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THE TESTING OF ASIA-PACIFIC SECURITY RELATIONS IN 2017

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Institute of Strategic and International Studies (ISIS) Malaysia

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Editorial Letter

Peace and security in the Asia-Pacific region continues to be tested and it is no wonder that more than a few analysts are growing increasingly uneasy at present trends and trajectories. With the situation in the Korean Peninsula growing past worrisome, it is not a source of comfort that inter-state relations in the rest of the region, from the mighty US-China-Japan triangular down to the Mekong Subregion, are not all that they could or should be.

This issue picks up key themes drawn from the Asia-Pacific Roundtable (APR) 2017, as well as from more recent scans of the horizon. Thomas Daniel argues that it is not all about superpowers and that middle powers, such as Australia, India, Japan, South Korea and even Indonesia, have a role to play. We took the opportunity to interview noted Japanese scholar Takahara Akio for his candid views on Japan's relations with Asia-Pacific countries, particularly China and ASEAN. Collin Koh of the S Rajaratnam School of International Studies examines the military modernisation in the region and forsee the trend of naval build-ups continuing.

Farlina Said and Naufal Fauzi cover challenging attempts by governments to come to terms with the governance of cyberspace, especially since the majority of the infrastructure is privately owned. Firdaos Rosli and Dwintha Maya Kartika report on attempts to salvage the Trans-Pacific Partnership (TPP) by the remaining signatories after the pull out by the United States in January this year. For good measure, an analysis by Giuseppe Spatafora of the prospect of negotiating an European Union-Malaysia Free Trade Agreement has been added.

On a more current note, Bunn Nagara explains the background behind the Marawi conflict in the Philippines, the alleged links with Daesh in Syria and Iraq and prospects for peace in Mindanao going forward. At a time when more time and energy appears to be devoted to deconstructing rather than building relationships, Steven CM Wong and Elina Noor cover the Malaysian prime minister's Washington DC visit in September and its implications.

Perhaps one of the most interesting overarching perspectives to emerge from the 31st APR was Bilahari Kausikan's analysis that one of the biggest security threats is not security-related at all: rather it is repairing dysfunctional democracy. The challenge, he says, is to admit and rethink democracy although "the situation will probably have to get far worse before it can get better".

On that cheerful thought, the Editors wish you happy reading.



ASIA PACIFIC'S

The Asia Pacific is experiencing trial by fire. From Northeast Asia, south through the East and South China Sea, to the lower tip of the Philippines and west to Myanmar, inter-state and within-state tensions are rising and, in some cases, have boiled over into militarised conflict, with predictable humanitarian consequences

Of course it is possible to argue that this is exaggerated, that the region is far from being racked by turmoil as say the Arabian Peninsula and East and Central Africa. On the streets of Seoul, Tokyo, Manila and Yangon, inhabitants go about their daily business, oblivious to the occasional missiles flying overhead, villages being burned in far off places and the hundreds of thousands of refugees fleeing their homes.

And it is true: the region could be in a lot worse state. The history of conflict, nonetheless, tells us that outbreaks do not always start with armies being massed on borders, even though there is some evidence of this in Northeast Asia. Small butterfly effects can have wholly disproportionate

consequences given conditions that are ripe and right.

These conditions are becoming riper and righter by the day in the Asia Pacific. Much has been made about the red-hot rhetoric between the “dotard”, US President Donald Trump, and “little rocket man”, North Korea’s Supreme Leader, Kim Jong-un. Even for hardened realistic strategic thinkers, this ought to be terrifying, humorous as it is, not only because of the massive human consequences, but the almost total disappearance of diplomatic and engagement options.

The fact of the matter is that many of us have been fooling ourselves or perhaps just do not know better. Peace and security in the Asia-Pacific region has always had to be won by the presence, if not the use, of

strategic and military force. From the end of World War II, and especially after the Cold War, there has been stable strategic tension and this was enough to enable countries in the region to flourish. In those days, the US military strength effectively had no rival and their network of forward deployed bases in Northeast Asia essentially ruled the air and waves.

Today that picture is rapidly changing. China’s conventional and nuclear forces have grown in strength and capabilities and American strategists are rightly concerned that this has greatly diminished the advantages of their forward deployed bases. Add now to this North Korea’s aspirations to be able to deliver nuclear warheads as far as Alaska and the West Coast of the United States (whether it can do so is still



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not known) and the Asia-Pacific peace and stability equation becomes even more volatile.

American B-1 Lancer bombers have flown off the east coast of North Korea and F-35s, along with Japanese and South Korean fighters, have conducted bombing exercises near North Korea's border in futile attempts to intimidate the latter into submission or at least establish the conditions for negotiations to put the brakes on North Korea's nuclear programme. More American assets are reported to be moving to the Pacific. Japan and South Korea's military are said to be on high alert although there have been none of the actions that indicate imminent war.

Good luck with that. Looking out of the windows of the war rooms in Pyongyang, the massing of forces is simply more reason for the country to acquire a nuclear first strike capability for deterrence purposes, and the sooner the better. Further missile tests might not occur this month or the next, but will continue to be on the cards when the opportunity arises. And so the Mexican Standoff in the Korean Peninsula continues.

All this does not yet factor in the reactions of China or Russia, two key proximate states with strategic interests and ambitions of their own. China, in particular, does not want to see a nuclearised North Korean, but also view the American military buildup with concern. Already, the installation of Terminal High Altitude Area Defense (THAAD) batteries in South Korea have led to strained relations. The adding of American assets and military manoeuvres will no doubt be forcing China to rework its contingency plans for the region, especially given its challenged claims in the South China Sea.

Elsewhere in the Asia Pacific, the Battle of Marawi has now effectively ended with the near-total destruction of the town and the apparent deaths of the heads of the Abu Sayyaf Group and at least one of the Maute brothers. There are now bigger questions, not only of possible organised guerilla actions in the highlands, but also of the return of peace and stability to Mindanao. Philippine President Rodrigo Duterte has shown his commitment to accord a high degree of autonomy for parts of southern Philippines, but the road is still fraught with difficulties.

This could yet turn out to be a classic case of winning the battle, but not the war.

Myanmar's military actions in Northern Rakhine State have at long last brought the long simmering dispute to world attention. Hundreds of thousands of Rohingya have fled their homes, many crossing the Naf River into Bangladesh as military and paramilitary forces have burned villages and committed atrocities, all aimed at driving out residents. For normalcy to be restored, the Rohingya will have to be allowed to return to their destroyed homes, something that State Counsellor Aung San Suu Kyi has said will happen, but which her Tamadaw may not allow. We will just have to wait and see.

The Asia Pacific cannot wait until there are outward manifestations of the underlying stresses before sounding the alarm. The fact that strategists in the region are working overtime to sharpen their swords and given the fading diplomatic options should be clear signals that all is not well. Trial by fire may be a dramatic description of the situation, but we think not entirely misplaced. With all "options on the table", we do not think that the trial will end anytime soon. ●

Marawi, a sign of things to come?

Almost overnight, a regional backwater was transformed into the latest global hub of international terrorism. Both government forces and militant groups are responsible for yet another avoidable Philippine carnage, for which the inhabitants have also had to pay a terrible cost



BY
BUN NAGARA

Until the final week of May 2017, Marawi City was another placid spot on the shores of scenic Lake Lanao, and capital of Lanao del Sur province in the southern Philippines. Marawi was even named “the Islamic city” by an act of the Philippine Congress, ostensibly in hope of luring foreign investment from West Asia for development. Although Marawi lies in the heart of mainly Muslim western Mindanao, for many years that investment never materialised; then all hell broke loose on 23 May.

From the beginning, confusion and misunderstanding reigned, with some of those misperceptions remaining until today. At first, Philippine officials announced that Isnilon Hapilon’s faction of the Abu Sayyaf Group (ASG) was joined by others including the Maute Group (MG) in attacking Marawi. The MG was then led by Omar and Abdullah Maute, two of seven Maute brothers from a “political family” that had run in local elections when it suited them. The rest of the time, however, the MG, like the ASG as fugitive combatants, operates from remote hideouts.

Later the authorities said that a joint operation between the military and police, acting on a tip that the MG was gathering in Marawi, had received a report that Isnilon was spotted instead. They concluded that a terrorist field alliance of sorts was being formed in Marawi, particularly following President Rodrigo Duterte’s public challenge to the MG in December 2016 to attack the city. As security forces closed in on Isnilon’s ASG faction, he called on the MG for reinforcements. The

result was a long and bloody battle that no side had been prepared for.

Following from the theory that the MG was consolidating its forces in Marawi, and in doing so allying with the ASG and foreign combatants to “take” the city, the assumption grew that the terrorists had planned for the long haul in Marawi. Yet just three days later on 26 May, Philippine officials said the fighters were attempting to escape from Marawi. Then their presence in the city turned into a siege, surrounded as they were by police and army units.

The ASG and the MG claim to be Islamist, but their religious credentials are in serious doubt. Many including Duterte deny any true religious motivation or identity on their part. The ASG operates on funds derived from ransoms for their kidnap victims, while the MG is funded from their extortion of local businesses. They are also known to be involved in narcotics. These are essentially criminal gangs committing wanton crimes considered sinful in any religion, while perversely espousing religiosity as cover.

The itinerant loyalties of Isnilon himself depict an opportunistic soldier of fortune with roving interests. He joined the Moro National Liberation Front (MNLF) in 1985, then left to join the ASG in 1994. In the same year he affiliated himself with al-Qaeda while remaining in the ASG, and some 20 years later he affiliated himself and his ASG faction with Daesh. From all indications, he remains an ASG operative in retaining the material objectives of the criminal gang even as he occasionally



affects the manner of Daesh.

The MG “pledged allegiance” to Daesh in April 2015, while Isnilon did so for the second time via video in January 2016. Then, as the siege of Marawi dragged on, he did so for the third time in July 2017. Not only are such pledges of allegiance a strategic move to gain favour with Daesh, it is also a tactical ploy for more immediate objectives. Conceivably, Isnilon had hoped for more sympathy



and support from Daesh than had been forthcoming thus far.

However, whether the MG or the ASG had ever gained significantly from their supposed allegiance to Daesh is another matter. The key question of whether or how far Daesh had penetrated the Philippines cannot be answered by these vows of loyalty. The answer would need to consider the actual extent of substantial involvement by Daesh in defining

and leading the violence in the Philippines. Government officials have been careful not to presume such a link, while some analysts argue it had been well in place despite official denials.

Both the MG and the ASG would claim such a link to shore up their reputations and their psychological and emotional strengths. As elsewhere, branding is partly public relations and partly marketing strategy. They had initiated their unilateral pledges of allegiance,

which Daesh in Iraq and Syria was only too happy to accept.

While losing ground and numbers in those countries, Abu Bakr al-Baghdadi and the rest of the Daesh leadership were in no position to reject such keen admirers and allies. All of them had something to gain from claiming a global connection that was larger than it was, if it was anything at all. If nothing else, the enhanced stature this achieved was a morale



booster that would also weigh against their enemies.

For weeks after Marawi erupted, there was no credible evidence that Daesh had dispatched substantial numbers of fighters, considerable finances, sizeable arsenals or other significant support to the ASG or MG to make a difference in Marawi. Simply declaring allegiance to a stronger but distant partner of greater renown does not in itself make for a substantive “link”. However, believing that it does – as the Marawi terrorists hope others will do – can see some of the fearsome reputation of Daesh rub off on them.

There is still no sound evidence of a substantive link to Daesh – except for a report on a series of cash transfers from Syria through Indonesia. In July, the Institute for Policy Analysis of Conflict (IPAC) in Jakarta revealed that the transfers were made via Telegram and Western Union in several tranches amounting to a total of US\$600,000. Since the transfers occurred before the siege of Marawi, it is assumed that the money went to pay for it. However, the system of cash couriers has been tenuous, compromised and even broken by the authorities, with several of the runners killed or captured.

Philippine officials had been surprised by the number of foreign combatants in Marawi. But few, if any, Daesh fighters had been assigned to fight alongside the ASG or MG – in

Marawi or elsewhere in the Philippines. The known foreign fighters in Marawi originated from neighbouring Indonesia, Malaysia and Singapore, as well as from Chechnya, India, Morocco, Saudi Arabia and Yemen. In comparison, any Iraqi or Syrian combatants would seem to be even fewer. In terms of numbers, there may be more Filipinos fighting alongside Daesh in Iraq (200 in an official estimate) than there are Iraqis fighting in the Philippines.

Philippine officials had also been surprised by the apparent tenacity and determination with which the enemy held on to Marawi as territory – seemingly a departure from previous engagements. However, avowed allegiance does not necessarily confer tenacity or determination, least of all in criminal gangs. Nor does a sham piety confer such qualities in irreligious groups. Rather, they are known to use drugs in boosting the courage and morale of fighters (as with gangs prior to a crime spree), as discovery of drug paraphernalia in military sweeps of their abandoned camps reveal.

