

Regional Outlook Forum 2012
5 January 2012
Shangri-La Hotel, Singapore
Executive Summary

Keynote Address: Dr Zhu Min

Global Volatility and Structural Change: Challenges and Policy Responses

Dr Zhu argued that amidst all the change and uncertainty Asia had undergone in the last decade, there were two main issues that needed to be addressed. The first was global economic volatility and the risks and impacts on the region. Economic activity in the region had been in a wait-and-see mode while Europe dealt with its recession and growth in the US and Japan had been moderate. The increase in financial volatility was also of major concern, with capital flows streaming out of the region and pressure on currency and equity markets due to movement. The second issue concerned the global fundamental economic structure change in the region. In the last three years, the economic growth rates for emerging markets had consistently outperformed those of the advanced economies. This was the most fundamental change and would bring change to the global economic structure. Dr Zhu also proposed that there was a way out for the European debt crisis but the key issues would be its implementation and global help. There was the need to carefully balance external pressure with internal issues in emerging domestic markets. It was also absolutely critical to invest in the service sector to increase jobs and reduce social welfare issues. Finally, Dr Zhu saw the need to continue cooperation of nations within the region to provide opportunities in times of adversity.

Luncheon Speaker: Tan Sri Abdullah Ahmad

Malaysia in an era of rising expectations

As the general election loomed in Malaysia, the possibility of more sensitive issues rising on the horizon might be inevitable. Meanwhile Prime Minister Najib would have to deal with increasing pressure from competing vested interests that want him to take a particular course of action. Tan Sri Abdullah argued that UMNO was in good shape to be re-elected and that the opposition was in disarray. Malaysian politics was still based on race and religion, and little had changed even today. The insecure and under-achieving *pribumi* (*bumiputra*) were alarmed at the prospect of losing power to the accomplished and wealthier minority, although this was not likely to happen. Nevertheless, whatever the outcome of the polls, political Islam was on the rise. Certainly, Najib would stop Malaysia from falling into further media critique, interrupt or stop corruption, and hopefully steer the government towards good governance. Tan Sri Abdullah remained optimistic that political transformation would take place in Malaysia.

SESSION I: REGIONAL ECONOMIES AND THE NEW GLOBAL ECONOMIC ORDER

Speaker 1: Dr Subir Gokarn

India's Economic Outlook 2012

Dr Gokarn's presentation was about India and its economic performance and short- and long-term prospects. He stated that domestic performance in India now showed a growth deceleration, with forecasts made earlier in the year looking optimistic. Industrial growth had been the main driver behind this deceleration but demand, expenditure and investments were all contributors. In the short-term, the monetary cycle had peaked and the currency was stabilizing. Fiscal consolidation was critical to improvement in the economy and it was time to introduce reforms to encourage growth. However, the global situation and oil prices would still play major roles in influencing the economy. Therefore, it was suggested that the baseline would be stabilizing growth-inflation balance and currency. Long-term imperatives included accommodating diversification of consumption with productivity increase of food, widening the direct and indirect tax base to increase the tax-GDP ratio, improvement to infrastructure via land, linkages and finance, nurturing the investment and employment climate in the manufacturing sector, and stimulating human capital via market-skill driven development programmes.

Speaker 2: Mr Naoyuki Haraoka

The Economic Outlook for Japan in 2012 and Beyond – How can the Japanese Economy Help the Global Economy to Avoid Falling into a Great Depression?

After the tsunami disaster in March 2011, Japan's economy recovered sharply around May to June, mostly attributed to the recovery from a supply shock and not one of demand. There was also a trend of low real GDP growth pre-disaster and some experts believed that it was possible to achieve high growth post-restoration but Mr Haraoka disagreed. He argued that beyond 2012, the Japanese economy would show more serious problems, with a growing fiscal deficit and the nuclear power situation highlighting the issues. Japan was also facing an increasingly aging society. In conclusion, Mr Haraoka said that the future of the Japanese economy would rest with its cooperation with Asia. Japan had a responsibility to the Asia region by making a contribution to the growth of APEC and India. Mr Haraoka also suggested that the government introduce reforms domestically as well through agricultural reforms and establishing a human relations programme, citing the ERASMUS Programme (student exchange) to increase mobility flow of students.

