

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

This issue of ISEAS Monitor is an executive summary of the Regional Outlook Forum 2013, held on 10 January 2013, at the Shangri-La Hotel, Singapore

ROF Issue

Southeast Asia in 2013 and Beyond: Its Global Role and Challenge

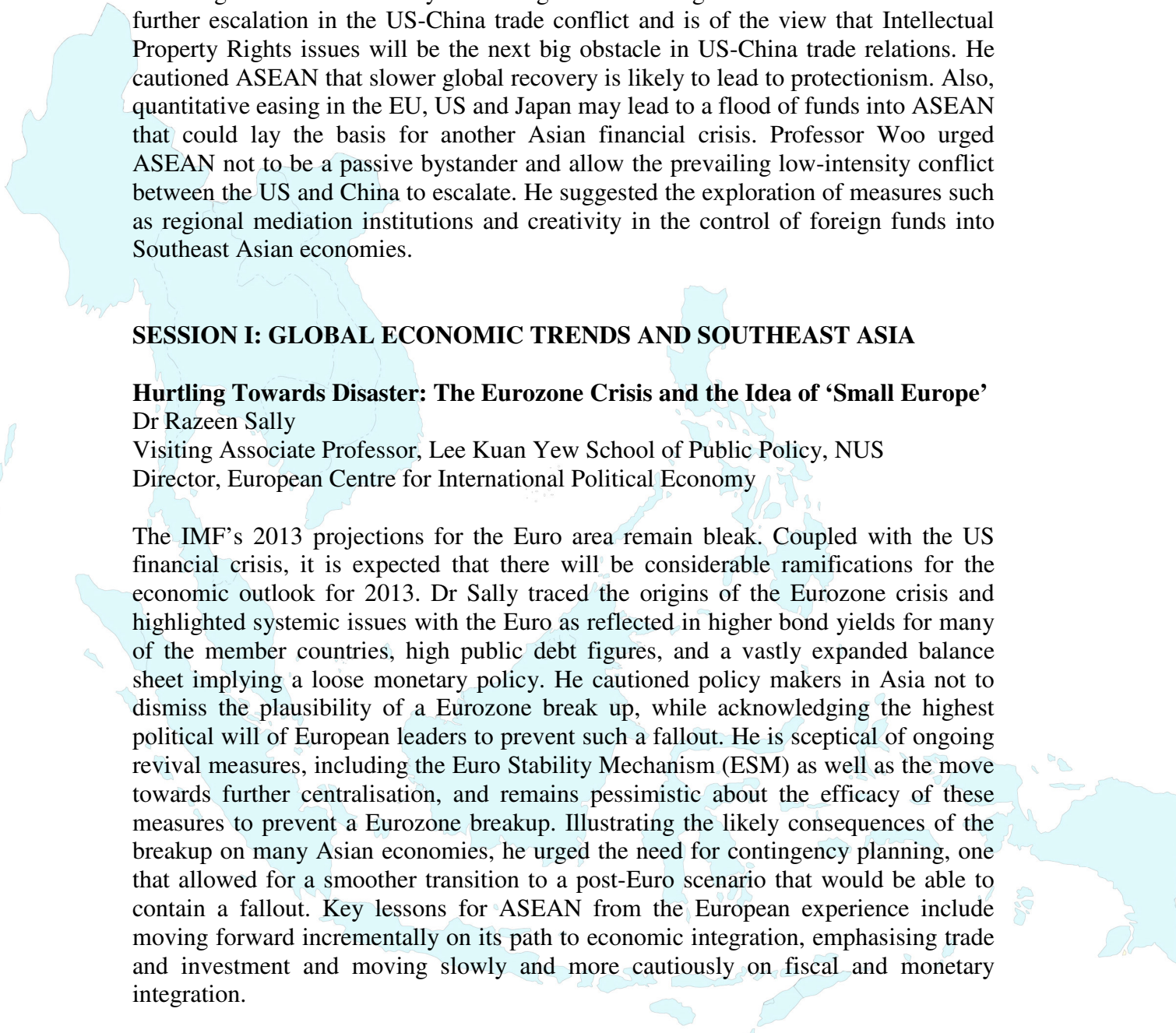
Keynote Address: Mr Jusuf Kalla
Former Vice President, Republic of Indonesia