To dress up their claim of a substantive link to Daesh, the ASG and MG adopt the language, dress and some methods of Daesh – including the tactic of holding on to Marawi territory as a supposed East Asian base or “province” (wilayat) of Daesh. That, plus approving Isnilon’s status as “emir” of this far-flung franchised outpost, was just about all Abu Bakr

could handle as his fighters were forced onto the defensive in Mosul and Raqqa. But the word from the “Caliph” was enough to provide the ASG and MG the propaganda material they needed.

Over-interpreting any supposed link to Daesh not only gives local groups that have “declared allegiance” a degree of prowess and ruthlessness they may neither possess nor deserve, at the expense of the morale of the security forces and the public. It also tends to underrate the seriousness of threats posed by groups seen not to have such links. Marawi itself illustrates the point: in coming together in one place, the ASG and the MG posed a stiff challenge to police and military forces – whatever endorsement or support, if any, they received from Daesh.

Besides, a repeat performance could be staged elsewhere in Mindanao at a time and in a place of the attackers’ own choosing. They are at least as capable as the security forces in learning from past mistakes. Marawi has given them a taste of field combat collaboration of the type they can be expected to build on.

They may also have learned that they can accomplish much with little or no logistical, physical or other aid from Daesh. At the same time, a country that sees a heightened threat only in foreign terror linkages of the al-Qaeda or Daesh variety immediately places itself at a strategic and tactical disadvantage.

“As the situation deteriorates, there is also a time limit after which no reform may be capable of reversing an uncontrollably violent situation”

Security agencies and specialists must be above this limitation and advise policy makers accordingly.

Since the conglomeration of local terrorist forces is at least as troubling as substantive links with al-Qaeda or Daesh, it deserves no less attention and concern. However, the mass media and popular culture generally perceive of the latter as the larger threat to the point of virtually ignoring the former. When terror conglomerates like Khalifa Islamiyah Mindanao (KIM) are thus allowed to operate under the radar beyond public discourse and scrutiny, they become that much more dangerous.

KIM is an umbrella organisation that includes such militant groups as the ASG, Jemaah Islamiyah (JI) and the Bangsamoro Islamic Freedom Fighters (BIFF). Founded in 2011, KIM became an affiliate of Daesh years before Isnilon's ASG or the MG. Based in central Mindanao, it is led by the Afghan-trained Humam Abdul Najid who adopted the Daesh black flag as KIM's ensign. Although some reports suggest that KIM was actually founded by the Maute brothers, the likes of Isnilon and the Mautes may grab the headlines with their extrovert style, but those like Humam operate more discreetly, effectively and lethally.

As it happens, the personal egos of the leaders are a factor in such groups. At the same time, the territories they claim or seek to rule often overlap. Given enough time, these leaders are likely to clash and weaken or destroy some of the groups' structure. However, effective counter-terrorism cannot spare the time as the cost is too high. They must be neutralised post-haste by eliminating their very foundations.

Marawi is significant because it marks a high point of the Philippines becoming a hub of international terrorism – whether or not there are strong, regular and direct links between Mindanao and Daesh in Iraq or Syria. The



terrorist community in Asia already regards the Philippines, and Mindanao in particular, as a sprawling safe house of many rooms with vast opportunities for training and networking. This looks all set to continue and grow.

Ultimately, the fundamental question remains: can the Philippines, with all the might of the government and its security agencies, manage the current situation and eventually remove the violent elements in it for good? All the indications suggest that it cannot, or at least not in the time available before the militant elements multiply out of control. The government has responded largely by declaring martial law throughout Mindanao; as that became controversial, Duterte threatened to expand the martial law to cover the whole country. Since the tried methods have not succeeded, simply having more of the same will not do the trick either.

Meanwhile critics accuse the government of overkill tactics by destroying much of the city just to dislodge a residual 100 or so militants after the local residents had bolted. It may be instructive to consider how the tragic imbroglio that is Marawi today unfolded: a planned expedition of the security agencies stumbled on something they did not expect, shooting started, and the place swiftly became a bloody mess. That was also how the 2015 Mamasapano tragedy in Maguindanao province just next to Lanao del Sur happened – an expedition targeting BIFF militants led to premature gunfire, scores dead on all sides, and congressional blockage of the Bangsamoro peace agreement.

Mamasapano and Marawi happened under quite different presidents, government administrations and timelines. Yet their tragic similarities are too striking to be dismissed or ignored. Despite Duterte's rhetoric and pledges to be vastly different from his predecessor Benigno Aquino, he has done nothing to advance the Bangsamoro Basic Law (BBL) agreed between the government and the Moro Islamic Liberation Front (MILF) for autonomy in southwestern Mindanao.

That delay has caused disappointment and frustration on the ground in Mindanao, prompting restless individuals in neglected local communities to enlist in militant groups taking armed direct action against the status quo. Desperation then combines with criminality to multiply the militancy factor. The security situation has deteriorated as a consequence and is likely to worsen further. The MILF are cooperating with the security agencies to hunt down the ASG, the MG and the BIFF but these are still limited operations.

Unless and until Philippine lawmakers and national institutions can come to accept the letter and spirit of signed agreements such as the BBL, things are poised to get considerably worse. As the situation deteriorates, there is also a time limit after which no reform may be capable of reversing an uncontrollably violent situation. By then, militant activity would have spread from Mindanao to the rest of the Philippines – and possibly to neighbouring countries as well. ●



Japan-China Relations: Support, Cooperate and Deter

Northeast Asia is one of the most important economic regions in the world. Historical relations between the countries, current issues and leadership, as well as external liaison with powers outside the region, like the United States, have shaped the dynamics of the region over the years



BY
MOONYATI YATID & TENGKU NUR QISTINA

In light of the security developments in the Northeast Asian region, major challenges exist. One cannot ignore the importance placed on countries in the region to stabilise and ensure peace. The historically enduring tension between Japan and China is one of the core issues that pose a worrying problem for the future growth of the region. It will not be easy given the historical friction that exists.

ISIS Focus reached out to Professor Akio Takahara from the Faculty of Law at the University of Tokyo and Adjunct Fellow of the Japan Institute of International Affairs as well as Senior Fellow at the Tokyo Foundation to share his views on the region, especially the dynamic relationship between Japan and China.

ISIS Focus: *The Chinese Foreign Ministry's Spokesperson, Hua Chunying, recently accused Japan of "double-dealing" after Senior Vice Minister of Internal Affairs and Communications, Jiro Akama visited Taiwan. Could you elaborate further on China's view of Japan's "double-dealing"?*

Professor Akio Takahara: Foreign Minister Wang Yi also accused Japan of "double-dealing" at a press conference during the National People's Congress in March 2016. By the way, I think "double-dealing" is a term that Xi Jinping likes to use, but it is such an undiplomatic phrase and diplomats should not use it even when they are unhappy about what a foreign country did or said. I was not aware about Hua Chunying's remarks, but Wang Yi was referring to the Japanese criticisms of China's actions in the South China Sea, such as the construction of artificial islands.

ISIS Focus: *Will Japan and China come to an understanding given the territorial dispute of the Senkaku/Diaoyu Islands?*

Professor Akio Takahara: Yes, they will. If China is unwilling to take Japan to the International Court of Justice, the best way to handle the issue is to let it remain in Pandora's Box and not re-open it. You cannot talk about the dispute when nationalistic sentiments are running high.

ISIS Focus: *For decades, a Japanese prime minister's visit to the Yasukuni Shrine has been sure to invite controversy and affect foreign relations. Do you think a younger generation of Japanese leaders would cease controversial visits to the Yasukuni Shrine?*

Professor Akio Takahara: Prime Minister Abe himself has not been visiting the shrine since December 2013. There is a misunderstanding in China and even in some other countries that he visited the shrine to whip up nationalistic sentiments and increase his popularity. That was not the case. Polls taken at the time indicated that more Japanese were against the visit than those who were for. Most likely, Mr Abe visited the shrine to satisfy his close friends who supported him. Visiting the shrine is not a popular act and I do not think a future prime minister will visit the shrine unless there is a drastic change in the social atmosphere. Such a change could only happen if there was a serious provocation from another country.

ISIS Focus: *Do you think Japan's assistance to ASEAN Member States – such as awarding*

two patrol boats to Malaysia – will impact the ongoing contestations in the South China Sea?

Professor Akio Takahara: Japan has no intention to intervene in the territorial disputes in the South China Sea. What is disturbing for us is the fact that once again China is using its physical force to change the status quo. They have called the ruling of the international arbitral tribunal "waste paper". China sometimes criticises the Japan-US alliance for the "Cold War thinking" that it embodies. But we all get the impression that China's disrespect for rules and its actions in the East and South China Seas represent the thinking that prevailed even before the days of the Cold War. Apparently, many Chinese nowadays are believers in power and money. They think they can overwhelm others by increasing its presence in the region, both physically and financially. Nonetheless, many enlightened Chinese are aware that taking action is not the way to solve international issues. We need to support such thinking and cooperate with the Chinese, while building our capacity to deter the use of physical force.

ISIS Focus: *Can Japan one day relate to its Asian neighbours more as an Asian country in its own right, with Asian priorities and an "Asian outlook", rather than being an ally of the United States?*

Professor Akio Takahara: I do not think these things contradict each other. After World War Two, Japan decided never to wage war and never to possess nuclear weapons. Hence, we have had neither nukes nor missiles for attacking other countries for more than 70 years now. For such a country, an alliance with the United States seemed the best way for its security. The security environment in Northeast Asia and Southeast Asia has been very different in the past 70 years. But for many Japanese, I would say that our identity as Asians in our daily lives is much stronger than our identity as an ally of the United States.

ISIS Focus: *Japan has been a strong nation for a relatively long time and could be seen as a "big brother" to the region. Do you think Japan can accept the rise of other Northeast Asian countries and, if so, how can Japan send this message across?*

Professor Akio Takahara: I think it is wrong to see international relations in the 21st century as a hierarchy of big and small nations. In fact, the tragedy of Northeast

Asia in the first half of the 20th century arose partly from the fact that Japan was the sole successful nation in modernisation. I find it very good that other nations are developing rapidly and, in some aspects, have even surpassed Japan. What many Japanese want now is not to dominate the leadership in the region, but to achieve an order that is rules-based and consists of nations that are on equal footing. I think people would sense this once they come to Japan. We have passed the days of "the bigger the better, the stronger the better", and believe in "small is beautiful" and the values of sustainable development.

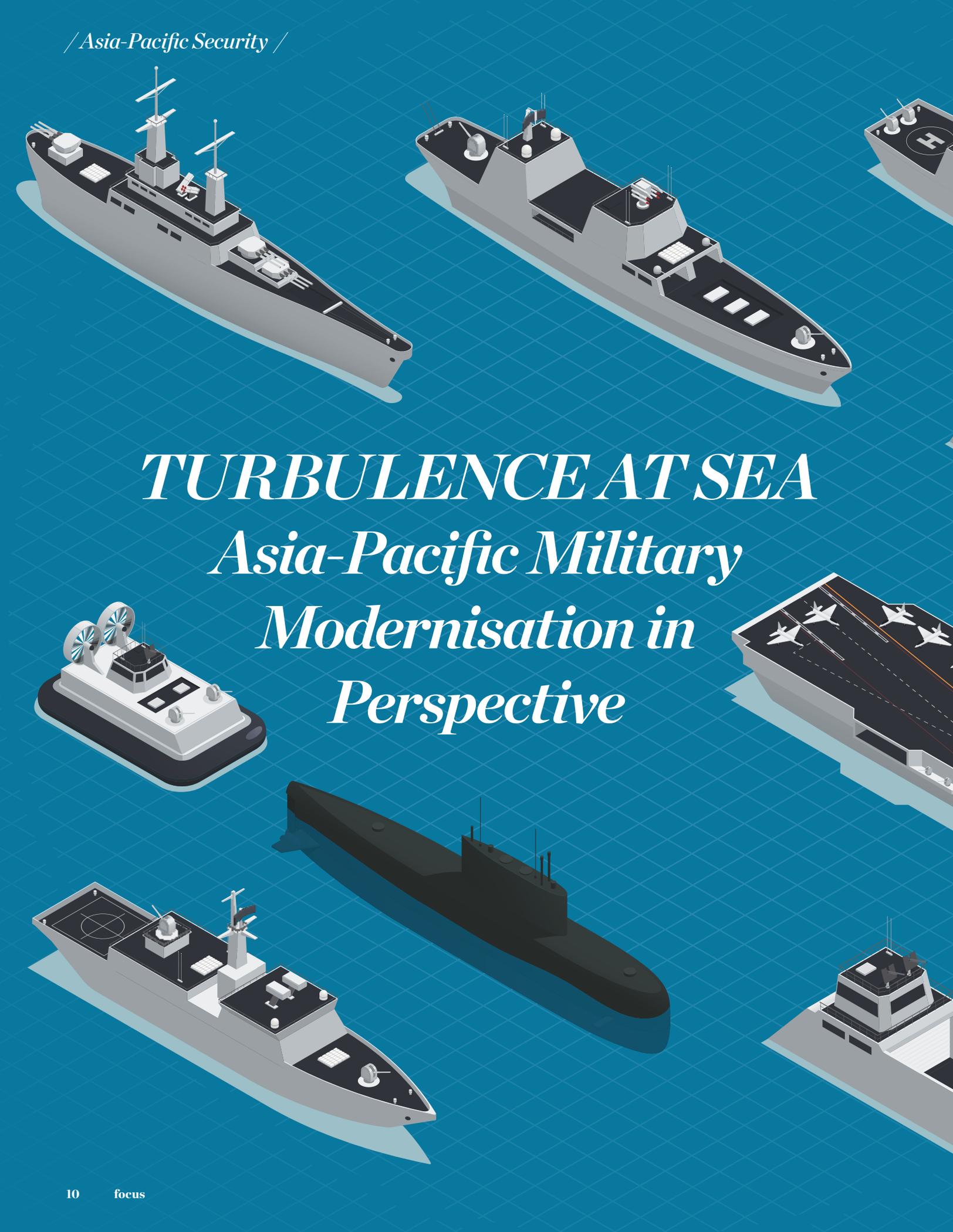
ISIS Focus: *In the near future, how can we see ways for a strong China and a strong Japan to co-exist alongside each other without conflict?*

