

9TH
ASEAN
& ASIA
FORUM

Conference Highlights



A New Growth Paradigm:
Connect, Innovate, Reform
22 August 2016 | The Ritz-Carlton, Millenia Singapore



SINGAPORE INSTITUTE
OF INTERNATIONAL AFFAIRS

9TH ASEAN & ASIA FORUM

A NEW GROWTH PARADIGM: CONNECT, INNOVATE, REFORM

South-east Asia is entering a new age of development. Governments across the region are rethinking their growth strategies to ensure their economies continue to register positive economic growth and remain attractive destinations to global investors. Many ASEAN countries are embarking on innovation-led growth and reforming their economies to become more open to foreign investment and trade.

Infrastructure development and connectivity have also become key drivers of growth, with Japan and especially China playing major roles in supporting long term plans to link up ASEAN with the rest of Asia.

ASEAN leaders are conscious of the need to stay ahead of the competition. But many questions still remain. Will the Trans-Pacific Partnership (TPP) come into force, and how will it influence behind-the-border reforms in ASEAN? How will Chinese investments in infrastructure and connectivity advance ASEAN's future investment climate? What impact will rising tensions between Asian powerhouses have on investor confidence in the region?

To help businesses understand these emerging trends and their potential impact on the region, the Singapore Institute of International Affairs (SIIA) organised the 9th ASEAN and Asia Forum on 22 August 2016 at the Ritz-Carlton Millenia Singapore, focusing on the theme of "A New Growth Paradigm: Connect, Innovate, Reform". The annual forum was attended by close to 300 business leaders, diplomats, academics and journalists from across the region. Delegates heard from renowned experts and senior officials who shared their perspectives on the current opportunities and challenges facing Asian economies.

Keynote Speakers:

Mr. S. Iswaran

Minister for Trade and Industry (Industry), Republic of Singapore

Dr. Bambang Permadi Soemantri Brodjonegoro

Minister for National Development Planning (Bappenas), Republic of Indonesia

Panellists:

Amb Michael W. Michalak

Senior Vice President and Regional Managing Director, US-ASEAN Business Council

Mr. Yasushi Akahoshi

President, Japan External Trade Organization (JETRO)

Mr. Satoshi Tanaka

Senior Executive Managing Officer and Chief Operating Officer (COO), Asia Pacific Business Unit, Mitsui and Co. Ltd; and Chief Executive Officer (CEO), Mitsui & Co. (Asia Pacific) Pte. Ltd

Mr. Ian Wong

Managing Director and Head of Group Strategy and International Management, United Overseas Bank Limited (UOB)

Dr. Lili Yan Ing

Economist, Economic Research Institute for ASEAN and East Asia (ERIA); and Senior Advisor on Trade and Investment, Executive Office of the President, Republic of Indonesia

Mr. Jordan Schwartz

Director, Infrastructure and Urban Development Hub, The World Bank Group, Singapore

Dr. Deunden Nikomborirak

Research Director (Economic Governance), Thailand Development Research Institute Foundation

Mr. Chin Phei Chen

Managing Director, Corporate Strategic Relations and Regional General Manager, North China, CapitaLand China

Dr. Xiao Geng

Professor of Finance and Public Policy, School of Business and Faculty of Social Sciences, The University of Hong Kong

Dr. Ngo Duy Ngo

Senior Lecturer, International Economics Faculty, Diplomatic Academy of Vietnam (DAV)

INNOVATING FOR THE FUTURE: Is ASEAN Ready?



“Technology, innovation and entrepreneurship will be key responses not just from Singapore but from many economies around the world.”

Associate Professor Simon Tay

Chairman, Singapore Institute of International Affairs (SIIA)

The global economy is experiencing a cyclical slowdown. Driven by sluggish growth in advanced economies, stubbornly low commodity prices, weak global trade, and diminishing capital flows, the World Bank has revised its 2016 global growth forecasts; down to 2.4 percent from the 2.9 percent projected earlier this year. This has served as a wakeup call for ASEAN to rethink their growth strategies to ensure competitiveness and resilience in the long run.

In response to the economic slowdown, “Technology, innovation and entrepreneurship will be key responses not just from Singapore but from many economies around the world,” said Associate Professor Simon Tay, Chairman of the SIIA in his welcome address.