The current global economic crisis has made the shift of economic power to the East more recognisable, in turn, buttressing Southeast Asia's profile as a key player in the global arena. Mr Kalla noted that this shift presented the region with new challenges, including the weathering of global crises, maintaining of peace in the region, promoting innovation capacity, and taking advantage of demographic changes. Economic progress remains slow worldwide with moderate growth in Japan and continuing uncertainty in the wake of the recently averted "fiscal cliff" in the US. The EU economy is expected to shrink this year while China's export-oriented economy faces serious challenges. On the other hand, Southeast Asia's ability to maintain peace is an important factor in its growing economy, more so than other regions. The region has to stay alert to domestic conflicts, terrorism, border disputes, and conflicts involving external powers. Mr Kalla proposed that ASEAN consider reforming its decision-making process to allow member states to vote for possible solutions if the current consensus approach did not work. He stressed the importance of regional collaboration in promoting innovation capacity and in managing demographic shifts, including increasing labour migration between countries and implementing minimum wage policies. Finally, Mr Kalla emphasised that the region needed not only to ensure continued economic progress but also to transform itself into an effective regional body that wielded greater authority.

ASEAN's New World — US-Chinese Competition and Monetary Quantitative Easing

Luncheon Speaker: Professor Woo Wing Thyne
Executive Director, Penang Institute;
Professor of Economics, University of California at Davis

Professor Woo shared his thoughts on why he viewed the measures taken by the US to overcome its financial crisis as flawed and on the need for an increased governmental role despite the budget deficit. His forecast is that unemployment figures in the US will remain high despite increase in growth, owing to the mismatch



in the supply of skills and new jobs in the market. China, on the other hand, appears to be plunging into the “middle income trap”. This, he feels, can be avoided only through new growth drivers including financial market and land reforms, and not through macroeconomic stimulus. He also regards China’s ineptness in maintaining its foreign relations as a key stumbling block to its growth. Professor Woo fears further escalation in the US-China trade conflict and is of the view that Intellectual Property Rights issues will be the next big obstacle in US-China trade relations. He cautioned ASEAN that slower global recovery is likely to lead to protectionism. Also, quantitative easing in the EU, US and Japan may lead to a flood of funds into ASEAN that could lay the basis for another Asian financial crisis. Professor Woo urged ASEAN not to be a passive bystander and allow the prevailing low-intensity conflict between the US and China to escalate. He suggested the exploration of measures such as regional mediation institutions and creativity in the control of foreign funds into Southeast Asian economies.

SESSION I: GLOBAL ECONOMIC TRENDS AND SOUTHEAST ASIA

Hurting Towards Disaster: The Eurozone Crisis and the Idea of ‘Small Europe’

Dr Razeen Sally

Visiting Associate Professor, Lee Kuan Yew School of Public Policy, NUS

Director, European Centre for International Political Economy

The IMF’s 2013 projections for the Euro area remain bleak. Coupled with the US financial crisis, it is expected that there will be considerable ramifications for the economic outlook for 2013. Dr Sally traced the origins of the Eurozone crisis and highlighted systemic issues with the Euro as reflected in higher bond yields for many of the member countries, high public debt figures, and a vastly expanded balance sheet implying a loose monetary policy. He cautioned policy makers in Asia not to dismiss the plausibility of a Eurozone break up, while acknowledging the highest political will of European leaders to prevent such a fallout. He is sceptical of ongoing revival measures, including the Euro Stability Mechanism (ESM) as well as the move towards further centralisation, and remains pessimistic about the efficacy of these measures to prevent a Eurozone breakup. Illustrating the likely consequences of the breakup on many Asian economies, he urged the need for contingency planning, one that allowed for a smoother transition to a post-Euro scenario that would be able to contain a fallout. Key lessons for ASEAN from the European experience include moving forward incrementally on its path to economic integration, emphasising trade and investment and moving slowly and more cautiously on fiscal and monetary integration.