Professor Akio Takahara: There are two things. One is the national fixation with the modernisation paradigm, "enrich the nation and strengthen the military". This happened in Japan after the Meiji Restoration and is happening in China now. Another is the hierarchical view of international relations. This was perhaps the standard view among the Japanese before the defeat in World War Two and it seems to be increasingly prevalent among the Chinese today. If the Chinese maintain the idea that strong and big countries are superior to smaller and weaker ones and behave accordingly, they will come into conflict not only with Japan, but with many other nations as well.

ISIS Focus: *Throughout history, there have been times when Japan and China had warm relations. Can you explain the lessons learnt from these friendly periods?*

Professor Akio Takahara: First, we need many leaders who have a good understanding of the other side. In the past, there were many in the leadership who had personal experience in the other country. There was even mutual respect based on mutual understanding. Second, in the 1980s, when relations were at their peak, economic cooperation was a top priority for both countries. There was a synchronisation of interests that both sides sought in the bilateral relationship. Once security concerns dominate the relationship, bilateral relations are bound to deteriorate. ●

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TURBULENCE AT SEA
Asia-Pacific Military
Modernisation in
Perspective



Warships are costlier to acquire, operate and maintain compared to land force equipment, but as long as they remain flexible and useful instruments of foreign policy, Asia-Pacific governments will continue their mutual game of build-up

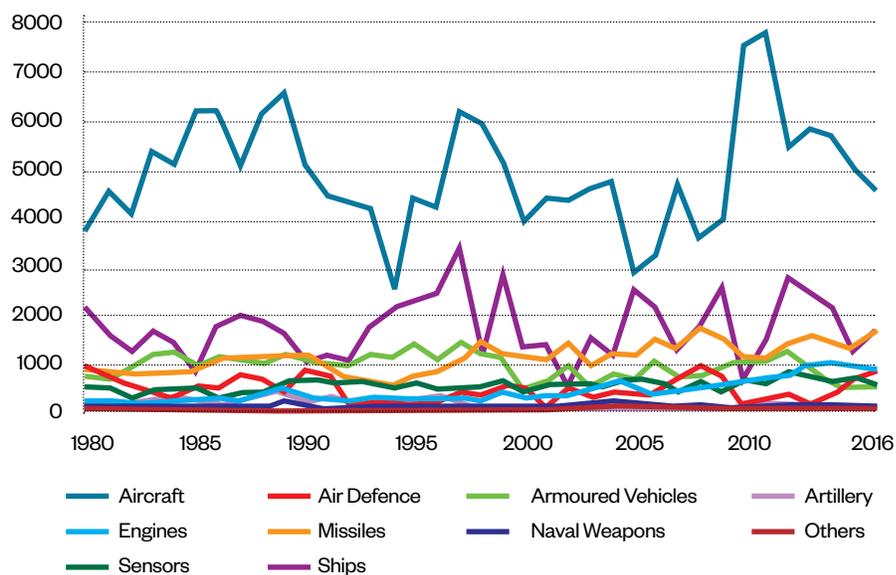


BY KOH SWEE LEAN COLLIN

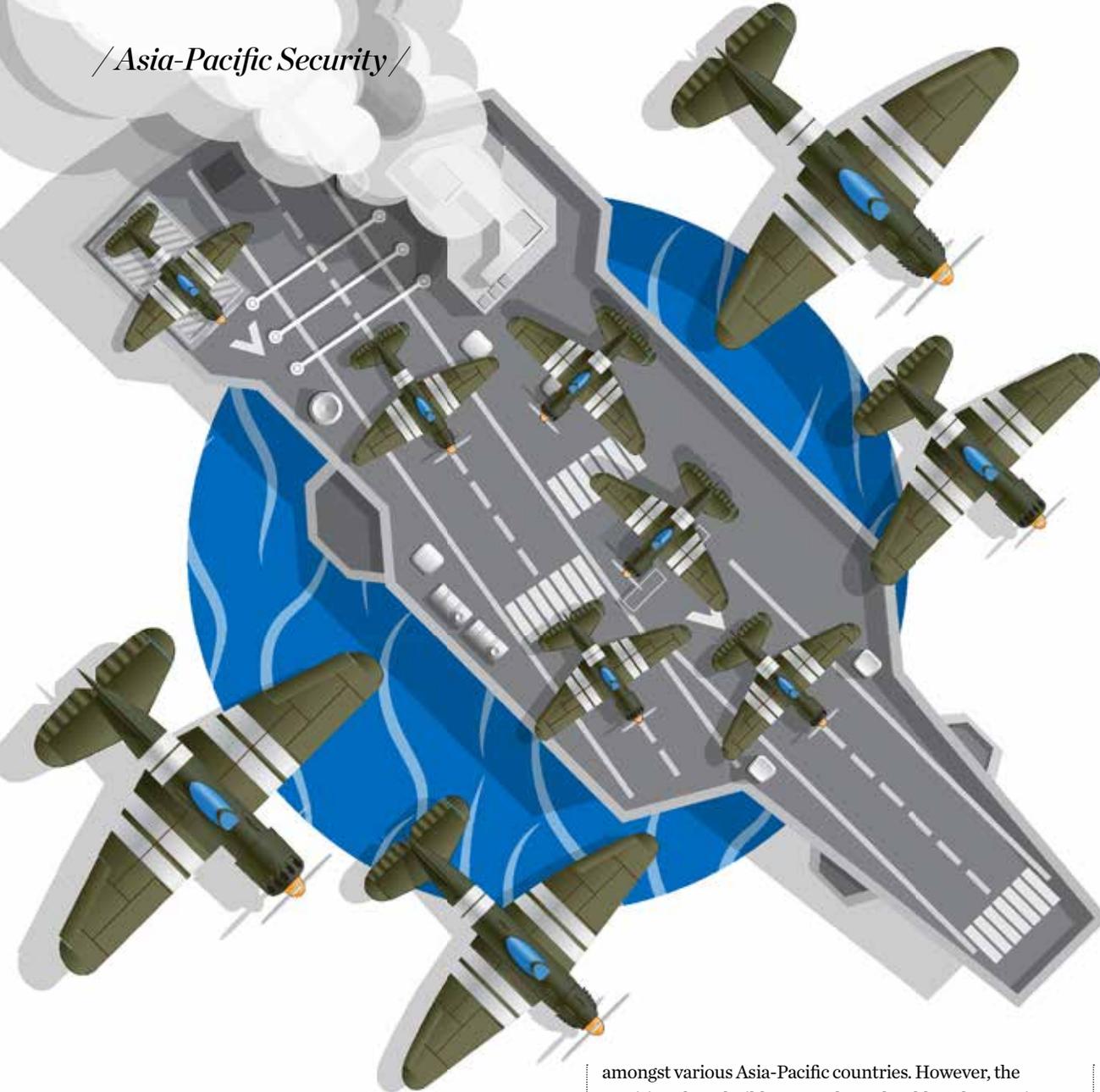
Understanding military modernisation in the Asia-Pacific region is no easy task. Perhaps the most common method used by both analysts and media commentators has been to examine defence expenditures. However, using such figures as tangible indicators is flawed. Firstly, the numbers may not truly reflect investments in military procurement. Instead, one may find that the bulk of the defence dollars may have gone towards daily overheads as well as manpower costs – especially so when militaries are competing with other more lucrative job sectors for talent. This is a problem faced not just by small militaries, but by larger ones as well.

To understand the nature of military modernisation in the Asia Pacific, a better indicator would be to analyse the weapons trade. The total arms export trade figures broken down into weapon categories for 19 Asia-Pacific countries, not counting Russia and the United States, are presented here as an example (see Figure 1).

Arms Exports in the Asia Pacific (in millions US\$)



Source: Stockholm International Peace Research Institute (SIPRI) Arms Transfers Database, accessed at <https://www.sipri.org/databases/armstransfers>



One may notice from Figure 1 that the rate of increase in the value of exports in aircraft, followed by ships and then missiles, has been high – though the fluctuations observed here were also significant during times of financial difficulty. Given that these three weapons categories are generally capital intensive, these patterns reflect a regional emphasis on their purchase over the relatively less expensive equipment needed by land forces. In other words, Asia-Pacific military modernisation is characterised by maritime forces development, including aircraft capable of operating in the maritime domain. This trend looks set to persist into the foreseeable future.

It needs pointing out that Figure 1's export figures for warships do not include vessels that were produced indigenously; the numbers would thus be even higher if these were included.

Facilitating the growth of maritime forces' capabilities – both navies and maritime law enforcement agencies – has been the increasing levels of defence self-sufficiency

amongst various Asia-Pacific countries. However, the maritime force build-up seen here should not be seen in quantitative terms only. For one thing, the size and latent capability per platform is expanding. For example, in the past, destroyers used to be armed with eight anti-ship cruise missiles, but modern ones these days can be armed with 16 or more.

A larger platform size translates into better range, endurance, and onboard spaces that enable modular capabilities and future upgrades. This last point is particularly important because – with the growing costs per unit of platform – it becomes necessary for navies to keep a ship in service for as long as possible before eventually replacing it with a brand new one. A typical warship may serve up to 30 and even past 40 years with proper maintenance, repairs and overhaul.

In sum, with increased capability per unit, warships are costlier to acquire, operate and maintain compared to land force equipment. For example, for the cost of US\$110 million per frigate, one could possibly purchase over ten main battle tanks, and that does not include expenses incurred for acquiring requisite infrastructure, training and other technical support. This means a one-for-one replacement is

not always the norm in the process of modernisation.

To further compound the predicament of Asia-Pacific maritime forces, it is necessary to distinguish between capability and capacity as two different attributes; for example, a warship bristling with state-of-the-art warfighting capabilities may be less cost effective than a greater number of cheaper, more simply-armed patrol vessels that could be better employed for daily, peacetime constabulary missions. A navy with a balanced set of multi-dimensional warfighting capabilities may not possess the capacity to fulfil all types of missions required of it. Militaries generally seek to strike a balance between capability and capacity.