As the region shifts towards a new growth engine centred on innovation, Singapore is at a crossroads and must ensure that it remains relevant. Singapore has become a hub for South-east Asia, with many multinational corporations (MNCs) setting up their regional headquarters in the country. Progressively, Singapore has become a conduit, funnelling international investments from across the globe into the rest of Southeast Asia.

However, this hub status cannot be taken for granted. “More than ever Singapore needs to be a partner for the region and to be accepted as a partner for the region,” said Associate Professor Tay.



“We must not allow such anti-trade perspectives to seize the policy agenda because that would be detrimental to the long term interests of our countries and our people.”

Mr. S. Iswaran

Minister for Trade and Industry (Industry), Republic of Singapore

Beyond the slowdown in global growth and trade, another danger is the rising anti-globalisation sentiment in many parts of the world. The recent Brexit vote and the American Presidential Election campaign demonstrate that a significant number of people feel they have not benefited from economic integration, or have even been harmed by trade liberalisation and the opening of borders.

In his opening keynote address at the Forum, Singapore’s Minister for Trade and Industry (Industry), Mr. S. Iswaran commented that: “We must not allow such anti-trade perspectives to seize the policy agenda because that would be detrimental to the long term interests of our countries and our people”.

Minister S. Iswaran stressed that ASEAN governments must remain committed to economic integration. Efforts to build connectivity and lower barriers between ASEAN economies have already helped raise living standards for countries in the region. “But such economic openness and integration will become even more important in the coming decades, as digitisation pervades our economies,” he said.

ASEAN already is the world’s fastest growing region in terms of internet adoption, with 3.8 million new users coming online every month. In the next phase of economic integration, ASEAN leaders need to support the development of the region’s digital connectivity by encouraging businesses to keep pace with the shift towards digitisation. Tapping on the opportunities which digitisation and other emerging technologies offer, can create a region that is more inclusive and provides opportunities for all.

THE TPP AS A NEW DRIVER FOR GROWTH



The Trans-Pacific Partnership (TPP) has been touted as the gold standard in trade agreements, a new set of trade rules for the 21st century. Together, the 12 countries in the TPP account for 40 percent of global GDP and one third of world trade.

However, the future of the TPP hinges on America's ratification of the trade pact. In order to come into force, the agreement must be ratified by at least six countries representing 85 percent of GDP within the TPP. This GDP requirement means that it is impossible to put the TPP into effect without the United States and Japan. But domestic opinion in the United States has turned against the TPP, with both Republican and Democrat presidential candidates publicly opposing the deal.

Ambassador Michael W. Michalak, Senior Vice President and Regional Managing Director at the US-ASEAN Business Council, and formerly the US Ambassador to Vietnam, reassured delegates at the forum that "the Obama Administration is determined to do everything in its power to try and push TPP through Congress".

The TPP is seen as a game-changer for several economies, especially those who will benefit from the lowering and eventual removal of tariffs on their exports to crucial US market, such as Vietnam. But the TPP also imposes high standards on its member states. Critics of the agreement have pointed out that countries like Vietnam face painful challenges in complying with the TPP's requirements.

TRANS - PACIFIC



Dr. Ngo Duy Ngo, Senior Lecturer, International Economics Faculty, from the Diplomatic Academy of Vietnam acknowledged that there are difficulties ahead, such as the need to rapidly privatise state-owned enterprises. But he argued that “we (Vietnam) have benefited more than we lost” from the integration of Vietnam’s economy into global value chains. He also reaffirmed Vietnam’s commitment to the TPP by confirming that Hanoi will ratify the TPP in October this year, making it one “of the first few countries to ratify the agreement.”

Thailand is not currently a member of the trade pact, but Thailand and many other nations have expressed interest in eventually joining the TPP once it is in force and open to new members. According to Dr. Deunden Nikomborirak, Research Director (Economic Governance) at the Thailand Development Research Institute Foundation, the TPP’s rules and regulations are an incentive for Thailand to pursue domestic reforms.

Reforming Thailand’s economy has historically been difficult due to “vested interests and a lack of political will”, said Dr. Deunden. But Thailand is keen to join the TPP to ensure that supply chains are not diverted away from the country. This means “Thailand now has a very pressing reason to reform its procurement rules, state- owned enterprises (SOEs) and implement its own competition law”.

In response to more countries joining the TPP in the future, Mr. Yasushi Akahoshi, president of the Japan External Trade Organization (JETRO) commented that: “I personally believe that once we successfully make TPP open to other countries, there will be many possibilities for other countries including China to join this open and transparent trade system.”

