

The BRI: what's in it for Malaysia?  
Elina Noor and Firdaos Rosli. P18

Bunn Nagara: Do we understand  
Xi's China? P6

What does the future hold for APEC?  
P12

INSTITUTE OF STRATEGIC & INTERNATIONAL STUDIES (ISIS) MALAYSIA

# focus



PP 5054/11/2012 (031098)

1/2018 ISSUE NO. 7 RM15

## THE REDRAWING OF REGIONAL ARCHITECTURE





## **Institute of Strategic and International Studies (ISIS) Malaysia**

THE INSTITUTE OF STRATEGIC AND INTERNATIONAL STUDIES (ISIS) MALAYSIA WAS ESTABLISHED ON 8 APRIL 1983 AS AN AUTONOMOUS, NOT-FOR-PROFIT RESEARCH ORGANISATION.

ISIS Malaysia has a diverse research focus which includes economics, foreign policy, security studies, nation-building, social policy, technology, innovation and environmental studies. It also undertakes research collaboration with national and international organisations in important areas such as national development and international affairs.

ISIS Malaysia engages actively in Track Two diplomacy, and promotes the exchange of views and opinions at both the national and international levels. The Institute has also played a role in fostering closer regional integration and international cooperation through forums and networks such as the Asia-Pacific Roundtable (APR), the ASEAN Institutes of Strategic and International Studies (ASEAN-ISIS), the Pacific Economic Cooperation Council (PECC),

the Network of East Asian Think-Tanks (NEAT), the Network of ASEAN-China Think Tanks (NACT), the ASEAN-India Network of Think Tanks (AINTT), and the Silk Road Think Tank Network (SiLKS). ISIS Malaysia is a founding member of the Council for Security Cooperation in the Asia Pacific (OSCAP) and manages the Council's Secretariat.

As the country's premier think tank, ISIS Malaysia has been at the forefront of some of the most significant nation-building initiatives in Malaysia's history. It was a contributor to the Vision 2020 concept and was consultant to the Knowledge-Based Economy Master Plan initiative. It also produced the first ever National Interest Analysis to be undertaken on Malaysia's participation in the Trans-Pacific Partnership (TPP).

### **Institute of Strategic and International Studies (ISIS) Malaysia**

1 Persiaran Sultan Salahuddin  
PO Box 12424  
50778 Kuala Lumpur

t: +603 2693 9366  
f: +603 2691 5435  
e: [info@isis.org.my](mailto:info@isis.org.my)  
w: [www.isis.org.my](http://www.isis.org.my)



Institute of Strategic and International Studies (ISIS) Malaysia



@ISIS\_MY

# Contents



## 2 Redrawing the Regional Architecture

New multilateral and pan-regional initiatives in the region indicate that energy is being poured into finding new forms of connectivity and engagement – this should be considered a good thing

## 4 Seeing the Bigger Picture

Thomas Daniel wonders if we are over-securitising China's Belt and Road Initiative

## 6 Xi's Bold New China

Bunn Nagara analyses if coverage and analysis of China is swayed by subtle stereotypes

## 10 What about the Indo-Pacific "Strategy"?

Steven CM Wong and Puteri Nor Ariane Yasmin ponder on the motivations and prospects of the "free and open Indo-Pacific" strategy

## 12 The US & the Survival of APEC

Firdaos Rosli, Dwintha Maya Kartika and Calvin Cheng argue that APEC will not lose its relevance despite regional shifts

## 14 Whither South Korea's NAPCOR Initiative?

How far will President Moon Jae-in's Northeast Asian Plus Community of Responsibility Initiative go?  
By Steven CM Wong

## 16 The Little Island Heading South

Farlina Said looks at the constraints of Taiwan's New Southbound Policy

## 18 Making Cents Out of An Evolving Concept

The obscurity of China's Belt and Road Initiative makes it difficult to assess its impact on Malaysia, write Elina Noor and Firdaos Rosli

## 20 Will Malaysia Benefit from China's Belt and Road Initiative?

Competing interests and ambiguity could hamper Malaysia's attempt to reap maximum benefit from the Belt and Road Initiative. Dwintha Maya Kartika and Muhammad Sinatra highlight three concerns for Malaysia to address

## 24 Treasure Islands?

Potential setbacks and challenges threaten to sink the multi-billion ringgit Melaka Gateway project, warns Calvin Cheng

## 26 Navigating ASEAN Innovation

ASEAN needs to focus on innovation to adapt to the ever-changing technology landscape. Can ASEAN Chair Singapore lead the way? By Moonyati Yatid

# Editorial Letter

The Asia Pacific's diplomatic, security and economic architecture is undergoing some redesign, with increasingly intricate patterns requiring greater dexterity and craftsmanship. It is clearly a work in progress with goals as moving targets. This means more chances of hits and misses, but also more interesting possibilities in these more exciting times.

Asia is clearly on the move. Underpinned by rising continental giants, China and India, this movement is historic in its tectonic proportions, leaving virtually no country unaffected. This is no time to be complacent, indifferent or apathetic. How it will affect us depends on how we engage it.

Central to our time and our place is the Belt and Road Initiative (BRI). What can it mean for each of us? This is essentially a mega-investment: what you get from it depends on what and how much you put in, and when. It means opportunities, but also risks.

The BRI is neither risk-free nor risk-prone; no proper investment is either. We may expect some trade-offs and hard decisions. Should others be suspicious of it as a big, rising China's pet project? The question becomes irrelevant when others make it as much, or nearly as much, their project too.

