AMRO in terms of its organisation, mandate and funding?**

**CJ:** Established as a company in 2011, AMRO was transformed into an international organisation recently in early 2016. While having made significant strides in the past five years, AMRO is still a young international organisation and needs to adapt itself to an increasingly complex and dynamic international economic context.

The recent global and regional economic environment has been volatile and uncertain, due to a weaker-than-expected global economic recovery and more downside risks, more integrated global economies and spillovers to this region, and due to the higher volatility of capital flows and the financial market. The region is also witnessing more imminent structural challenges such as an ageing population and slowing productivity, which is expected to have an increasing impact on the ASEAN+3 economies in the coming years. All of this requires AMRO to further enhance its macroeconomic surveillance capacity to better detect risks.

At the same time, the G20 has pushed forward the reform agenda for the international financial architecture, including further strengthening of the global financial safety net. In this context, AMRO needs to support its member authorities in proactively responding to this momentum towards building

a robust Global Financial Safety Net (GFSN) and interacting more with other layers of the GFSN.

On the budget front, AMRO's operational budget comes from member authorities' annual contributions. We appreciate their strong support, and at the same time, we also recognise the high expectations of member authorities, including paying more attention to regional and sectoral surveillance, further contributions to CMIM & GFSN, and Technical Assistance to members. As a young organisation, we are in the process of enhancing our capacity to meet those expectations. We intend to proceed in consultation with member authorities and be fully accountable for our operation and performance.

**AF: What is the status of the AMRO Agreement, and how will transforming AMRO into an international organisation support the implementation of CMIM?**

**CJ:** The AMRO Agreement came into force on 9 February 2016. Since then, AMRO has turned into an international organisation with full legal personality and the legal capacity to carry out its purpose and functions.

This event marks an important milestone in ASEAN+3 members' joint efforts to upgrade and enhance ASEAN+3 financial cooperation. With this milestone, AMRO can function more effectively as the region's independent surveillance arm and contribute towards ensuring the macroeconomic and financial stability of the ASEAN+3 region. AMRO also supports the members in developing a crisis management framework.

**AF: What steps will AMRO undertake to strengthen its surveillance capacity?**

**CJ:** AMRO's immediate operational priorities in the surveillance function are to enhance its country surveillance, its regional surveillance, and to build its research capacity.

In order to strengthen its capacity, AMRO plans to develop a comprehensive surveillance framework for our core functions and establish its own analytical toolkits to support surveillance activities, at both country and regional levels.

As for country surveillance, AMRO has been submitting country reports on all member economies to the ASEAN+3 authorities, with a focus on macroeconomic and financial sector risks and vulnerabilities of each economy.

Going forward, AMRO will focus on identifying and analysing risks and vulnerabilities in each economy in a forward-looking manner, and will advise policymakers on appropriate policy options and policy mix in dealing with these risks and vulnerabilities. AMRO will also conduct more frequent consultation visits and pursue more active engagement with policy makers, researchers and market participants.

In the area of regional surveillance, AMRO has supported the regional surveillance discussion at ASEAN+3 Finance and Central Bank Deputies Meetings through providing updates and analysis on the regional outlook and issues. Based on feedback from our stakeholders, AMRO will strengthen our regional

surveillance function with closer monitoring of spillovers from advanced economies on our region, as well as conduct deeper analysis of intra-regional linkages within our region.

AMRO plans to publish an annual Flagship Report setting out its views on these issues. The first report is targeted to be launched on the sidelines of the ASEAN+3 Finance Ministers and Central Bank Governors' Meeting in May 2017 in Yokohama, Japan.

**AF: How will AMRO help enhance regional members' macroeconomic surveillance capacity?**

**CJ:** Since May 2016, AMRO has established a Technical Assistance programme in order to improve the macroeconomic surveillance capacity of the ASEAN+3 members in accordance with the endorsement by ASEAN+3 Finance Ministers and Central Bank Governors.

The programme comprises three pillars, namely the Secondment Programme, the Consultancy Programme and the Research and Training Programme. As part of the Secondment Programme, AMRO accepts secondees from ASEAN+3 members and provides them with on-the-job training opportunities, while supporting AMRO activities. This also helps strengthen the institutional capacity of AMRO. Through the Consultancy Programme, we provide technical support to ASEAN+3 members through AMRO's external consultants to strengthen their macroeconomic surveillance capacities. As part of the Research and Training Programme, AMRO holds seminars and conferences, and provides training programmes targeted for ASEAN+3 members.

**AF: What is the linkage between the CMIM and IMF?**

**CJ:** One of the core objectives of the CMIM is to supplement existing international financial arrangements, as well as to address balance of payments-related and short-term liquidity difficulties in the region.

Under the CMIM Agreement, a CMIM party can request for up to 30% of each swap quota without linkage with the IMF programme, which is allocated to each CMIM party in the ASEAN+3. If the amount of borrowing exceeds 30% of the swap quota, then any CMIM arrangement is available only when there is or will be an IMF programme in the requesting country.

The CMIM's link to an IMF programme and its conditionality has been designed to address the concern that the liquidity shortage in a requesting country may be due to fundamental policy problems rather than just panic (such as in the form of herd behaviour) on the part of investors or genuine external shocks, and that the potential problem of moral hazard could be non-negligible in the absence of rigorous conditionality.