Indian Economy

Dr Soumya Kanti Ghosh

Chief Economist, Economics & Research, Federation of Indian Chambers of Commerce and Industry, India

Dr Ghosh’s presentation provided the outlook for the 2013 Indian economy, in the wake of the global financial crisis and the Indian government’s recent reform initiatives. The IMF projects that the Indian economy will grow by 6 per cent, driven

by the services sector which accounts for 60 per cent of the GDP. The government is also taking steps to revive the lagging manufacturing sector to spur growth and address the absorption of 10 million new workers to the labour force every year. Inflation, which has been in the range of 9 per cent for two consecutive years, especially with uncontrollably high levels of food prices, seems to have subsided. Current Account Deficit (CAD) risks and concerns about sustainability persist, with India being the only nation with a CAD among its Asian peers. Dr Ghosh added that the government had recently set the ball rolling for reforms, allowing FDI in key sectors like Multi-brand Retail and Civil Aviation, and disinvestment of a few state-owned enterprises. The estimated capital flows from these and other planned reforms is expected to bridge the infrastructure financing gap of nearly INR 41 trillion for the 12th Plan Period by 20–24 per cent. Recent reforms have also resulted in an appreciable strengthening of the Rupee and have boosted investor sentiment as reflected in the Foreign Investment Inflows (FII). Overall, the outlook for 2013 remains upbeat. India continues to be an attractive investment option owing to huge domestic demand and a fast growing population.

China's New Leadership to Steer a New Course in 2013

Dr Shen Jianguang

Chief Economist, Mizuho Securities Asia Limited, Hong Kong

Dr Shen viewed the new Chinese leadership as stronger, more determined and capable of steering through difficult reforms. The recent concerns with a Chinese “hard landing” have been allayed, primarily through rising domestic consumption and the government’s fiscal stimulus measures through infrastructure spending. In the short run, while stabilisation continues, the outlook for 2013 remains below potential at 7.8 per cent. It would be a challenging year for the country in light of the weak external demand for its goods and over-capacity issues facing China’s industrial sector. The country also faces some key challenges in the medium- to long-term. While consumption remains resilient amid rising disposable income, it will need a boost through urbanisation and the resultant investments on building and construction. China’s export sector is also in a transitional phase with the country losing its competitive edge in the export of labour-intensive products due to rising production costs and the appreciation of its currency in recent years. However, the proportion of value-added export products, particularly machinery exports to emerging markets like Russia and Brazil, is rising. Another big challenge for China is to avoid the “middle income trap”, which requires major structural transformation and significant productivity gain. In sum, Dr Shen considered the new leadership to be committed to steering a new course of growth for the country by boosting domestic consumption, accelerating urbanisation and increasing innovation and productivity.

SESSION II: GEOPOLITICS AND SOUTHEAST ASIA'S SECURITY-STRATEGIC OUTLOOK

Southeast Asia in America's Rebalance to the Asia-Pacific

Dr Satu Limaye

Director, East-West Centre Washington

The US has been profoundly engaged in Southeast Asia over the past decade. President Obama's first ever "Southeast Asia only" visit in 2012, as well as the growing structural importance accorded to all of Southeast Asia in the context of a broader American rebalance or "pivot" to the Asia Pacific region, prove the singular and comprehensive engagement of the US in Southeast Asia. The key features of America's rebalance to the Asia Pacific region include: adapting alliances; forging a broad-based military presence; revitalising relationships in Southeast Asia (SEA); active membership in all regional multilateral organisations; expanding trade and investment; and the insistence on advancing democracy and human rights in the region. A major positive element in US-SEA relations is what could be called the Goldilocks Balances – "not too warm and not too cold" – that is to say, relations are balanced across issues ranging from defence to diplomacy and energy to economics. However, the US and Southeast Asia must take care not to let China become the new "single issue" that drives relations with each other. Southeast Asia has a singular place in America's rebalance to Asia. As global and regional environments evolve and as Southeast Asian states increase their abilities to play important roles, US interactions with regional countries are sure to further increase to mutual benefit.

Chinese Perspectives on the US Role in Southeast Asia

Professor Zhu Feng

Deputy Director, School of International Studies, Peking University

While China may consider the US a displaceable "security anchor" in the entire region, Southeast Asia needs the US to sit in line to counter-balance a rising China. At the same time, America's "rebalancing" moves prove to be a worrying trajectory for Sino-American strategic relations. Beijing has been enjoying growing diplomatic and political space in Southeast Asia prior to 2009 because ASEAN has been friendlier to China and it is less likely that the region will join America to "encircle" China. However, events like the South China Sea territorial disputes have gone beyond contending sovereign claimants and great power rivalry is looming large. Faced with rampant domestic nationalistic sentiments, the new Chinese leadership will need more determination in seeking a settlement rather than keeping to an impasse. Despite the territorial disputes, China remains a robust partner to Southeast Asia, and respects ASEAN as a regional bloc that unites the different member states. Southeast Asia should in turn enhance the understanding of the unique character of China's domestic transition, avoid overstating China's "assertiveness", and try "soft push" tactics. In this combination, the region can be more influential with regard to China's policy outcomes.