Speaker 3: Professor Chen Kang

China's Economic Outlook 2012

Professor Chen used the analogy of the chicken game to illustrate China's economic outlook for 2012. The game was played by the central government on one side and the local governments and property developers on the other. The central government was essentially trying to control runaway property prices and induce structural change by imposing credit rationing in the banking sector and property cooling measures. However, local governments and property developers did not want property prices to come down significantly and had adopted a wait-and-see attitude. With the worst outcome being a crashing of housing prices and a hard landing of the economy, Professor Chen believed that the central government would be the first to succumb to pressure. Overall, Professor Chen stated that monetary policy must remain prudent to prevent a resurgence of inflation, with fiscal policy being used to make structural adjustments in China. The estimate of China's economic growth in 2012, he believed, would hover between 8 to 8.5 per cent for the year.

SESSION II: ASIA'S SECURITY-STRATEGIC OUTLOOK

Speaker 1: Professor David Shambaugh

The US Engagement with Asia

Professor Shambaugh pointed out that the US was now increasingly focused on diplomacy and security in Asia. The US had been a late Pacific power since the 19th century and was now looking to shift its position. In order to sustain this shift, Professor Shambaugh posited that there were four main engagements from the US to this region: totality of economic performance, the cultural impact on Asia, diplomacy, and security and stability. For instance, with regards to the first engagement, Asia had become the most important trading partner to the US, with trade, exports, and sales all large contributing factors; ties were also growing deeper by the day with free-trade agreements (FTA) and the Trans-Pacific Partnership (TPP). Professor Shambaugh concluded that one problem was with the US itself as its daunting fiscal challenges would impact spending in the region. Its engagement in Asia would also be a political issue throughout different administrations and it was also a psychological problem, with the impact of the purpose of war.

Speaker 2: Emeritus Professor Carlyle A. Thayer

Positioning ASEAN between Global Powers

Professor Thayer's presentation was divided into five sections: China's military build-up, China-ASEAN security cooperation, US regional engagement, ASEAN-centric security cooperation and ASEAN between global powers. China's economic growth had allowed it to increase its defence budgets with a fixation on Taiwan and the process of reunification. On the aspect of China-ASEAN security cooperation, China enunciated a new security concept with all 10 of the ASEAN members in 1997, including defence clauses and multiple defence cooperation agreements. In terms of US regional engagement, the US had developed a response to China's assertiveness in the region by upgrading the Guam military base, assisting in the modernization of the Philippines armed forces and navy, stepping up training activities in northern Australia, and would be passing through with combat littoral ships in Singapore. Regarding ASEAN-centric security cooperation, Professor Thayer believed that ASEAN sought out regional autonomy from the beginning through various treaties. Finally, regarding ASEAN and the global powers, Professor Thayer believed that ASEAN should prioritize the clean-up of its maritime security as unity and cohesion are vital. However, its centrality might be undermined by unilateral action by a major power; ASEAN leaders must issue political guidance to its

Defence Ministers. Professor Thayer also argued that confidence building measures (CBM) with China were also a misplaced priority, as the current approach allowed China to play on differences and delay.

Speaker 3: Mr Robert Karniol

Trends in Asia-Pacific Force Modernization

Mr Karniol detailed that the Asia-Pacific region had gone through a profound transformation in the modern era. The internal security and stability led to greater external focus for the armed forces, the expanded economic activity had led to new interests to promote and protect, and high growth rates had led to funding support for new security challenges. He then proceeded to talk about strategic trends. China was clearly expanding its influence, the US was refining its post-Cold War posture, and several other countries swayed by these changes and other factors were also making adjustments. However, he had two arguments regarding these trends. The first was that China's spending on its military was not surprising. Also, Mr Karniol debunked the other prevailing myth regarding the recent US re-engagement by stating that there was some validity, but only with congress and the White House and not the Department of Defence (DoD); the DoD was busy shifting its forces from the Atlantic to the Pacific. Finally, Mr Karniol spoke about threat levels in the region. For example, the Korean peninsula was one of concern, although Mr Karniol believed that North Korea could no longer win the war against South Korea. In the broader picture, military modernization meant that any incident that involved minor exchanges could more rapidly escalate into a full-blown conflict. Mr Karniol concluded by saying that this underscored the importance of tension management and containing incidents of violent confrontation, and that force modernization in the Asia-Pacific region was largely in preparation for a wider range of contingencies.