He noted that if China and other regional economies are able to eventually participate in the TPP, this could lay the groundwork for the realisation of the Free Trade Area of the Asia-Pacific (FTAAP). The FTAAP is a proposed agreement involving all the 21 members of the Asia-Pacific Economic Cooperation (APEC) grouping, which can lead to a more integrated Asia-Pacific region.

PARTNERSHIP

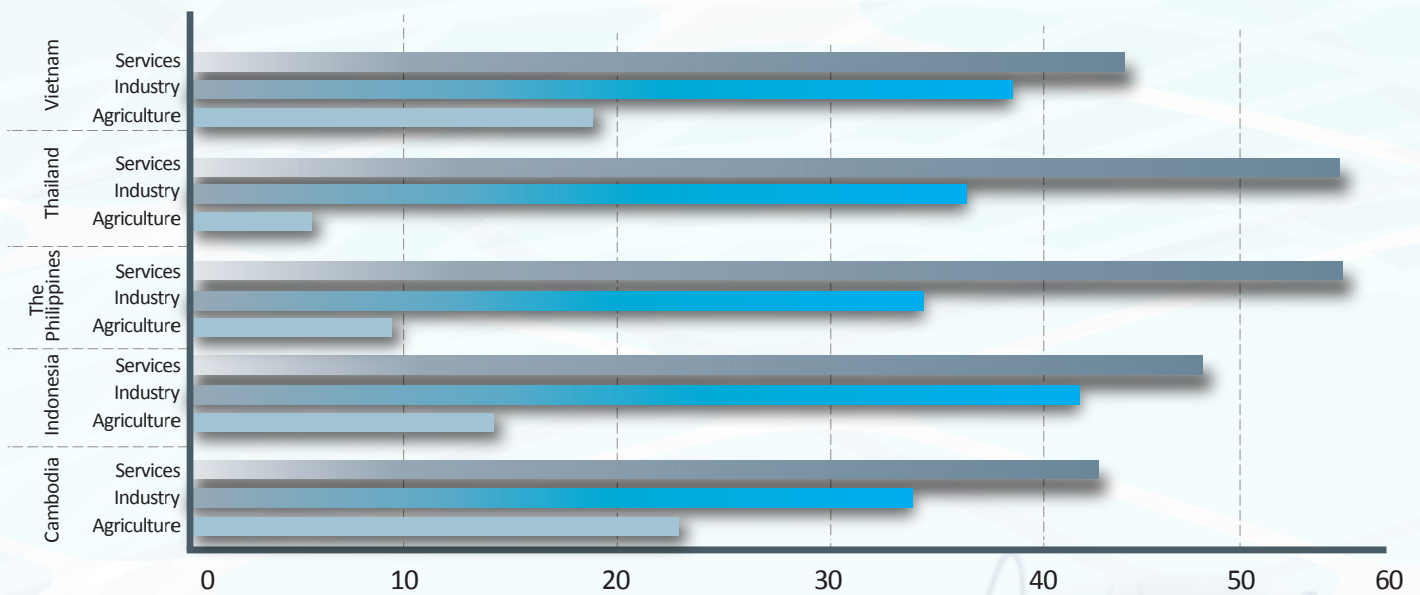


ASEAN'S SHIFT IN ECONOMIC STRATEGY

Much of ASEAN's growth to date has been driven by natural resources and trade in commodities. However, ASEAN states are increasingly looking towards new sources of growth to remain competitive in the long run. Regional leaders have realised that in order to stay ahead of the curve and to sustain long term growth, they need to adopt progressive measures to plug their countries into the growing value chain and investment networks criss-crossing the region.

“Only by working closely as one, coordinating infrastructure developments, staying consistent and progressive in their policies, continuously expanding their ecosystem partnerships, upgrading their workforce – only then can ASEAN fully realise its potential in FDI and trade,” said Mr. Ian Wong, United Overseas Bank Limited’s (UOB) Managing Director and Head of Group Strategy and International Management.

NEW DRIVERS OF GROWTH IN ASEAN IN 2015 (%)



Source: ASEAN Investment Report (2016), Foreign Direct Investment and MSME Linkages



“Chinese and Japanese companies could work towards more mutually complementary activities instead of trying to compete head to head.”