The US-China-ASEAN Nexus in Southeast Asian Waters

Dr Ian Storey

ISEAS Senior Fellow

This presentation focused on the contested territorial and maritime boundary claims in Asian waters since the intractability of these maritime disputes, coupled with growing US-China rivalry, is likely to remain at the top of the region's security agenda. The disputes have become more dangerous since 2007–2008 for the following reasons: rising nationalism makes compromise difficult to achieve; nearly all claimants have moved to strengthen their sovereignty and jurisdictional claims; growing competition over maritime resources; on-going militarisation of the dispute; and the more proactive engagement of the US in the Southeast Asian region. While America supports ASEAN-China talks on conflict management and views the South China Sea as an international problem, China strongly opposes this stance and has accused Washington of “meddling” with Asia to encircle China. The process of finalising the South China Sea Code of Conduct has faced difficulties due to the lack of consensus between states. For the year 2013, Brunei, as Chair of ASEAN, will come under pressure from China to keep the South China Sea issue off the agenda. Leadership transitions in both the US and China will also not affect the countries' fundamental positions on the issue. How long the status quo will last and what the post-status quo situation will look like remain “known unknowns”. But the window of opportunity to resolve these disputes may be closing quickly.

SESSION III: SOUTHEAST ASIAN ECONOMIES

Investment as the Engine of Growth: The Case of Indonesia

Dr Chatib Basri

Chairman, Investment Coordinating Board, Indonesia

From an economic standpoint, Indonesia can best be described as “disappointing”. It is disappointing not only for the country's believers but also for its sceptics. Believers are let down as Indonesia has never managed to reach the lofty growth rates they expect, while sceptics have been disappointed that the economy has not crashed, as predicted, since the 1997/98 Asian financial crisis. With ASEAN playing an ever important role in supporting growth in Asia, Indonesia has been thrust into the limelight since it comprises a large proportion of the ASEAN economy and population. Over the previous year, growth slowed to 6.2 per cent but the country has been resilient to external factors due to strong investment. This resilience has also been spurred by strong private consumption as the Central Bank has been able to maintain relatively low inflation at less than 5 per cent. The inflation rate should be maintainable at this level for 2013. Meanwhile, investment remains robust with continued flows of FDI even though export and import growth is slowing down. Credit growth is stabilising and while the exchange rate has appreciated slightly, this will boost export attractiveness. But although the economy is in good health, complacency might lead to bad policymaking. Indonesia has come this far as a result of good policy response and “luck”, but should not be afraid to commit to reform even during the good times.

Malaysia's Economic Outlook

Mr Azrul Azwar Ahmad Tajudin

Chief Economist, Bank Islam Malaysia Berhad, Malaysia

The coming year can be the year of two halves for Malaysia. Pockets of weakness in the first half will come in the form of erratic export performance due to the tentative global recovery and uncertainties related to the 13th General Election. A pick-up in the growth momentum is expected in the second half with significant export recovery, helped by the clarity of the resolution to the Eurozone crisis and more conclusive signs of sustainable bottoming out in the US and China. Overall GDP growth is estimated to be between 4.5–5.5 per cent, buoyed by resilient domestic demand that will continue to anchor growth. Across-the-board expansion in all sectors is also expected with construction, services, and manufacturing sectors as growth leaders. Direct measures will further boost both foreign and domestic direct investments. Core inflation eased below 1 per cent in 2012 and should be below the average of 2.5 per cent throughout 2013, though caution of the upside risks should remain in the event that global commodity prices reverse or government subsidies are eliminated. The exchange rate should experience a general uptrend for much of 2013, with the Malaysian Ringgit forecasted to end between RM2.97–3.02. Possible domestic areas of vulnerability that can constrain growth potential include the delay in the full start-up of the Gumusut-Kakap deep-sea oilfield, and the limitations of domestic demand after four straight quarters of better than expected results.