SESSION III: SOUTHEAST ASIAN ECONOMIES

Speaker 1: Dr Iwan Azis

Restructuring Southeast Asian Economies in a Rebalancing World

Dr Azis's presentation concentrated on looking at trade, finance and structural change in Southeast Asia which included medium and long-term issues as well as labour productivity. Overall, there was a growing production network in the ASEAN region and it was very successful in Asia. Lehman Brothers Holdings Inc. collapsed in 2008 and that changed things. The share of exports from ASEAN to the US and the EU had been declining but trade between ASEAN and other emerging countries had been on the rise. As for the financial sector, intra-ASEAN cross border holdings of financial assets had been very low. With the Eurozone crisis, it could be seen that capital flows were highly volatile. People were therefore looking for safer haven and ASEAN was one of the options. However, in ASEAN, productivity was not occurring in areas that were fast growing sectors. Thus, there was a sign of slowing down of the restructuring in ASEAN and policymakers needed to rejuvenate the restructuring process so that improvement in productivity would be widespread. Hence, if we looked at the ASEAN, the financial sector was intensifying but it was not creating jobs after the Asian financial crisis. Thus, despite the fact that ASEAN had been doing quite well in terms of macro-economic indicators, there were some areas of concern. The events taking place in the US and Europe were worrisome as it would impact the economy of the ASEAN countries. The consolation however was that there was increasing trade within the region. Policymakers were also eager to facilitate increasing trade within the region.

Speaker 2: Dr Hartadi A Sarwono

Indonesia's Economic Outlook 2012

Dr Sarwono stated that in the Central bank's point of view, despite a bleak prospect for the global economy, the Indonesian economy continued to demonstrate good progress and resilience. This was driven by increasing share of intra-regional trade. Sarwono posited that looking ahead in 2012, Indonesia's economy would expand in the range of 6.3 to 6.7 percent. On the external side, export growth was expected to decline due to the impact of weak global demand. Responding to the liquidity pressure in the foreign exchange market of foreign-owned government bond, the Central Bank implemented a dual strategy – intervention strategy in the foreign exchange and government bond market. While experiencing some depreciation, the rupiah had remained stable and moved in line with other regional currencies. To conclude, the Central bank would remain vigilant to the uncertainties in the global economy. It would cautiously implement a counter cyclical policy through a policy mix between monetary policy and macro-prudential policy to mitigate a potential decline in the domestic

economy, without jeopardizing the overriding priority of maintaining inflation within its targets, 4.5%±1% for 2012.

Speaker 3: Dr Foong Kee Kuan

Malaysia's Economic Outlook 2012

Dr Foong summarized the recent developments of the Malaysian economy. In the third quarter of 2011, GDP growth was boosted by base effects and reasonably large government expenditure on supply services and infrastructure spending to 5.8 percent year-on-year. As for 2012, there remains no solution to the Eurozone debt-banking crisis. The slowdown of the G3 economies had led to a modest slowdown in terms of domestically driven economies in China, India and Indonesia. However, this might not be the case for export driven countries like Singapore, Malaysia and Thailand. Heightened global risk aversion and falling global prices might affect the income of those in rural areas of Malaysia. Compounded with a generally high household debt condition in Malaysia, MIER expected the GDP to average about 4.2 percent in 2012. With expected slowdown in the global and domestic economy, the Central Bank might cut official policy rates. Information about the Malaysian economy suggested moderate growth ahead. Economic weakness in Europe would negatively affect growth prospects in the United States and China with repercussions on export growth in Malaysia. Domestic demand would likely be supported by implementation of ETP projects and fiscal transfers from the Budget 2012, which was designed to cushion short-term cost of living ahead of general elections. However, the budget contained few measures for addressing long-term structural issues.