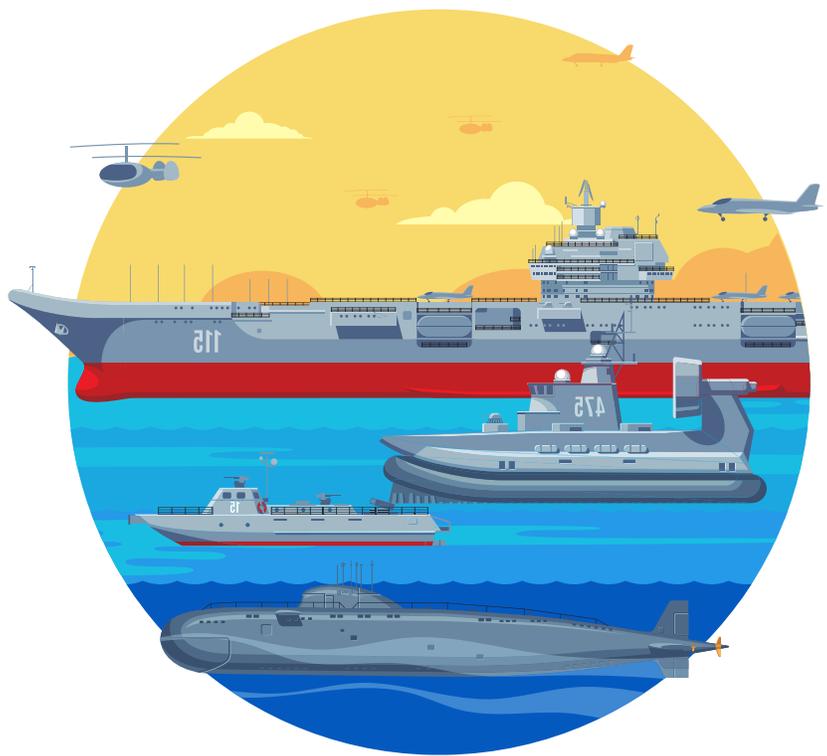
As maritime forces in the Asia Pacific seek to strike that balance, there will be a continued focus on the enhancement of force projection assets. Navies in the region will continue to gravitate towards large, multi-role surface and subsurface platforms that exist in smaller numbers but which are vastly superior to their older predecessors. This applies largely to major surface combatants and submarines. They will come with enhanced offensive long-range strike capabilities, such as the land attack and supersonic anti-ship cruise missiles that are gradually proliferating throughout the Asia Pacific, especially in Northeast Asia. Newbuild ships will emerge with these capabilities built in, whereas navies in the region may seek to retrofit existing vessels with such weapons.

However, nothing could better exemplify the dichotomy between offensive and defensive armaments than amphibious landing vessels. While these types of warships may come in handy for disaster relief, they are also associated with offensive rapid deployment in the context of regional maritime disputes – especially when seen in association with the concurrent development of amphibious land forces.

At the same time, given the previous focus on acquiring mobile, offensive capabilities, Asia-Pacific maritime forces will begin to focus on enhancing command, control, communications, computers, intelligence, surveillance and reconnaissance (C4ISR) capabilities that serve as force multipliers for a more networked pool of assets. In this respect, one may foresee growing interest in unmanned aerial, surface and subsurface platforms as well as remote sensing microsattellites with some optical and radar imaging capabilities.

But equally notable in the phenomenal build-up of navies in the Asia Pacific has been the significant expansion of maritime law enforcement agencies. Existing agencies will continue the process of consolidation and mergers, such as in China and Indonesia, while new assets will also be sought – often in direct competition with funding for navies. Not only are these coastguard-type fleets expanding in size, but individual vessels entering service are becoming larger and increasingly better armed.

In sum, looking at the trends ahead, regional navies will find it increasingly challenging to acquire new platforms – and in the desired numbers – in the foreseeable future. But this should not prevent them from incrementally enhancing their capabilities. For as long as maritime forces remain



flexible instruments of foreign policy operating in such an ambiguous strategic medium as the seas, Asia-Pacific governments will continue to find the funding to remain in this game of build-up.

While thus far there is no lack of political intent expressed by regional governments to maintain peace and stability, the real litmus test will come from potential miscalculations and inadvertent incidents at the operational-tactical level. In modern naval warfare, combat engagements can take place over the horizon upon split-second, life-and-death decisions. This creates a “use them or lose them” situation with potentially dire strategic implications. A ship’s commanding officer may feel compelled to respond pre-emptively to signs of attack, for example, the illumination of fire control radar systems, which can be (mis)construed as conveying hostile intent by the other party.

Moreover, various factors may cloud the judgment and decisions of human operators, such as psychological stress in an extremely tense naval stand-off. Automated naval systems can fail too. At the same time, history is replete with numerous failed attempts to negotiate naval arms control measures.

It is perhaps time to temper expectations about what the regional security architecture can offer, beyond political assurances. Multilateral political instruments, such as the proposed Code of Conduct (CoC) in the South China Sea, are certainly welcome. But one needs to ponder the question of whether it may be better to focus on initiatives aimed at enhancing the professionalism of operators and promoting operational-tactical confidence-building measures. Expanding the Code for Unplanned Encounters at Sea (CUES), which was signed by 21 navies during the Western Pacific Naval Symposium in Qingdao back in April 2014, to coastguard-type forces and submarines appears a more practical way forward to ameliorate the risks of a maritime build-up in the Asia Pacific. ●

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Regulating Cyberspace in Southeast Asia

The advent of digital technology has fuelled new opportunities capable of enhancing various aspects of a user's life. Will governments be able to navigate through their hazy roles in cyberspace to keep step with technological advancement and uphold data integrity at the same time?



BY
FARLINA SAID & NAUFAL FAUZI

More people have been empowered to make decisions for their lives than in any other time in history," said Dr Rafal Rohozinski, Principal and Chief Executive Officer of the SecDev Group at this year's 31st Asia-Pacific Roundtable's session on cybersecurity.

Yet cyberspace brings with it elements of risk, from vulnerabilities in critical infrastructure and financial sectors to the integrity of information. The uproar in the United States over allegations of Russia's interference in the 2016 US presidential

election raised hackles over the use and manipulation of information to destabilise democratic processes. The campaigns were said to utilise social networking sites to disrupt societal and systematic functions.

On the one hand, states face an escalation in computer security attacks, where email scams lure people into revealing sensitive information; on the other hand, the hacking and manipulation of media, communications, government administration and defence systems are perceived as threats to national security.

As such, states may be perplexed by their roles in cyberspace. The state's responsibility can include (but would certainly not be limited to) upgrading systems to enhance the delivery of services, projecting information to their population and enacting legislation to protect critical infrastructure. Given that the majority of cybersecurity infrastructure lies in the hands of the private sector and potentially challenges a government's control of cyberspace, states could set baseline standards and aim for mandatory reporting of incidences in cyberspace as a way forward for public-private sector cooperation in this regard, as suggested by Ms Kaja Ciglic, Microsoft Corporation Director of Government Cybersecurity Policy and Strategy.

On the international front, states may be involved in conversations on harmonising

legislation or confidence-building measures. Asia-Pacific countries, such as the United States, China, India, Indonesia, Japan and Malaysia, have participated in the UN Group of Governmental Experts processes to examine existing and potential challenges related to information and communications technology vis-a-vis international peace and security while outlining possible cooperative measures to address them. With a multitude of necessary roles to juggle, a state's policy development hinges on its strategic concerns as well as its perception of cyberspace. Naturally, states that view cyberspace as a means of transferring radical or extremist material may introduce or amend bills centred on content and terrorism.

Recent cybersecurity developments in Southeast Asia have been focused on developing institutions, refining mechanisms and honing content controls. In Indonesia, there was the signing of a regulation in the beginning of June 2017 to establish domestic regulatory bodies related to cyberspace. Then Singapore released a draft bill in July 2017 focusing on multi-stakeholder processes following their National Cybercrime Action Plan and national cybersecurity strategy launched last year.

However, the most common concern among Southeast Asian nations and their approach to the Internet revolves around content control. A 15-page report by Cambodia's police outlined police monitoring of Facebook, with action taken against some users. Myanmar also relied on its Telecommunications Law to pursue individuals for defamation online while Thailand's revised Computer Crime Act, which came into force in 2017, included amendments penalising service providers cooperating in, consenting, or acquiescing to the dissemination of harmful data. Those in possession of such computer data are also obligated to destroy the information. In Malaysia, the Malaysian Communications and Multimedia Ministry launched *Sebenarnya.my*, a fact-checking portal for news items gone viral in social networking sites.

Cyberspace is an integral part of the development plans of most countries. Governments may be wary of traditional divides growing more fluid, where what takes place virtually will have physical consequences. Thus, rules that govern



“With greater interfaces of cyberspace in society’s daily lives, states will struggle for control to preserve their interests”

cyberspace will have to keep pace with technological advancement. In developing democracies, the perception of an unregulated cyberspace may be particularly problematic, as this region grapples with issues of national identity, communal tensions and political divisiveness. Nico Lange, Director of Konrad-Adenauer-Stiftung USA, believes that digitalisation is among the reasons that fact-based rational discourse is difficult in current circumstances.

While conversations on protecting critical infrastructure have clear indicators of national security concerns, content management can be subjective. Facebook is allegedly a medium for writing algorithms that do not include ideologically diverse perspectives, the spread of terrorist propaganda and toxic videos insulting state institutions. Thailand reportedly asked Google to remove 1,192 items in the first half of last year while Singapore requested data from 490 Facebook accounts last year. User-operated spaces like Facebook and YouTube feed on participation by netizens, which may be affected if these tech giants choose to censor content. To satisfy both states and patrons, Facebook reportedly has more than 100 internal training manuals, spreadsheets and flowcharts on issues such as violence, hate speech, terrorism, pornography, racism and self-harm. A paper by Facebook's threat intelligence team in April 2017 acknowledges their role in spreading disinformation and indicates action on their end against

information campaigns – be it government-led or from non-state actors.

At the end of the day, moderators, such as institutions, parents and communities, play a vital and significant role in cyberspace. According to Dr Rohozinski, these moderators are missing from the web. Without them, the intake of information among an increasingly young online audience may not be properly facilitated.

There seems to be a cycle of trust in place, with private sector mediating the connection between states and the population, though this is not true for all in the private sector as Indonesia's recent threat to ban Telegram indicates. Trust between states and the private sector will not strengthen without conversation, and conversations are likely to progress among like-minded communities. This may present difficulties for states that do not champion similar points of view as a corporation or enterprise.

With greater interfaces of cyberspace in society's daily lives, states will struggle for control to preserve their interests. This situation might not be ideal for governments aiming to retain traditional linkages of power. Yet the multi-stakeholder process can assist with development in the region where all participants – the state, private sector and end users – are responsible for ensuring the integrity of systems related to cyberspace. ●



Lessons from the Andaman Sea Crisis

The region's reaction caused an outcry back in 2015. Since then, steps have been taken to address irregular migration. Will they be enough if there is another mass movement of people?



BY NURSALINA SALLEH & PUTERI NOR ARIANE YASMIN

When the Andaman Sea crisis unfolded in May 2015, most countries that were affected reacted instinctively. At the start, Thai, Malaysian and Indonesian authorities pushed boats carrying refugees that they had intercepted back out to sea, in apparent ignorance of international maritime law. These three countries, all non-signatories to the 1951 Refugee Convention, felt they were entitled to take matters into their own hands.

Amidst a huge international outcry, and with those on board being voluntarily rescued

by local officials and fishermen, the three governments eventually relented. Their foreign ministers met in Putrajaya on 20 May 2015 following the Philippines' offer to assist the migrants. At the meeting, it was announced that Malaysia and Indonesia would no longer push boats back out to sea, but would instead offer temporary shelter on the condition that refugees were repatriated and resettled in the next year. It was only then that Thailand, Malaysia, Indonesia, Bangladesh and Myanmar conducted search and rescue operations for those still stranded at sea.

Thailand was the only nation which did not sign onto the deal for temporary shelter, but provided navy vessels as floating assistance platforms. A Special Meeting on Irregular Migration in the Indian Ocean, which drew participation from 15 countries as well as key international organisations, was called by the Thai government in Bangkok on 29 May 2015. The meeting announced plans to protect those at sea with immediate effect and develop a detailed strategy on how best to address the root causes of the crisis. However, it remains

unclear whether the Bangkok meeting has resulted in any substantive outcomes.

What have governments of the region done in the years since the Andaman Sea crisis to ensure that there will be not be a repeat?

The Bali Process on People Smuggling, Trafficking in Persons and Related Transnational Crime (Bali Process) was set in motion in March 2016 when the ministers met and recognised the need to conduct a formal review of the Andaman Sea crisis. The review was recommended by the Asia Dialogue on Forced Migration (ADFM), a Track Two forum for credible and independent policy ideas.

The Review of the Region's Response to the Andaman Sea Situation by the ADFM highlighted how inadequately prepared the region was due to the lack of regional coordination. The Review also stated that, based on the meetings held throughout 2015, there was an emerging consensus on the actions needed to ensure similar situations are handled more effectively or even prevented.

The 11th Ad Hoc Group (AHG) Senior Officials' Meeting of the Bali Process in Colombo in November 2016 led to two substantial outcomes. First, was the endorsement of the Bali Process Consultation Mechanism to authorise the Co-Chairs to consult and hold meetings, whenever necessary, to discuss urgent matters of irregular migration. The Consultation Mechanism is also an avenue to formulate regional responses that include information sharing and improving communication amongst members on a voluntary basis.

Second, was the endorsement of the Review and its recommendations, which include the establishment of a Task Force on Planning and Preparedness. The Task Force was set up to work towards a level of operational coordination that has thus far not been seen in the region. Efforts will focus on detection, search and rescue, disembarkation and shelter practices across countries in the region. It has held two meetings since Colombo.