Mr. Satoshi Tanaka

Senior Executive Managing Officer and Chief Operating Officer (COO), Asia Pacific Business Unit, Mitsui & Co. Ltd and Chief Executive Officer (CEO), Mitsui & Co. (Asia Pacific) Pte Ltd.

Currently both China and Japan are competing for projects and market share in many ASEAN economies. ASEAN countries can harness the interest of the major Asian powers, capitalising on both Chinese and Japanese expertise. Of course, there are concerns that South-east Asians might be pushed to choose one side over the other. But Mr. Satoshi Tanaka, Senior Executive Managing Officer and Chief Operating Officer (COO), Asia Pacific Business Unit and Chief Executive Officer (CEO) at Mitsui & Co. (Asia Pacific) Pte. Ltd, suggested that “Chinese and Japanese companies could work towards more mutually complementary activities instead of trying to compete head to head”.



“ Only by working closely as one, coordinating infrastructure development, staying consistent and progressive in their policies, continuously expanding their ecosystem partnerships, upgrading their workforce only then can ASEAN fully realise its potential in FDI and trade. ”

Mr. Ian Wong

Managing Director and Head of Group Strategy and International Management, United Overseas Bank Limited (UOB)



“ The main challenge for ASEAN is that ASEAN could be trapped in a shallow integration. ”

Dr. Lili Yan Ing

Economist, Economic Research Institute for ASEAN and East Asia (ERIA); and Senior Advisor on Trade and Investment, Executive Office of the President, Republic of Indonesia

Ultimately, it is crucial that ASEAN stay the course and continue to build the integrated single market it has committed towards. Dr. Lili Yan Ing, Economist at the Economic Research Institute for ASEAN and East Asia (ERIA); and Senior Advisor on Trade and Investment at the Executive Office of the President in the Republic of Indonesia, warned that “the main challenge for ASEAN is that ASEAN could be trapped in a shallow integration”. The grouping must follow through and not allow its integration to stall.

Despite the establishment of the ASEAN Economic Community (AEC) at the end of 2015, which intended to promote the free flow of goods and services across ASEAN, intra-ASEAN trade only increased from 22 percent in 2014 to 24 percent in 2015. This not only signals that ASEAN states still trade more with external partners than with their ASEAN counterparts, but it also suggests that the grouping has not progressed beyond the removal of formal barriers to trade. There has been some progress in areas such as harmonising national regulations, but the region still has not fully matured as a cohesive economic bloc.

Notwithstanding these concerns, investors should still take note of the new economic reforms taking shape across various ASEAN states, as these present new business opportunities in key sectors. There is now more ambition to implement reforms in order to increase competitiveness than at any time in recent years. Taken together, these national efforts are a promising sign and will help drive ASEAN's integration agenda forward.



REFORM IN JOKOWI'S INDONESIA - Gaining Traction



“Indonesia needs to shift its economy from a relaxed commodity-based economy to a more disciplinarian manufacturing-based economy.”

Dr. Bambang Permadi Soemantri Brodjonegoro

Minister for National Development Planning (Bappenas), Republic of Indonesia

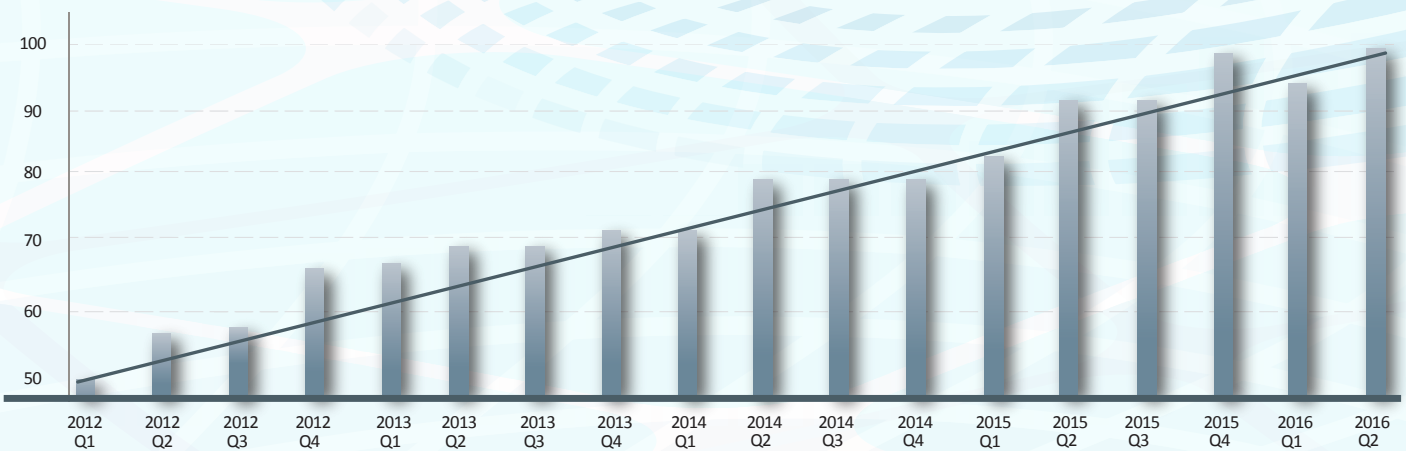
Under President Joko Widodo, popularly known as Jokowi, Indonesia is taking bold steps to shift the country's growth strategy. Fuelled by concerns about low commodity prices and China's economic slowdown, Indonesia is diversifying away from the resource sector.