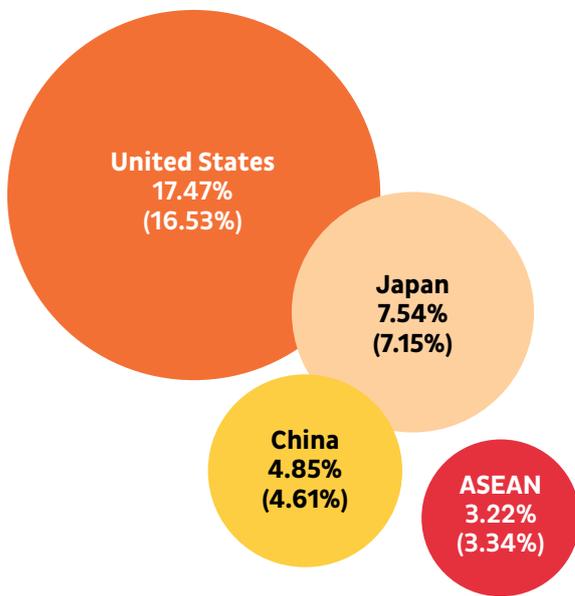
As AMRO further builds its own analytical capacity to formulate macroeconomic policy conditions, it is expected that the CMIM's linkage with the IMF will be adjusted accordingly. Given the close linkages among the different layers of the GFSN, strengthening coordination between the CMIM and other elements of the GFSN, including the IMF, is imperative. ■

# ASEAN's Contributions to Multilateral Financial Institutions

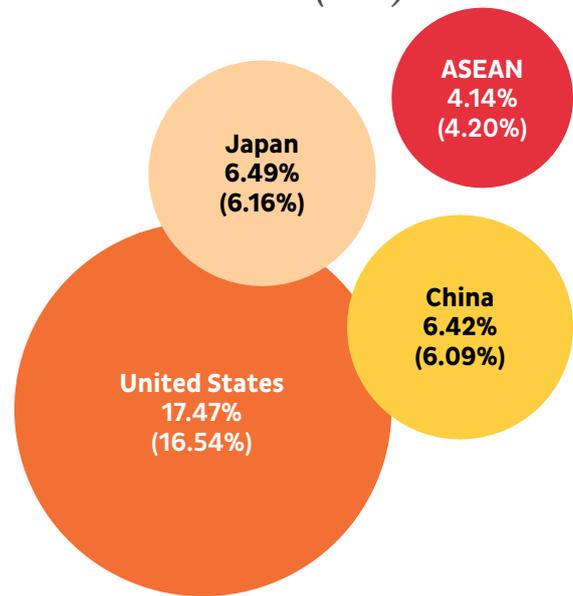
Even though ASEAN's contributions to international financial institutions seem modest compared with the major powers', a more confident ASEAN is making a mark in the regional financial cooperation architecture.

*% of Total Subscribed Capital  
(% of Total Voting Power)*

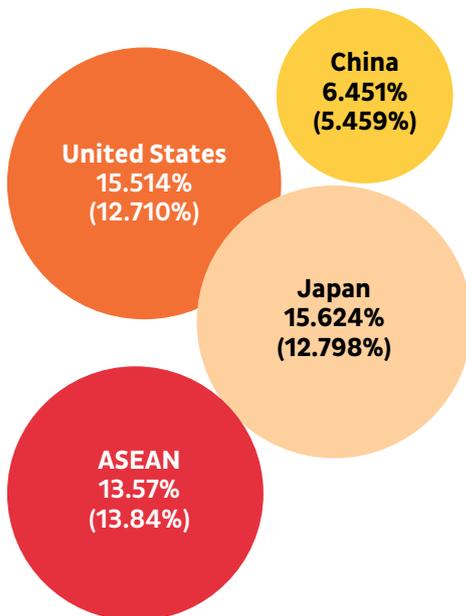
## International Bank for Reconstruction and Development (IBRD), World Bank



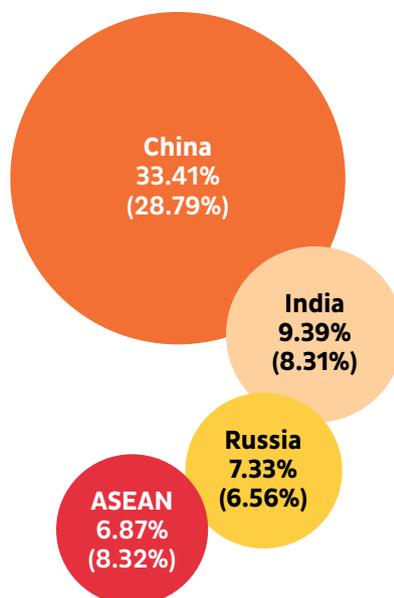
## International Monetary Fund (IMF)



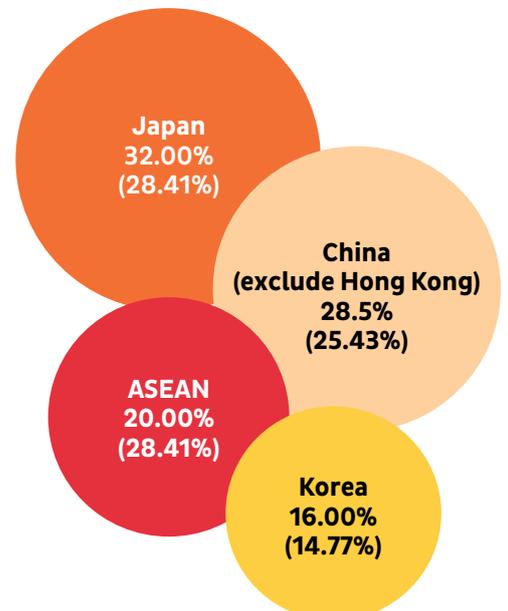
## Asian Development Bank (ADB)



## Asian Infrastructure Investment Bank (AIIB)



## Chiang Mai Initiative Multilateralisation (CMIM)



## ASEANFocus

is published by the ASEAN Studies Centre  
at ISEAS-Yusof Ishak Institute

ISEAS-Yusof Ishak Institute  
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