The first, in January 2017, was in support of the Consultation Mechanism that focused on lessons learned concerning planning and preparedness. The second, in May 2017, was a tabletop exercise on irregular and mixed maritime movements that was jointly organised by the United Nations High Commissioner for Refugees (UNHCR), the International Organization for Migration (IOM), the United Nations Office on Drugs and Crime (UNODC), and the Bali Process.

The Colombo meeting also resulted in the



“There is now a degree of preparedness to handle large influxes of irregular migration in the region, which was clearly lacking during the crisis in 2015”

ADFM being invited to continue providing policy advice to the Bali Process, particularly on planning and improving responses to irregular migration. Furthermore, the Bali Process also began to build partnerships with ASEAN vis-à-vis technical capacity building and shared interests, to better coordinate regional responses to large influxes of migrants.

Indeed, ASEAN should take advantage of multilateral bodies like the Bali Process to enable it to become a source of influence on issues related to irregular migration. Seeking a closer working relationship with the Bali Process could also help to ensure that the ASEAN Convention Against Trafficking in Persons, Especially Women and Children (ACTIP) becomes a focus of the ASEAN Community.

For instance, the Bali Process is engaging the private sector as another means of streamlining regional coordination to mitigate irregular migration. Australian Ambassador Andrew Goledzinowski stated at the Asia-Pacific Roundtable in May 2017 that the Bali Process would launch the Bali Process Government and Business Forum in August 2017 to bring together 45 CEOs and business leaders in the region and their ministerial counterparts for a dialogue on human trafficking, forced labour and related exploitation. The objective is for the private sector to advise government policy makers on how to prevent and combat human trafficking, and share best practices. This forum presents another opportunity for the Bali Process and ASEAN to work together.

But despite efforts to build a regional

consensus and process to address irregular migration, and the fact that irregular migration by sea has ceased since the Andaman Sea crisis – largely due to anti-trafficking measures and the lack of embarkation options – Myanmar continues to be the main refugee-producing country in the region, due to the humanitarian crisis in Rakhine State and renewed fighting in the northern states, including Kachin and Shan.

A positive initiative, which the Myanmar government has undertaken, is the establishment of the Kofi Annan Advisory Commission on Rakhine State. However, it is uncertain whether such a platform will lead to any outcomes, even while the world focuses on the terrible plight of the Rohingya. Since it was conflict in Rakhine State that triggered the Andaman Sea crisis in the first place, this is of great concern.

Developments by the Bali Process and its engagement with ASEAN and the ADFM highlight that a great deal of effort has been made to ensure that the region will not be caught off guard again in the future. Only time will tell whether the changes made will be sufficient. Nonetheless, stepped-up efforts in operational coordination and regional expertise are significant improvements. There is now a degree of preparedness to handle large influxes of irregular migration in the region, which was clearly lacking during the crisis in 2015. ●

Globalisation, and its winter of discontents

Can contemporary democracies reinvent themselves to meet current challenges? One writer fears the situation will probably get far worse before it can get better



BY
BILAHARI KAUSIKAN

Is globalisation integrative or disintegrative? The short and obvious answer is that it is both, although of late it is the second aspect that has become more prominent. Why is this so?

In 2016, two unexpected events – Brexit and the election of Donald Trump as the 45th President of the United States – drew attention to what ought to have been obvious: the international system of the last quarter century, the American-led “liberal international order”, or globalisation for short, was fraying at its edges. Both events were symptoms not causes, although as these events play themselves out, they may well accelerate its unravelling.

In retrospect, the extent to which the maintenance of the liberal order depended on the existence of its antithesis, the Soviet-led “socialist” order, was underestimated. The promise of the socialist order was false. But for 70 years, it was nevertheless a promise that gripped the imagination of millions who acted, lived and died for it. Without the balance imposed by its antithesis, globalisation became self-subverting; its downsides more acute.

Those downsides – economic and cultural – have never been secret. But remarkably little has been done by most countries to mitigate them. Political dysfunctions accentuated the challenges of globalisation in a vicious feedback loop. Populism has become the term of choice to describe those dysfunctions. Few would quarrel with the term. But populism is again only

a symptom. Identifying the cause leads to an uncomfortable conclusion: by the 21st century, democracy has become dysfunctional.

Democracy is a protean term. What all forms of democracy hold in common is the idea that ultimately sovereignty resides in the “will of the people”. This idea first emerged in late 17th century Europe, gathered force during the 18th and 19th centuries, and by the mid-20th century, had become the dominant legitimating political idea. Today, all political systems, except for a handful mainly in the Middle East, legitimate themselves by some variant of that idea, including communist “People’s Democracies”.

A monarchy or a theocracy may be popular or unpopular, but it cannot be accused of being populist because these political systems legitimate themselves by very different principles, such as by divine right or bloodline. Democracy claims to represent the voice of The People; populists claim to represent the authentic voice of The People. Populism is democracy metastasised into something ugly. Any good idea taken to extremes becomes dangerous.

Democracy worked best when it was in fact oligarchy legitimated by periodically subjecting itself to the discipline of free elections. For most of the 20th century, there was little to distinguish the political elites of different parties in mature Western democracies. Parties distinguished themselves primarily by the programmes

they professed to meet the fundamental purposes of government: the provision of physical, cultural and economic security. Although political rhetoric often exaggerated the differences, the range of options to provide these public goods was usually not overly broad.

Elections were the formal means by which elites circulated. In return, elites required, and by and large received, the trust of The People, at least until the next election. This was the compact on which the stability of the system rested. It was not perfect, but it worked tolerably well. That compact is now broken or severely strained in many countries – most notably, but not limited to, the United States and many member states of the European Union; where working through the political process has become harder and harder while achieving less and less. What has gone wrong?

In the 21st century, technology in the form of social media collided with the 18th century political idea of the sovereignty of The People. The collision simultaneously fragmented and broadened the idea of The People, making it ever more difficult to know who The People really are or what their Will really is, and thus provide public goods – now demanded as rights or entitlements – in a manner that satisfies everyone or even a majority. Jean-Claude Juncker, President of the European Commission, best defined the essential dilemma: “We all know what to do, we just don’t know how to get re-elected after we’ve done it.”

Consequently, urgent problems are too often ignored or kicked down the road; too often promises are made that cannot be fulfilled. The People, not being fools, predictably responded with a sense of betrayal.

The result is a growing divergence between the values of elites and those of the people they ostensibly represent. Ideas, once less than respectable, and movements, once marginal, have occupied that space. It is increasingly difficult to reconcile policy, which is or ought to be based on reason, with politics, which is essentially based on emotion. Well-meaning attempts to enhance democracy by amplifying the voice of The People, for example through systems of proportional representation, compound the problem by making political systems less coherent.

The fundamental responsibility of leaders is to lead. A 19th century French politician once quipped: “There go the people. I must follow them, for I am their leader.” This is no longer just a joke. Politicians in many countries now find themselves in exactly such a situation.

Non-Western systems may be relatively, but are not absolutely, better off. China’s system has the same intellectual roots as Western systems and suffers its own – in some ways more acute – version of the

dysfunctionalities, for much the same reasons. For the Chinese Communist Party, the dilemmas posed by the collision of 18th century political philosophy and 21st century communications technology may well prove existential. And lest we slip into a self-congratulatory mood, political systems

in Southeast Asia are not immune and are displaying early symptoms of the same global political disease. We are moving down the same path.

What is to be done? There are no easy answers. The first step is to recognise that the problem exists. A modicum of honesty would be helpful. For example, the generous European social model is unsustainable as a matter of actuarial certainty. But I know of no politician that has had the courage to say so, let alone do something effective about it. A wrenching reevaluation of the fundamental ideas and values on which contemporary democracies are based is vital. But such a reevaluation has yet to even begin and, moreover, depends on the very systems that are now dysfunctional. The situation will probably have to get far worse before it can get better. ●

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RISE OF THE REST?

It's not all about China and America. Developments in the Asia Pacific and the changing international order will force middle powers to play a greater role in the region – whether they like it or not



BY
THOMAS DANIEL

While the international environment in the Asia Pacific has always been in a state of transition, the significance and scale of developments over the last few years has left institutions and issues in the region in a state of flux. These changes are mainly driven by a rising China, which some view as increasingly assertive, and uncertainties about US foreign policy under the Trump administration. The possibility of a new type of big power politics appears to be back. The impact and influence of international law and established conventions, and the commitment of major powers to existing multilateral mechanisms, are also in question.

While most of the discourse is focused on the

contestation between the United States and China in the wider Asia Pacific, the so-called middle powers are also important players in the geopolitical, economic and security outlook of the Asia Pacific. Many are understandably concerned about this changing regional order. How do middle powers navigate and manage these changes? Could they be forced to play a bigger, more coordinated role in the region?

While there is still a vigorous debate on what constitutes a middle power, a few characteristics are generally agreed upon. This includes having a sizable population as well as significant economic and military capabilities, and the ability to effectively employ such capabilities within their borders and beyond,

but without a great capacity for coercing others. Middle powers are also expected to be multilaterally-oriented coalition builders that are active in the international scene – often in partnership with other middle powers or major powers. While they may not be able to shape the entire international system, they have a limited but tangible role in determining the rules of that system. Last but not least is perception – both self and external. Countries that generally feature the above characteristics are often perceived as middle powers by others, while some countries think of themselves as middle powers based on their capacities and activism on the international stage.

In the Asia Pacific, countries that are often considered to be middle powers include Australia, Japan and India – although some in the latter two would consider themselves as major powers. Even South Korea and Indonesia have been mentioned as middle powers or newly emerging middle powers.

Driven primarily by the rise of China and its expanding influence, the focus of most of these middle powers has been to balance against it, taking steps to protect their interests as well as the perceived interests of the wider region. This is – or perhaps was – often done in concert with the United States, especially under the umbrella of the Obama administration’s “rebalance to Asia”. Australia, Japan and South Korea are treaty allies with the United States and part of the “hub and spoke” alliance system that was established in the Asia Pacific after the Second World War.

Japan and India, in particular, have embarked on a more robust and active policy of engagement with the region, especially with ASEAN and with an added emphasis on the South China Sea. The last two years have seen a flurry of high-level visits by Japanese Prime Minister Shinzo Abe to Southeast Asia, with promises of increased investment, specialist technical capacity building assistance and the transfer of several Japanese maritime and aerial assets to the law enforcement agencies of several ASEAN countries. It is also doubling efforts to secure key infrastructure projects throughout Southeast Asia, where it is in direct competition with Chinese bidders. India, which was slow to the game in the Asia Pacific, is attempting to “Act East”. In addition to its engagement with ASEAN, it has also furthered cooperation, especially defence and strategic cooperation, with its longstanding partners in Southeast Asia – Vietnam and Singapore. On its part, Australia, despite being a major trading partner of China, has been a constant and vocal critic of what it perceives as China’s non-adherence to the established rules-based international system and international law. Needless to say, most of these efforts have drawn the ire of China, which has publically voiced its displeasure at what it perceives as increasing interference with its legitimate interests and goals.

There are also indications of a deepening relationship and coordination between Australia, India and Japan, which has been budding since their first official trilateral dialogue in 2015. There is growing progress, especially on the maritime front. Incidentally, this trilateral is the only one of its kind in the Asia Pacific not to involve either the United States or China. More interestingly, all three – Australia, India and Japan – not only have pre-existing bilaterals with each other and the United States; but also pre-existing trilaterals with one of the other and the United States as the common partner.



“The last two years have seen a flurry of high-level visits by Japanese Prime Minister Shinzo Abe to Southeast Asia, with promises of increased investment, specialist technical capacity building assistance and the transfer of several Japanese maritime and aerial assets to the law enforcement agencies of several ASEAN countries”

The arrangements of these three middle powers with the United States, and the subsequent development of the trilateral (minus the United States) bring us to another possibility. Despite assurances by high-ranking American officials in a slew of visits across the Asia Pacific, many remain unconvinced by the commitment of the Trump administration towards maintaining the status quo of American involvement and commitment in the Asia Pacific. Middle powers now have a new consideration – the need to maintain multilateral mechanisms in the Asia Pacific not just in the face of a more dominant China, but also a United States with shifting priorities in the region. The concern is that the vested interests of both major powers – in terms of trade, geopolitics and security, could leave the rest of the Asia Pacific at a disadvantage. As it stands, both Japan and Australia are taking the lead to salvage a workable agreement after the Trump administration pulled the United States out of the Trans-Pacific Partnership (TPP). This new agreement is being billed as a “TPP minus one” – with the “one” being the United States.