In his keynote address, Dr. Bambang Brodjonegoro, Indonesia's newly appointed Minister of National Development Planning, said “Indonesia needs to shift its economy from a relaxed commodity-based economy to a more disciplinarian manufacturing-based economy”. He also noted that Indonesia's economy needs to transform “from a consumption based to an investment based economy.”

Dr. Brodjonegoro highlighted “agriculture, infrastructure, industry, tourism and maritime” as priority sectors that have been earmarked for development. He reiterated that “investment in the mining or plantation sectors is part of an old story and Indonesia is now trying to promote investment in infrastructure, services and manufacturing sectors”.

This shift in economic strategy is not just about sustaining long term economic growth. It also aims to improve the country's productivity and create a more inclusive society in Indonesia by ensuring that there are developments and investments across the entire nation, not only on the island of Java.

FDI REALISATION IN INDONESIA (IDR TRILLION)



Extracted from SIIA's Special Report, *Jokowi's Indonesia: Shifting to Reform and New Growth*, distributed at AAF
 Source: Indonesia Investment Coordinating Board (2016)

“ Investment in the mining or plantation sectors is part of an old story and Indonesia is now trying to promote investment in infrastructure, services and manufacturing sectors. ”

Dr. Bambang Permadi Soemantri Brodjonegoro

Minister for National Development Planning (Bappenas), Republic of Indonesia

During an in-conversation session with Associate Professor Simon Tay, Dr. Brodjonegoro reassured the audience that there is strong political will in Indonesia to push through economic reforms. He pointed out that President Jokowi's recent cabinet reshuffle was aimed at strengthening the team's key economic portfolios.

However, Indonesia is not the only country aiming to strengthen its economy. Vietnam and India are also embarking on similar development efforts.

Dr. Brodjonegoro acknowledged that Indonesia will always face competition from other economies. However, "Indonesia is ready" to compete with other countries to attract quality Foreign Direct Investment (FDI). Particularly, Indonesia aims to capitalise on these FDIs to create new opportunities for both local businesses and foreign investors to work together through mutually beneficial partnerships.



MAXIMISING CHINA'S INVESTMENTS IN ASEAN

China has become more proactive in expanding its economic footprint beyond its shores, for instance via infrastructure projects under the One Belt, One Road Initiative. During the final panel discussion at the forum, panellists unanimously agreed that China's new strategy will create new opportunities for ASEAN economies.