Asia 2013: Brighter Horizons; ASEAN 2013: Resilience Tested

Dr Chua Hak Bin

Head of Emerging Asia Economics,

Global Research, Bank of America Merrill Lynch, Singapore

The situation in Asia will pick up in the first half, led by China and India. China seems to be stabilizing and annual GDP growth is forecasted to rise to 8.1 per cent in 2013. However, wage pressures are rapidly rising due to the yuan inflation, among others, and FDI may shift over to ASEAN as a result. Therefore, ASEAN will no longer be marginalised by China in this regard. ASEAN-4 has been resilient despite weak global growth due to strong domestic demand offsetting weak external demand. Despite trying times, the ASEAN region has continued to receive FDI. Thailand, in particular, recovered rapidly from last year's floods and may see even more Japanese FDI because of the Japan/China rift. On a different note, the balance sheets of Thailand and the Philippines look clean but Indonesia's current account deficit versus the rupiah as a result of commodity price drops and Malaysia's soaring public debt remain concerns. Another theme in the background is population, that is, the emergence of a demographic divide in the next 10 years. Thailand will be the first ASEAN nation to see a population peak in 2035 while the ASEAN-6 bloc and India will peak beyond 2050. This will directly affect labour force growth, which correlates with economic growth. The outlook for the Philippines is bullish as its labour force change is the largest among all major Asian economies and its economy can be the second best performer after China.

SESSION IV: REGIONAL POLITICS

Indonesian Political Landscape 2013

Dr Sukardi Rinakit

Executive Director, Soegeng Sarjadi Syndicate, Indonesia

Even as Indonesia gears up for presidential and legislative elections in 2014, economic growth and development are expected to continue without much disruption or political unrest. Upcoming elections will neither affect Indonesia's trade policies nor compromise the ASEAN Economic Community, to be established by 2015. Potential and declared presidential candidates include Prabowo Subianto, Megawati Soekarnoputri, and Aburizal Bakrie — they currently lead popularity polls in the aforementioned order. Partai Golkar and the Indonesian Democratic Party-Struggle (PDI-P) lead political party popularity polls, respectively, with Susilo Bambang Yudhoyono's Partai Demokrat following in third place. Opinion polls are however not steadfast indicators of electoral outcomes; and public opinion in Indonesia tends to take a dramatic about-turn at the last minute. Democratic processes may now be well consolidated in the country, but Indonesia still faces widespread corruption, particularly among local government officials. This is linked to the rapid pace of decentralisation. The future remains optimistic about the future, and the youth and the expansion of the middle class will keep corruption in check.

Continuing Flux in Malaysian Politics in 2013

Dr Khoo Boo Teik

Executive Senior Research Fellow, Institute of Developing Economies, Japan

The upcoming 13th Malaysian General Election can be a game-changer. Firstly, a loss by Barisan Nasional (BN) is possible and a win by Pakatan Rakyat (PR) is conceivable if persisting political and corruption scandals turn more Malay voters away from UMNO. The current regime has lost traction with non-Malays, women, businesses, and young voters. At the same time, the usually guaranteed support for the BN from Sabah, Sarawak, and rural constituencies is now fragmented. Secondly, PR success in administering at the state level is indicative of their capacity to rule at the federal level. However, this ability is contingent on the avoidance of possible post-election fallout. It should be able to rule if it wins by a comfortable margin, which would allow for the relatively non-disruptive implementation of policy reform. On the other hand, a narrow win will create unmanageable tensions with UMNO-BN, which may not concede power and may even invoke emergency rule. Regardless of the electoral outcome, ensuing politics will continue to be contentious. If PR wins, it will have to manage tensions arising from the reorganisation of power and institutional reform; and if BN wins, current conflicts between both coalitions will persist in the face of more severe repression.

Myanmar Reforms: Uncertainties and Challenges Ahead

Dr Tin Maung Maung Than

ISEAS Senior Research Fellow

Despite progress made in democratic reforms thus far, many uncertainties and challenges lie ahead for Myanmar. The lack of microeconomic development is a major cause for rising public discontent and wage disputes in industrial zones. High rent prices and difficulties in acquiring working capital remain a challenge for small and medium enterprises. Furthermore, tax evasion persists and foreign direct investment is presently limited to resource extraction, which does not generate high employment and does not add to the incomes of the masses. Politics in Myanmar is highly personalised and is embodied in three key individuals: President Thein Sein, Aung San Suu Kyi and the parliamentary speaker of the lower house, Thura Shwe Mann. At the same time, armed ethnic groups continue to impede the peace process — over 70,000 people having been displaced due to prolonged infighting. The military remains embedded in the body politic of the country with President Thein Sein continuing to command significant power.