Ultimately, developments in the Asia Pacific and the changing international order will force middle powers to play a greater role

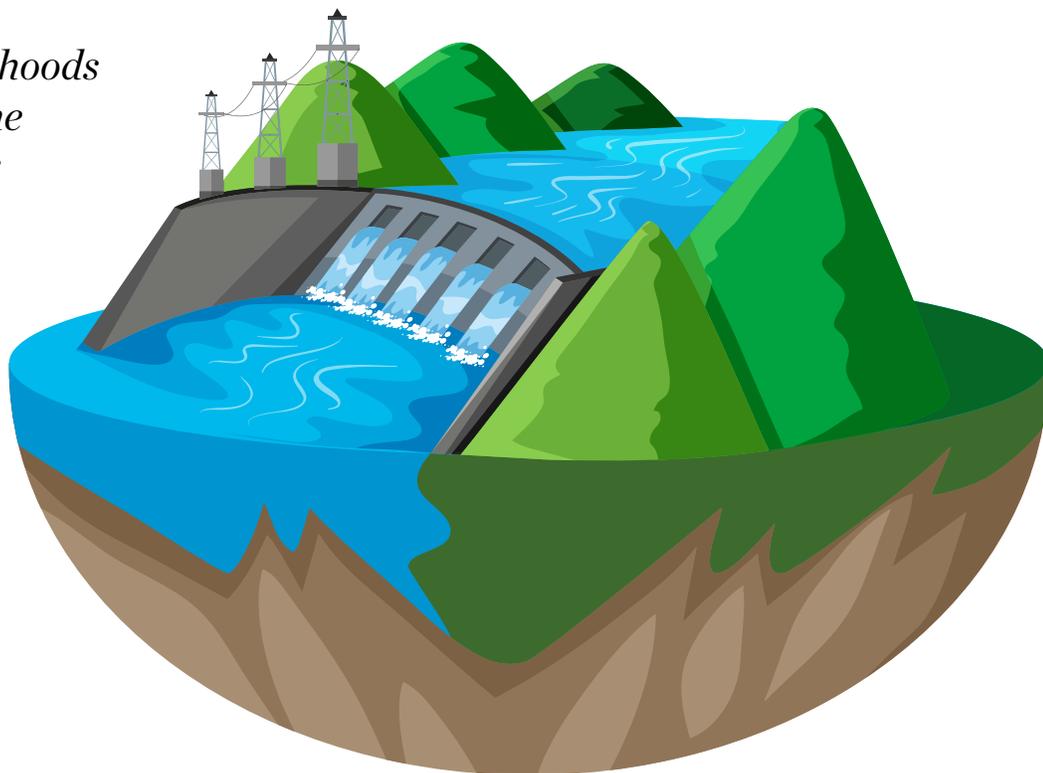
in the region – whether they like it or not. In the absence of the United States as a stabilising force against China, or even with the perception of such an absence, it is likely that smaller countries – particularly those that have serious concerns over the aims and interests of China – will look to such middle powers to fill the leadership gap as best they can. The question then is whether these middle powers are capable of doing so. Coordination and cooperation between the middle powers are essential – initial efforts need to be deepened and sustained. This would also require such countries to avoid jeopardising the impetus for cooperation by prioritising national interests in the face of dealing with major powers. Policies and strategies should also be more proactive, rather than reactive.

Middle powers themselves need to be realistic and honestly assess what can be achieved both individually and together. These include an assessment of the costs and benefits of working against and with both China and the United States. The international order of the Asia Pacific is evolving and all stakeholders, especially middle powers, must best prepare and adapt to these changes. ●

Dams Causing Distress

THE MEKONG: TIME TO ACT – BEFORE IT’S TOO LATE

Dams threaten the livelihoods of tens of millions and the access to food and water of potentially hundreds of millions in the region. Does ASEAN have the will to intervene?



BY AINUN JAABI & HARRIS ZAINUL

Despite ASEAN furthering its regionalisation efforts through the ASEAN Community, critics have suggested that the Association has not done enough to address the tensions in the Mekong subregion. Largely over resource management, these tensions affect five of its member states, and 70 million riverine citizens.

The Mekong, the longest river in Southeast Asia, flows through six riparian states – China, Myanmar, Laos, Thailand, Cambodia and Vietnam. The Mekong, originating from the Lao-Thai Me Khoong, which loosely translates to mean “Mother River”, provides not only water, the essence of life itself, but also means of transportation, energy production and food security.

However, the construction of hydropower dams along the river threatens these. The large volumes of water retained to make hydropower feasible come at a high price for downstream water levels, nutrient-rich silt, ecology and

biodiversity. Furthermore, the damming of the Mekong mainstream reduces its natural ability to act as a flood valve, increasing the vulnerability of the entire Lower Mekong Basin communities to floods.

Further, the hydropower dams act as an impenetrable obstacle for commercial fish species in the Mekong, 70 percent of which are long-distance migratory species. As a consequence of their not being able to reach traditional spawning grounds, the Mekong’s fish stocks will decline. This will have serious economic consequences for the over US\$17 billion a year fisheries industry on which fishermen living alongside the Mekong rely as their source of income.

At the heart of this issue is the balance between a sustainable development of the Mekong and the riparian states’ need for power generation. These states, mostly still developing, are enticed by relatively simple hydropower technology. While efforts to

diversify from dependence on hydrocarbons should be applauded, hydropower generation on a transboundary river requires closely coordinated developments to minimise the costs to downstream eco-systems.

Two regional intergovernmental organisations could theoretically supply the necessary coordination: the Mekong River Commission (MRC) and the Lancang-Mekong Cooperation (LMC).

The MRC was established in 1996 and has been responsible for preventing outright conflict over resources, encouraging data sharing, and building capacity among its member states – Cambodia, Laos, Thailand and Vietnam. The MRC has also been instrumental in providing invaluable Mekong-related studies, such as the authoritative Strategic Environmental Assessment (SEA) of hydropower on the Mekong mainstream, published in 2010.

The SEA had not only warned of the consequences if hydropower dam constructions were to proceed, it also recommended a 10-year moratorium on decisions on mainstream dams, with three-year reviews to facilitate more in-depth feasibility studies. However, as the MRC lacks legally binding authority, Laos was able to unilaterally proceed with its construction of the Xayaburi Dam with another planned at Pak Beng. This demonstrates the upper limits of the MRC's capabilities in ensuring mutual cooperation on the Mekong.

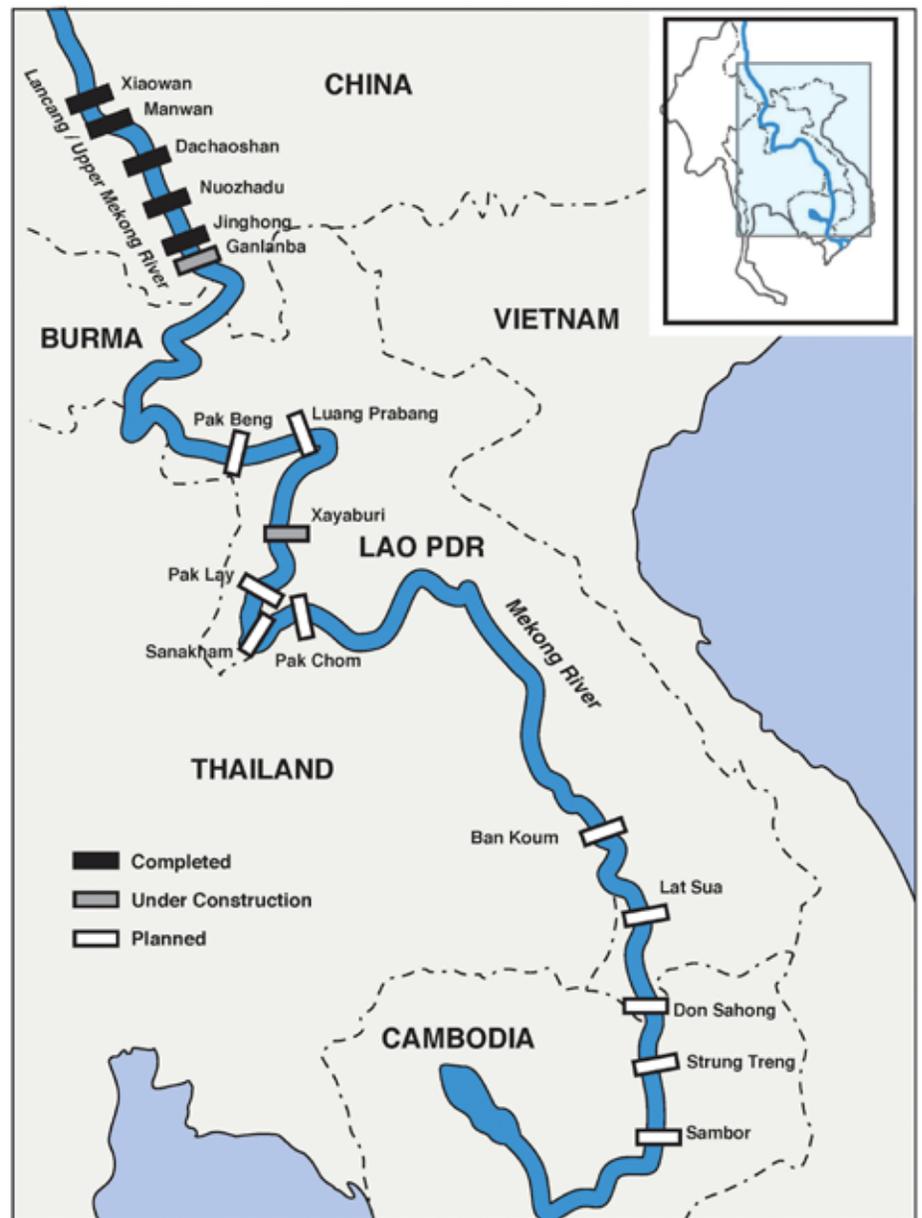
The LMC, meanwhile, boasts six members – China, Myanmar, Cambodia, Laos, Thailand and Vietnam. Despite advocating for win-win cooperation, a closer analysis of the Sanya Declaration at the first LMC Leaders' Meeting in March 2016 serves to temper expectations about how it will manage Mekong-related developments. While the Declaration ranks water resources as one of the LMC's top five priorities, only one of the 26 measures specified to outline those top five priorities is dedicated to water resource management.

Downstream suspicions over Chinese intentions are still present. Largely arising out of China's construction of a cascading series of seven dams on the upstream Mekong to meet its domestic needs, it has been a sore point between LMC members and has served to undermine cooperation. Regardless, as the LMC is relatively new, time will be the ultimate arbiter of its effectiveness.

In the current absence of an effective governance mechanism to ensure cooperation, the strain being put on the Mekong is increasing and pushing the river system closer towards the brink. Aside from the irreversible ecological damage, the riverine communities stand to lose the most.

These communities, primarily in rural areas experiencing poverty, will be disproportionately affected by irresponsible hydropower dam constructions along the Mekong mainstream as they depend on it the most. As it stands, the fisheries industry, which provides 2.5 million tonnes of protein a year, is already losing its viability as an economic source while agriculture has been hard hit by extreme weather patterns and increased salination.

The implications of this cannot be understated as the on-the-ground realities cannot be neatly separated nor compartmentalised into riparian and non-riparian state issues. If tensions are left



unresolved, it could undermine ASEAN's own ambitions to maintain its centrality in resolving disputes arising from within and beyond the region.

Additionally, ASEAN's lack of attempts to reduce tensions arising from the water-food-energy nexus will only be exacerbated by worsening climate change, which acts as a threat multiplier for the adverse effects of the irresponsible management of the Mekong. Basic needs, such as food, will be scarce and access to fresh water will increasingly be hard to come by. The struggle to meet these basic needs might strain inter-ASEAN relations between the riparian countries, weakening ASEAN's community-building efforts.

This indifference could also constitute a

strategic blunder: ASEAN may increasingly be split between the older littoral states and the newer Mekong riparian states, with (non-ASEAN) China figuring prominently among the latter and making Thailand's position of being in both camps quite untenable. Thus the entire ASEAN Community project could be undermined.

More than that, and most importantly, ASEAN's reputation is at stake over the issue. If ASEAN fails to act, its relevance as a regional organisation might be lost on the 70 million people living along the Mekong who rely on it for their daily and economic needs. 🌐



Is ASEAN prepared for the Fourth Industrial Revolution?

With a young and technically adept population, the region ought to be well positioned to take advantage of the new digital economy. But challenges – not least the varying levels of political will – raise doubts about whether Southeast Asia can make the most of the coming disruptions and changes



BY
NURUL IZZATI KAMRULBAHRI & LATIFAH AZLAN

Technology has become so indispensable that it is hard to imagine a future in which more of it is required. Yet, as the World Economic Forum (WEF) notes, we stand on the brink of a technological transformation so revolutionary that it will fundamentally alter how we live our lives. Building on the digital age of the Third Industrial Revolution, the coming fourth iteration will further push the integration and utilisation of technology to create a hyper-connected, cyber-physical world with countless new markets and new opportunities.