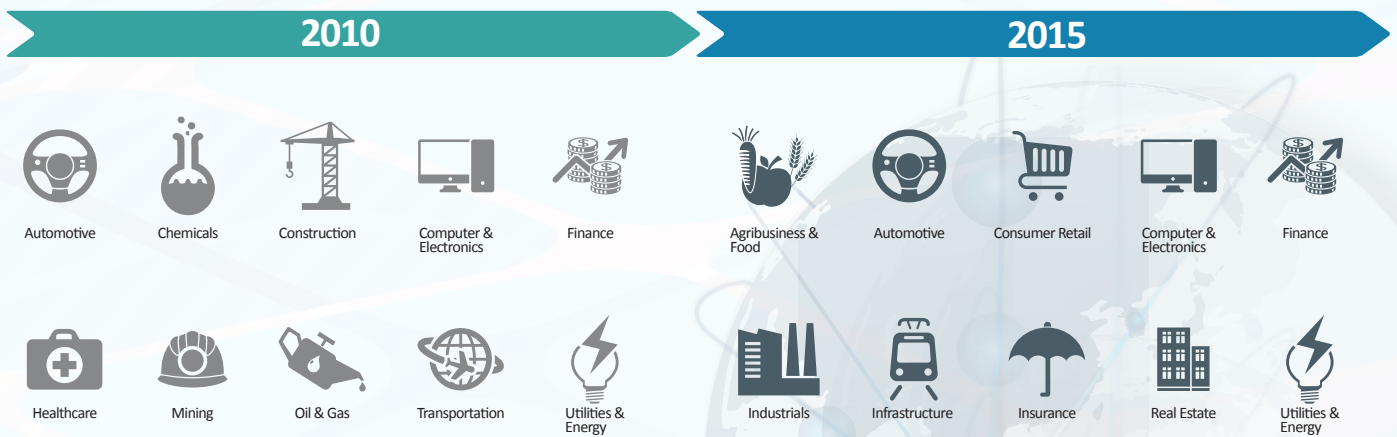
However, the panellists also highlighted that the future is contingent on the success of China's domestic reforms. China is transitioning from an investment - led and export - led growth model to one powered by consumption said Dr. Xiao Geng, Professor of Finance and Public Policy at The University of Hong Kong.

The Chinese government is now focused on boosting productivity and streamlining regulations. "If China is successful in its reforms, then we would see a lot of cheaper, high quality products, and also larger and more long-term demand," commented Dr. Xiao.

Outward FDI from China is expected to rise given Beijing's commitment to supporting infrastructure and connectivity projects in ASEAN and beyond. Such investment could be key to closing development gaps in the region.

Mr Jordan Schwartz, Director, Infrastructure and Urban Development Hub at The World Bank Group in Singapore highlighted that "social infrastructure remains one of the greater challenges and one of the larger gaps in the region". This includes urban services such as mass transit systems and household water sanitation. If infrastructure investments become the dominant form of inflows to the region in the foreseeable future, ASEAN countries should take advantage of this to shore up its social infrastructure, not only strengthening economies but also creating a more inclusive society.

SECTORS ATTRACTING CHINESE OVERSEAS M&A INVESTMENT



Sources: KPMG (2015): China Outlook, Available Online: <http://www.kpmg.com/ES/es/Internacionalizacion-KPMG/Documents/China-Outlook-2015.pdf> & JP Morgan Insights (2016), China's Increasing Outbound M&A: Key drivers behind the trend, Available Online: <https://www.jpmorgan.com/global/insights/chinas-key-drivers>



“If China is successful in its reforms, then we would see a lot of cheaper, high quality products, and also larger and more long-term demand.”

Dr. Xiao Geng
Professor of Finance and Public Policy, School of Business and Faculty of Social Sciences,
The University of Hong Kong

ASEAN states therefore need to position themselves so they can benefit from this inflow of investments. But working with Chinese officials and companies is not necessarily straightforward. It is crucial that ASEAN governments and investors understand how their Chinese counterparts operate if they are to benefit from the investment opportunities created by Beijing's growing economic footprint in the region.

Mr. Chin Phei Chen, Managing Director (Corporate Strategic Relations); and Regional General Manager (North China) at CapitaLand China Holdings Ltd., noted that foreign investors are often frustrated when working with SOEs in China. According to Mr. Chin, many “do not understand that at different levels of government, the Chinese government have different authority in making decisions”. Decisions that have already been agreed upon at one level could be changed as a result of shifts in policies at another level.



“Social infrastructure remains one of the greater challenges and one of the larger gaps in the region.”

Mr. Jordan Schwartz
Director, Infrastructure and Urban Development
Hub, The World Bank Group, Singapore

While panellists were optimistic about China taking a greater role in South-east Asia's development, there was consensus that ASEAN countries must also assess China's investments and whether they are in alignment with their own country's goals and long-term development agenda. It is possible ASEAN countries may wish to turn down projects that may not be in the best interest of the business, country or region. Both businesses and ASEAN governments must ensure that their interests are represented when negotiating with China.



ASEAN'S PRIORITIES MOVING FORWARD

Despite some bumps in the road, ASEAN is coming together as a region. The past year has seen many positive developments and ASEAN is in the spotlight more than ever. The region continues to outperform economies in other parts of the world. ASEAN's larger economies like Indonesia and Thailand are showing signs of further liberalisation and reforms.