SESSION IV: REGIONAL POLITICS AND SECURITY ISSUES

Speaker 1: Dr Bridget Welsh

Malaysia: Smoke and Mirror Politics

Dr Welsh asserted that politics in Malaysia had been intensifying in the last three years. She presented six key trends. One was that Malaysia had politics move from the arena of contestation between political parties to that of ordinary citizens. Another macro trend was that there was intensive political polarization and there were many dichotomies of difference - Urban versus Rural; Upper/ Middle Class versus Lower Classes; and importantly, BN base versus Opposition base. Interestingly, in the last 2 to 3 years there were more swing voters, depicting more frustration with both political sides. What did this all mean? As highlighted by Dr Welsh, there were two major political leaders, Najib and Anwar. Although his popularity rate had increased since he assumed office, Najib faced major political challenges from the opposition and from within his own party. As for Anwar Ibrahim, he had an ongoing political trial regarding scandal politics. The challenge for the opposition was how to redefine itself in a positive way. For the upcoming elections, Dr Welsh argued that out of the 222 parliamentary seats, 113 seats were competitive. Dr Welsh also suggested that one should look at other groups as well to see who would affect the elections - young voters, women voters, Malays in semi-rural/rural areas and East Malaysian Christians. Lastly, some problems associated with the elections included vote buying, electoral roll, placement of new voters, use of state resources and access to media. The decisive issues would depend on the centrality of campaign strategy, candidate selection and commodity prices or economic performance.

Speaker 2: Dr Puangthong Pawakapan

Thailand: Political Challenges

Dr Pawakapan argued that the challenges facing Thailand in 2012 were very much the same as those since the military coup d'état 2006, which included the polarization of Thai society, unstable government, a sense of injustice among the red shirts, and others. In her paper, Dr Pawakapan analysed how the polarization of Thai society had impacted the Yingluck administration. Thai society was divided along the following lines: rural versus middle-class urban peoples, the pro-Thaksin versus the anti-Thaksin, the red versus the yellow/multi-coloured shirt people among others. Moreover, after the July 2011 elections, the Pheu Thai party had met with much opposition from anti-Thaksin factions. The worst flooding disaster facing Thailand allowed for this as well. Yingluck had been constantly attacked by many for being incompetent. Dr Pawakapan argued that Pheu Thai's government must realize the pressure and demands from all factions. They appeared to be placing priority on the economy first and politics later, but this might not work as many of Yingluck's cabinet members were administratively inexperienced. As for Thai-Cambodian relations, Yingluck's government restored this relationship soon after coming into power. The bilateral relations were heavily battered since Cambodia listed

the Temple of Vihear on the World Heritage List in mid-2008. Dr Pawakapan argued that even though ASEAN should engage to resolve disputes between countries in the region, she did not have much hope for that in this case. The political turmoil had intensified antagonism among people of different colours.

Speaker 3: Dr Rizal Sukma

Indonesia's Political Outlook 2012

Despite the gains of democracy Indonesia had experienced thus far, the developments in 2011 suggested that democracy in Indonesia was now under immense stress due to some problems. A highly competitive political system in Indonesia had constrained the ability of the government to implement new policies. In addition, even though Indonesia remained a “secular” state, its national identity as a pluralistic and tolerant country was being tested on several grounds by growing incidents of intolerance. Furthermore, the role of Islam, despite its declining electoral influence, remained an important factor in Indonesia’s politics. It was hard now to distinguish between Islamic parties and secular parties, as parties from both camps moved to the centre and adopted some sort of “nationalist-religious” platform. None of these problems were new for Indonesia but the magnitude had increased. All these problems would assume greater importance in 2012. Also, even though the elections were two and a half years away, major political parties had begun to consolidate and focus their attention on one particular issue: the Presidency. In that context, there were doubts that politicians or major political parties would address the sensitive issues mentioned. Thus, politics in 2012 in Indonesia would be more uncertain than it already was.

Speaker 4: Ms Sidney Jones

The Changing Terrain of Terrorism in Southeast Asia

Southeast Asia remained a backwater in terms of international terrorism and particularly if we were referring to attacks by Jihadist groups. The important developments in region were all local and the most important was the change seen in Indonesia from terrorism as a manifestation of global Jihad to terrorism as a violent manifestation of growing religious intolerance. The number of plots and attacks in recent times had increased and the perpetrators in 2011 were mostly educated in secular, state high schools, and were radicalized through exposure to extremist preachers who had no restrictions in Indonesia. She argued that this was one of the biggest challenges for the Indonesian government as these extremist preachers were committing no crime under the law. It could also be derived from the recent arrests in the region that there was a need for more attention to illegal gun trade. There was also a need to pay attention to developments in Yemen and Saudi Arabia. To conclude, Ms Jones argued that the low casualty rate in Southeast Asia should not make us obsessed with the terrorism problem but at the same time we needed better regional cooperation to tackle it. There were some political obstacles to moving beyond law enforcement. Some countries were also fearful of providing information because of the fear of leaks by authorities in the other countries. Lastly, there was limited interest in terrorism beyond national borders and there were structural impediments to be dealt with.

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