Already, we are surrounded by artificial intelligence, from drones and self-driving cars to virtual personal assistants like Siri and Cortana as well as entertainment subscription services like Spotify and Netflix. We now live in a time of great promise and, at the same time, great uncertainty. The full impact of the Fourth Industrial Revolution is currently unknown; however, today's technological transformations have already begun to disrupt existing industry structures as well as traditional modes of production and consumption.

For the ten countries of ASEAN, the Fourth Industrial Revolution could further boost the region's prospects, given its rising prosperity, young population and high digital literacy rates. It is estimated that the new digital economy could add US\$1 trillion to the region's GDP over the next decade, making up close to one-fifth of ASEAN's projected GDP of US\$5.25 trillion in the year 2025.

Manufacturing has been critical to Southeast Asia's growth. Much of the region's attractiveness can be attributed to its abundant supply of low-cost labour, which is now under threat due to the plummeting costs of automated assembly lines. Yet the integration of machines in the manufacturing sector can boost efficiency, increase flexibility and enable greater customisation; thus, making the means of production quicker, but at a lower cost and higher quality.

If pursued correctly, the Fourth Industrial Revolution can help ASEAN move further up the economic value chain. Efforts to embrace digitisation have already been espoused by the ASEAN Economic Community Vision 2025, which highlights "evolving digital technology" as a key component in creating a globally competitive market. The move to a digital economy could be a catalyst for further regional integration and a more inclusive economic community for ASEAN in the future.

With 65 percent of its population under the age of 35, technology adoption in Southeast Asia has also been quicker than anticipated.

"At the moment, there are skilled talent pools in countries like Malaysia, Indonesia, the Philippines and Singapore, while Myanmar, Cambodia, Laos, Thailand and Vietnam have recorded worrying trained talent scarcities – as stated in the WEF's 2015 Human Capital Index report"

Success stories include previously closed-off countries like Myanmar, whose citizens have capitalised on the decreasing costs of smartphones to come online for the first time. The country was able to rapidly develop its telecommunications industry by leapfrogging technology and going straight to modern infrastructure in the span of 15 months. This has driven the demand for mobile apps and services, especially those relating to e-commerce and finance.

Furthermore, increased digitisation will also significantly alter governments and governance in the region. As the physical and digital worlds continue to converge, new technologies have provided the public with greater control, participation and influence over governmental issues and initiatives. Through the use of platforms such as social media sites, citizens now feel much freer to engage with government officials at all levels and to voice their opinions on any number of issues.

On the other hand, technology has extended the reach of governments and increased their control over the populace, with the use of pervasive surveillance systems and data collection. Transparency and accountability can no longer be taken for granted and ASEAN regimes, many of whom have been criticised for being repressive, will also have to contend with these issues when it comes to policymaking in this area.

Even with all the rainbows and unicorns promised by the Fourth Industrial Revolution, the underlying challenges mean that digital industrialisation will produce a number of trials for ASEAN.

ASEAN's lack of technological and digital know-how could put it at a disadvantage compared with established tech giant states that are positioned to make swift gains, and compared to countries where research and development (R&D) is already advanced.

With narrowing the development gap still a major concern to ASEAN, our determination to ensure regional inclusiveness will come face to face with the fact that – with the exception of Singapore – R&D progress in ASEAN countries is uneven. Malaysia, Thailand, Vietnam and

Brunei are catching up, but the same cannot be said of Cambodia, Laos and Myanmar, where the focus is still more on nation-building and infrastructure development.

The heavy reliance on agriculture and small and medium enterprise industries in these relatively low-income countries has also contributed to the delay in pursuing greater technological advancement.

Other countries, such as Vietnam, are apprehensive about their ability to obtain and retain technological skills and industries, despite the country's efforts to ramp up R&D in recent years.

This begs the question of whether the political will exists within ASEAN to nurture sufficient awareness of the importance of science and technology, as well as to provide enough incentives for its people to move to a digitally-driven economy.

The digital era has shifted industries' focus from a more human-driven technological skills market to a more machine-dependent digital-centred ecology that emphasises the free flow of information and data. This phase of the industrial revolution also features high demand for skill-malleable individuals with the knack of foreseeing and adapting to market trends and flows.

At the moment, there are skilled talent pools in countries like Malaysia, Indonesia, the Philippines and Singapore, while Myanmar, Cambodia, Laos, Thailand and Vietnam have recorded worrying trained talent scarcities – as stated in the WEF's 2015 Human Capital Index report. While ASEAN's plans looking forward are sensitive to such differences, it is less coherent when it comes to implementing initiatives to address them.

If it can reform itself, while taking into account the varying political and economic dynamics of the region, ASEAN certainly has the potential to help the association move towards being a more effective, inclusive, transparent and digitally-centred ecosystem. It must do so if Southeast Asia is to make the most of the Fourth Industrial Revolution.



Mr Najib Goes to Washington

Prime Minister Najib Abdul Razak's official visit to Washington marked the 60th anniversary of US-Malaysia relations at a time of strategic unpredictability. It highlighted the Malaysian leader's astute recognition of President Donald Trump's preference for transactionalism, but more importantly, affirmed the strategic importance of the United States to Malaysia and underscored a bilateral commitment to pressing matters of regional security



BY STEVEN CM WONG & ELINA NOOR

By most accounts, Malaysian Prime Minister Najib Razak's September 12 visit with US President Donald Trump in Washington, DC, was a cordial, almost relaxed affair. Broad smiles notwithstanding, there was no mistaking the serious undertones. The occasion was the 60th anniversary of US-Malaysia bilateral relations, but amidst the celebration and avowals to further strengthen the Malaysia-US comprehensive partnership, there was the serious agenda of North Korea, China and the threat of terrorism in Southeast Asia.

The day before Najib's visit, the United Nations Security Council (UNSC) had voted for new sanctions against North Korea. Trump noted in candid remarks made prior to the bilateral meeting that "he (Najib) does not do business with North Korea any longer, and we find that to be very important". The Joint Statement of the two leaders put it more formally by recording Najib's commitment to "go beyond the UNSC resolutions, including review of its diplomatic and business links". For his part, Najib reiterated Malaysia's stand on nuclear non-proliferation that he had made seven years earlier on the sidelines of the Nuclear Security Summit in Washington.

The two leaders also emphasised the importance of international law, a rules-based maritime regime and the avoidance of threat or the use of force, intimidation and coercion to resolve disputes in the South China Sea, all without specifically mentioning but still clearly aimed at China. Some American observers found Malaysia's position to be unusually assertive but, in truth, Malaysia has always been firm on the issue, just not outspoken.

The threat of the Islamic State of Iraq and Syria or Daesh in Southeast Asia was a third issue where both men found strong common understanding. Trump praised Najib for being "very, very strong on terrorism in Malaysia" and, in the Joint Statement for Enhancing the Comprehensive Partnership between the United States and Malaysia, made a rare reference to Malaysia's participation in the Global Coalition against Daesh. Apart from this, Najib vowed to contribute to ideological warfare to win hearts and minds; the key to this is to support moderate and progressive Muslim governments.

Malaysia brought its own agenda to the table, namely to draw US attention to the unfolding humanitarian crisis in Myanmar.

"Perhaps the most important effect of the Najib visit was to clearly message to an international and domestic audience that Malaysia regards the US relationship of strategic importance"

While the term Rohingya was not used, it was clear that Malaysia was referring to what the UN High Commissioner for Refugees had called a classic case of ethnic cleansing. The issue is being championed by Malaysia at multilateral and regional forums and received a sympathetic response from Trump. Najib is quoted as saying, "When I explained to Trump what happened and its implications, he instructed for a strong statement to be issued so that the violence against the Rohingya is stopped".

The first clear takeaway from Prime Minister Najib's visit was the Trump administration's continued engagement with Southeast Asia. Najib's visit was part of the US administration's effort and has to be seen in that light. It followed the visit of Vietnam's Nguyen Xuan Phuc in May and preceded Thailand's Prayut Chan-o-Cha in early October. Singapore's Lee Hsien Loong visited later that same month. An invitation for the Philippines' Rodrigo Duterte to visit remains on the table.

Immediately after Prime Minister Lee's visit to Washington, it will be Trump's turn to cross the Pacific Ocean, visiting Japan and China before attending the Asia-Pacific Economic Cooperation (APEC) in Da Nang, Vietnam, and the East Asia Summit (EAS) in Manila.

Second, Najib's strategy for the visit was clear and that was to be as transactional as his host. He emphasised ways that Malaysia had contributed to the US economy through investments and announced purchases of up to \$4 billion of Boeing aircraft by Malaysia Airlines, the national carrier, and \$60 million worth of defence equipment. In doing so, Najib may have been encouraged to follow the lead of Vietnamese Prime Minister Phuc, who announced \$8 billion of commercial deals. Singaporean Prime Minister Lee is also reported to be lining up purchases of US\$19 billion of Boeing aircraft. Southeast Asia apparently feels very much at home with the

transactional approach to diplomacy of the current US administration.

Third, and perhaps much to the disappointment of Malaysian opposition parties and most Western media, Najib's visit indicated that the Trump White House did not place much diplomatic stock in the much-publicised US Department of Justice's (DoJ) investigations into the 1MDB imbroglio. The DoJ is seeking to seize assets bought with funds siphoned from Malaysia's 1MDB, a state-owned strategic investment company, under the Kleptocracy Asset Recovery Initiative.

In the same vein, the Washington visit of Thailand's Prime Minister Prayut sent signals that the United States was prepared to reinvigorate the relationship after being curtailed by the Obama administration following the 2014 Thai military takeover of the civilian government of Yingluck Shinawatra.

Perhaps the most important effect of the Najib visit was to clearly message to an international and domestic audience that Malaysia regards the US relationship of strategic importance. Multiple visits by Najib to Beijing, evidence of a political closeness that no other Malaysian prime minister has had, and the waves of Chinese investment in the Malaysian economy, have given the impression of a country that is quickly falling (or has fallen) into the Chinese orbit. The Washington visit helps to dispel this idea. As a follow-up to the visit, efforts are being made to study ways to recalibrate the Malaysia-US comprehensive partnership. For whatever troubles Mr Trump and Mr Najib may have been experiencing domestically, the visit was an important diplomatic effort and indicative of the continuity that some scholars had predicted.

Is Malaysia-EU Free Trade Finally on the Horizon?



Brussels is a much more important trade partner to Putrajaya than vice versa, and other Southeast Asian countries have already agreed FTAs with the European Union. Talks are supposed to resume this year. It is in Malaysia's interests to ensure that they do



BY GIUSEPPE SPATAFORA

Last March, negotiators from the European Union (EU) and Malaysia agreed to resume talks for a Free Trade Agreement (FTA) within 2017. At the time of writing, talks have not started yet, and as months pass by, one cannot be certain that they will commence before the end of the year. Despite the official confidence of the two delegations, there is limited hope for

rapid progress as the problems that caused a stalemate in the talks in 2012 are still existent and pressing.

The Malaysia-EU Free Trade Agreement (MEUFTA) talks were launched in 2010, born out of the failed attempt to negotiate a region-to-region trade deal between the EU and ASEAN. For Malaysia, MEUFTA represents a great opportunity to ease access to its third

largest trading partner, accounting for 9.8 percent of Malaysia's total external trade in 2016. Kuala Lumpur runs a trade surplus with the EU, to which it exports machinery and equipment, as well as commodities like palm oil, rubber and timber. Industrial products also dominate the EU's exports to Malaysia, its second largest trade partner in ASEAN and 22nd worldwide.

But Malaysia's attractiveness is in the business sector: its strategic position within Southeast Asia, its skilled but cheap workforce, and the widespread use of English turn Malaysia into a perfect hub for the provision of goods and services to the entire ASEAN region.

In terms of competitiveness, Malaysia ranked very highly at 23rd in the World Bank's Doing Business Report 2017.

Thus, the European Commission, its negotiating power enhanced by the 2009 Lisbon Treaty to include trade in services and investment, gave priority to negotiations with Putrajaya.

Yet talks were put on hold in 2012, as the parties had "exhausted their negotiating options". The EU requested a large liberalisation of the services sector, a removal of caps on foreign equity holdings, and clear rules on government procurement (GP) and intellectual property rights (IPR): in brief, it followed the deep-trade agenda that it had announced in the Global Europe Communication of 2006 to the letter.

Malaysia, on the other hand, requested exemptions and concessions, which made sense given the different levels of development between the two parties. Talks bogged down when the EU requests for liberalisation undermined the long-term policy of affirmative action for the bumiputera community. The combination of the electoral campaign for 2013, in which bumiputera policy was a very sensitive issue, and the parallel rise of the Trans-Pacific Partnership (TPP) negotiations under the American aegis encouraged the parties to interrupt negotiations without resolving the thorny issues.