Attracting quality investments to fuel a positive cycle of investment-led growth will be key. Successful FDI will demonstrate to ASEAN governments that liberalising their economies is the correct route to build a stronger macro economy and create jobs for their citizens. Summing up the day's discussions, Associate Professor Simon Tay said: "In the years to come we can see a virtuous reinforcing cycle, that initial steps for reforms will bring rewards and further reforms."

This change will not happen overnight, and ASEAN will continue to face challenges from both external and domestic factors. But it is important to recognise that ASEAN is on the right path towards economic integration and reform. "We are headed towards an ASEAN community, an ASEAN that matters more," concluded Associate Professor Tay.

WHAT HAPPENED AT THE 28TH AND 29TH ASEAN SUMMITS IN VIENTIANE, LAOS?

Key Documents Signed

Vientiane Declaration on the Adoption of the Master Plan on Asean Connectivity 2025.

Key Announcements Made

ASEAN and China have pledged to apply a Code for Unplanned Encounters at Sea (Cues) and make hotline arrangements for maritime emergencies.

ASEAN Joint Statement on Climate Change to the Twenty-Second Session of the Conference of the Parties to the United Nations Framework Convention on Climate Change.

Japanese announced a S\$597 million anti-terrorism assistance package during ASEAN-Japan summit, to be disbursed over three years to its Asian neighbours.

One ASEAN, One Response: ASEAN responding to Disasters as One in the Region and Outside the Region.

Concluded services and investment negotiations under the ASEAN-Japan Comprehensive Economic Partnership.

Vientiane Declaration on Transition from Informal Employment to Formal Employment towards Decent Work Promotion in ASEAN.

Plan to review the ASEAN-India Trade in Goods Agreement.

About the Singapore Institute of International Affairs

The SIIA is an independent think tank dedicated to the research analysis and discussion of regional and international issues, and plays a key role in Track II diplomacy, supplementing official dialogue between governments. Founded in 1961 and registered as a membership-based society, the institute is Singapore's oldest think tank that aims to help Singapore become a more cosmopolitan and global society through public education and outreach on international affairs. The SIIA is also a founding member of the ASEAN Institutes of Strategic and International Studies (ASEAN-ISIS), a regional alliance of think tanks.

The SIIA analyses key political, economic and social trends in ASEAN and key member states and implications for Asia and the rest of the world. The SIIA's annual ASEAN and Asia Forum is Singapore's leading conference for the private sector to better understand political, economic and other strategic challenges and their implications for business. Another flagship programme focuses on sustainability and environmental issues in the resource sector in ASEAN.

Since 2013, the SIIA has ranked highly as one of the top think tanks in Southeast Asia and the Pacific, in the Global Go-To Think Tank Index done by the University of Pennsylvania. In the index, SIIA has consistently ranked among the top 100 think tanks in the world.

About SIIA's ASEAN Programme

SIIA's ASEAN programme looks at how political and socioeconomic issues in ASEAN affects business and investment in the region and provide insights for corporate members and clients. The institute closely monitors emerging trends within the region, focusing on developments within the nations of Southeast Asia, as well as Singapore's bilateral and multilateral relations. For example, the SIIA has done key work on Myanmar and Indonesia. The institute was asked to produce special reports evaluating the changing political and economic landscape as well as the business and investment opportunities, of the respective countries. SIIA also held events such as the ASEAN-Myanmar Forum in 2015, as a networking platform for high-level corporates and leading businesses.

About the ASEAN and Asia Forum

The annual AAF aims to be the leading conference for Singapore's private sector to discuss regional issues, and is part of the SIIA's mission to promote awareness about ASEAN and international affairs. As a flagship event of the institute, the forum builds on the institute's connections with both the public and private sectors to create a venue for meaningful dialogue.

ORGANIZER:



KEY SPONSOR:



PARTNERS:



STRATEGIC PARTNERS:



Hong Kong Economic & Trade Office
Government of the Hong Kong Special Administrative Region



SUPPORTING ORGANIZATIONS:



OFFICIAL BROADCASTER:



CHANNEL NEWSASIA
A MEDIACORP Channel



Singapore Institute of International Affairs

60A Orchard Road, #04-03 Tower 1,
The Atrium@Orchard,
International Involvement Hub
Singapore 238890

Tel : (+65) 6734 9600
Fax : (+65) 6733 6217
Email : membership@siaonline.org

www.siaonline.org