The Malaysian cabinet decided to transfer its efforts to the TPP: in it, it saw another large market (the United States) open for access and an opportunity to set internal reform in motion, but still partly maintain bumiputera protection in GP and services. The TPP requirements, while high, are not as stringent as the ones Brussels demand, partly due to Malaysia's massive diplomatic action to secure exemptions.

In early 2017, with the TPP gone or, at best, significantly re-dimensioned, contacts between the EU and Malaysia resumed. The signing of the Partnership and Cooperation Agreement (PCA) in 2016, which is required for the conclusion of the FTA, was a significant step ahead. But the fundamental issues of 2012 are not resolved, as negotiators are realising.

Moreover, while Malaysia concentrated its efforts on the TPP, the EU has completed two FTAs with Singapore (2015) and Vietnam (2016), which it regards as the benchmarks for further talks with ASEAN members. The rationale is understandable: if a less-developed country like Vietnam agreed to a more

"Policy makers should keep in mind the effects of deep and comprehensive FTAs not just on trade, but on the overall economy"

comprehensive trade agreement than the TPP, covering GP, state-owned enterprises (SOEs), and IPR, why can't Malaysia?

But perhaps Malaysian negotiators should ask themselves another question: why have Singapore and Vietnam succeeded in dealing with both the EU and the United States (in the context of the TPP), while Malaysia only focused on one FTA? These recent developments seriously question Putrajaya's ability to manage international negotiations, and increase the pressure for internal liberalisation beyond TPP commitments.

To be fair, between 2009 and 2010 Malaysia had adopted an important policy of liberalisation and divestment in light of the Economic Transformation Programme. It also lifted caps on foreign ownership in 27 service sectors including manufacturing. Yet, European negotiators argue that significant restrictions remain in their target sectors, such as real estate, telecommunications, and financial services. Without Malaysia significantly lifting restrictions on foreign ownership in these sectors, Brussels's welfare gains from the FTA would be negligible, studies claim.

The main bone of contention remains the opening of GP bids to foreign companies. Most government-tendered projects require that companies submitting tenders be bumiputera-owned; foreign tenders are accepted mostly when local expertise or resources are unavailable. This policy, part of the most important welfare programme in Malaysia, impedes European access to a sector in which their companies have a substantial competitive advantage.

If Europe demands Malaysia commit to substantial internal reforms, Putrajaya could ask the EU to grant unimpeded access to its commodities. The particularly hot issue is palm oil exports: although Malaysia is party to the Roundtable on Sustainable Palm Oil (RSPO) and has taken important steps towards curbing unsustainable expansion of palm plantations, it feels threatened by increasingly stringent EU legislation on biofuels.

Last April, members of the European Parliament voted overwhelmingly to ban biofuels made from vegetable oils including

palm oil by 2020, following a similar announcement by France. Malaysia's palm oil is among the 12 National Key Economic Areas (NKEAs) that are targeted to propel the country to high-income economy by 2020: thus, Malaysia together with Indonesia announced they are ready to raise the stakes at WTO level, on the grounds of discriminatory treatment.

One could well argue that negotiations will not reopen anytime soon. With Malaysia's new parliamentary elections scheduled for mid-2018 at the latest, a similar scenario to 2013 is likely, with the bumiputera policy being excluded from negotiations due to its electoral sensitivity.

Further, EU-Malaysia trade has not suffered from the end of negotiations, growing at a slow but steady pace and prompting European and Malaysian officials to claim that a non-conclusion of MEUFTA would not be the end of the world.

The lengthy process of ratification, especially in the EU, does not help either: the EU-Singapore FTA has yet to enter into force, pending a ruling by the Court of Justice of the Union (which was finally issued in May) and the approval of member states' parliaments. Why bother negotiating a deal, if one cannot enjoy the benefits?

But if one party should feel any pressure to conclude the deal, that is Malaysia. Brussels is a much more important partner to Putrajaya than vice versa. If Malaysia does not secure privileged access to the European market, its third largest trade partner, other countries will do so: in ASEAN alone, Singapore and Vietnam have completed negotiations, and others like Indonesia might follow.

Policy makers should keep in mind the effects of deep and comprehensive FTAs not just on trade, but on the overall economy. Trade deals often provide external impetus for domestic reforms which are necessary to reach high-income economy status. This is one of the reasons why Malaysia put a large effort in TPP, and why it should work equally hard on MEUFTA. ●

To TPP-11, or not to TPP-11, that is the Question

Now that the United States has pulled out of the trade bloc, Malaysia can't decide whether to join the remnants. But such hesitancy is nothing new...



BY FIRDAOS ROSLI & DWINTHA MAYA KARTIKA

On 13 July 2017, officials from 11 remaining signatories of the Trans-Pacific Partnership – the TPP-11 – met to seal the fate of the recently deceased deal. Yet Malaysia's reluctance to send its chief negotiator to the meeting marked its clearest stance on TPP-11. While some parties are firm in reviving the agreement, Malaysia remains on the outside looking in and is discounting its own first-mover advantage in the TPP.

Malaysia's participation in the TPP was largely driven by three reasons:

One, to undertake economic and social reforms, which have been previously painstakingly avoided. The TPP addressed Malaysia's historical baggage, such as bumiputera rights and privileges, labour rights, state-owned enterprises, intellectual property rights and investment protection, in one agreement. Only with external pressure stemming from high-quality TPP obligations could Malaysia have realised such reforms.

Two, Vietnam's rising presence in global value chains also compelled Malaysia to join to avoid major trade and investment diversions. And three, to resume the deadlocked Malaysia-US Free Trade Agreement (FTA) negotiations via a plurilateral format as the TPP would have given Malaysia another chance to penetrate the US market in a big way.

US withdrawal from the TPP essentially left Malaysia grappling with second best solutions. The Malaysian government has reportedly said that it would like to see major revisions before considering a trade deal without the United States as a partner. From the government's perspective, its indecision as to whether or not the agreement is still worth pursuing, and to what extent adjustments in the original

documents should be made, is largely due to the fact that the remaining signatories are not unified in their view.

Having ratified the TPP, Japan's unsurprising move to exert its leadership in carrying TPP-11 forward with minimal changes is consistent with Prime Minister Shinzo Abe's "three-arrows" of fiscal, monetary and structural measures.

TPP-11 is Japan's answer to restoring its presence in the global economic landscape, but it is not a very convincing one. Japan is not able to capitalise on its stature as the second largest economy in the TPP to lead the remaining signatories since almost all TPP-11 countries already have bilateral FTAs with Japan. Thus, many perceive that having another agreement with Japan will be rendered inconsequential to the already existing trade pattern within the TPP-11.

New Zealand, which has also ratified the agreement, is ready to proceed, as the country is also willing to negotiate a supposedly higher quality bilateral trade deal with the United States.

Australia and Singapore, having existing trade agreements with the United States, are keen to bring the deal into force with a minor modification to one clause in TPP Article 30.5. As it was originally written, Article 30.5 stated that at least six countries with a combined GDP of 85 percent of the signatories must participate for the TPP to come into effect. This modification would allow TPP-11 to come into force while the rest of the agreement stands as is.

While Canada and Mexico are actively second guessing President Trump's next move, Chile and Peru, which are existing FTA

partners of the United States, are equally pessimistic about TPP-11, although President Kuczynski of Peru had reportedly said that "we should work with China and India" in getting a new deal.

Dr Deborah Elms, the Executive Director of the Asian Trade Centre in Singapore, nevertheless argues that the remaining signatories should proceed with TPP-11 since it still offers substantial benefits even without the United States as a party. She adds that TPP-11 will enable members to pursue broader market access and secure participation in a trade deal, which is likely to be a benchmark for future agreements.

In addition to the lack of a consensus on TPP-11, Malaysia's doubts about the new deal are compounded by the fact that US President Trump appears unpredictable and incoherent about his own policies. As argued in the writer's article in this publication earlier this year, US withdrawal from the TPP effectively means a renegotiation of a concluded agreement, with or without the United States. And since renegotiation could go either way, Malaysia grows weary with the idea of spending more resources towards "TPP 2.0", at least not without the United States as a future partner.

Japan is clinging onto the hope that the United States might join the TPP later, thus pushing the other signatories to leave the major contents of the original document intact. The Malaysian government sees this as a lopsided risk-return venture as there is no guarantee that the United States would join the TPP with or without Donald Trump as US president.

On the one hand, if Malaysia says yes to TPP-11 and later finds that the United States



decides not to join the Japan-led deal, Malaysia will be left without preferential access to the US market whilst committing itself to a high-quality agreement, but with limited welfare gains. On the other hand, Malaysia sees the US withdrawal from the TPP as a credible strategy to free-ride on the existing TPP agreements, particularly the Intellectual Property (IP) chapter, should the new deal come into force.

The US's active involvement in various plurilateral or multilateral agreements ensures global standards and norms are consistent with its stature as a superpower. Treaties such as the United Nations Convention on the Law of

the Sea, the Convention on the Elimination of All Forms of Discrimination against Women and, more recently, the Paris Agreement are left either unsigned or unratified, or even both, while still serving US interests. TPP-11 is following the same script, but with different actors.

Besides, Malaysia seems wary of the idea of renegotiations involving trade deals with the United States. The Korea-US FTA (KORUS) was originally negotiated under the Bush administration in 2007, but it took the Obama

administration three years to renegotiate the concluded agreement by pumping up IP obligations, among others. The US-Colombia FTA is another example that followed a similar fate as KORUS.

TPP renegotiations involving the United States would, if anything, mean more strong-arm tactics in getting higher Trade-Related Intellectual Property Rights Plus provisions in the new deal. Innovation-led countries, such as the United States, Japan, Singapore and Australia, would certainly benefit more than Malaysia, which is already grappling with the TPP's IP obligations. Malaysia is now caught



“Without a doubt, Malaysia’s indecisiveness in this matter could be costly in the long run because it will erase gains derived from being an early participant in the TPP negotiations”

in a “prisoner’s dilemma” – that is, a scenario in which parties end up not cooperating even when cooperation would yield better gains for all involved.

Adding to Malaysia’s indecisiveness on the TPP-11 is Vietnam’s reluctance to move with the current Japan-led renegotiations. When Vietnam joined the United States and other original P4 signatories (Brunei, Chile, Singapore and New Zealand) for a trade deal, Malaysia’s decision to intervene and participate was indeed a knee-jerk reaction. To put it simply, Malaysia’s trade integration is a sheer reaction to external pressures.

But Malaysia’s hesitancy over TPP-11 is not all due to external factors. While it can be argued that Malaysia’s trade liberalisation has always been progressive, Malaysia’s overly defensive stance in trade negotiations hinders the country from being the one on the inside looking out.

And whilst major trading nations are typically equipped with clear FTA roadmaps or negotiating mandates, Malaysia’s

approach to trade policy has historically been on a piecemeal basis. Consequently, trade agreements pursued by Malaysia are disorganised, owing to the bandwagon effect, fears of exclusion, losing competitiveness in export markets and attractiveness to foreign direct investment. All in all, Malaysia is more concerned about potential losses than gains in international trade.

The absence of a trade roadmap (not to be confused with an industrial master plan) also saddles the country with the laborious process of customising every trade agreement, adding to the “spaghetti bowl” effect. The Malaysian Cabinet, as the sole and highest authority in determining negotiation perimeters, is consulted for mandates prior to and after each round of trade negotiation involving different partners. While the decision-making process is somewhat better today than before, the lack of a one-size-fits-all mandate forces negotiators to take Malaysia’s commitments in ASEAN as the ceiling negotiating point.

Without a doubt, Malaysia’s indecisiveness in this matter could be costly in the long run

because it will erase gains derived from being an early participant in the TPP negotiations. While Malaysia continues to be “cautiously pessimistic” about TPP-11, other negotiating partners, most notably the European Union (EU), are watching and waiting in anticipation.

At this rate, Malaysia might end up not undertaking structural reforms, continue to bleed foreign direct investment to Vietnam (and other neighbouring countries), while drifting further away from the world’s largest buyer – the United States, and perhaps, the EU as well.

But even if Malaysia is receptive to TPP-11, the government may wish to postpone big decisions such as these as Malaysia inches closer to the forthcoming general elections, which are expected to be called within the next few months. Isn’t it ironic that the TPP is Malaysia’s biggest win and also its greatest fear in the arena of international trade? ●

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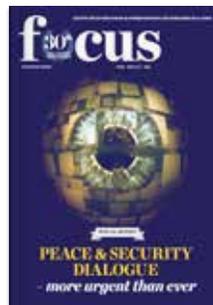


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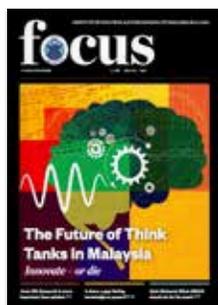
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