Elsewhere in the region, are the Asia-Pacific Economic Cooperation (APEC) and the United States now effectively pulling in opposite directions? If the issue is free trade, or at least free trade rhetoric, it would appear so. Ultimately, reading their respective trajectories comes down to evaluating current realities and decoding transient sentiments.

And what of the "Indo-Pacific" construct? It is basically about moving India strategically into the East Asian or Asia-Pacific region, a typically Japanese formula that happened earlier with the East Asia Summit (EAS). Regardless of India's capacity for moving, it also conceptually encourages East Asian countries to move strategically into the Indian Ocean region.

Northeast Asia is not about to be outdone either. President Moon Jae-in's administration continues his predecessor Park Geun-hye's international activism, and in a propitious time. It gels with North Korea's intimations of an opening, at least for talks, on no less than the denuclearisation of the peninsula. Reforms all-round seem to be on a roll.

Taiwan itself is no slouch. Its New Southbound Policy (NSBP) looks to South Asia, Southeast Asia and Australasia rather than across the Straits where its economic future increasingly lies. Developing ties southwards is only to be welcomed, but will averting its gaze westwards come at the expense of its prospects with the mainland?

# REDRAWING THE REGION

**T**he contours of the region's political architecture are being redrawn. To be sure, this is nothing new. New institutions continue to appear in the early 1990s, with different geographical footprints, memberships, agendas and functions. Examples include the Conference on Interaction and Confidence Building Measures in Asia (CICA) in 1992, the "Shanghai Five" in 1996, the Indian Ocean Rim Association (IORA) in 1997 and the Shanghai Cooperation Organisation (SCO) in 2001. In Southeast Asia, ASEAN, in partnership with its Dialogue Partners, has maintained primacy by evolving new institutional arrangements, such as the ASEAN Plus Three (1999), East Asia Summit (2005), ASEAN Defence Ministers' Meeting (ADMM, 2006) and ADMM-Plus (2010), just to name a few.

Today, new multilateral and pan-regional initiatives abound, along with flurries of diplomatic activity. The most palpably visible and talked about is undoubtedly China's Belt and Road Initiative (BRI). Initiated in 2013, the BRI is not commonly thought of (at least not yet) as a regional institutional mechanism. There can be no doubt that its effects will be as far-reaching, if not more so, as any other institution, especially after the BRI Summit in Beijing in 2017. So far the focus

has been on infrastructure connectivity, but the BRI's dimensions extend to government support, public-private partnerships, policy coordination, trade and industry cooperation, financial integration and people-to-people bonds. Other regional institutions, such as ASEAN and the Asia-Pacific Economic Cooperation (APEC), also strive for some or all of these, but the directness and speed with which the BRI is being implemented on the ground are startling and unprecedented.

Faced with the prospect of China's dramatically growing interests, power and influence in the region, other major powers are caught in a dilemma. Careful not to cast their actions as rivaling or counter-balancing China's, thus possibly forcing countries to make a "choice" between the two, the underlying subtext is nevertheless clear. Witness the revival of the Indo-Pacific idea, a term first championed by Prime Minister Shinzo Abe of Japan in 2007 and

which was picked up again in 2017 under Japan's policy of a "Free and Open Indo-Pacific Strategy". The Indo-Pacific idea was discussed by Indian Prime Minister Narendra Modi and US President Donald Trump at their White House meeting in June last year, and again at a bilateral held on the sidelines of the ASEAN Summit in Manila in November. This regional construct is now regarded by the Trump administration, as noted in the latest US *National Security Strategy* (December 2017), as the most critical geopolitical region in the world, ahead



# IONAL ARCHITECTURE



of even West Asia or the Arabian Gulf region – contrary to the position of previous US administrations. Trump's repeated references

to the Indo-Pacific at the APEC CEO Summit in Da Nang, Vietnam in November 2017, raised many eyebrows.

Many saw this as a shift of US allegiance away from the APEC. Interestingly, Chinese Foreign Minister Wang Yi recently described the Indo-Pacific as an “attention-grabbing idea” that will “dissipate like the ocean foam”. He also had some choice words reserved for the revived Quadrilateral Security Dialogue (Quad) involving Australia, Japan, India and the United States.

**Apart from** the Da Nang meeting, US commitment to the APEC has also come under a cloud with renegotiations of the North American Free Trade Agreement (NAFTA) and the United States-Korea Free Trade Agreement (now concluded) and the bilateral trade actions against China. China has naturally retaliated in kind and the talk now is of escalation. The one big positive to come out of Da Nang was undoubtedly the eventual signing of the Comprehensive and Progressive Agreement for Trans-Pacific

Partnership (CPTPP) minus the United States. Canadian prevarication first appeared to lead to a scuttling of the agreement, but eventually the 11 countries were able to conclude.

Through 2016 and 2017, developments on the Korean Peninsula attracted world attention, first with the nuclear and missile tests and growing talk of a first strike on Pyongyang, and then, early in the year, a sudden charm offensive by North Korea with a high-level delegation and participants sent to the 2018 PyeongChang Winter Olympics. Subsequent developments have been no less startling, with an inter-Korean Summit scheduled for 27 April 2018, a surprise visit by North Korean Supreme Leader Kim Jong-un to Beijing in March, a China-Japan-South Korea Trilateral Summit slated for early May and hopes of a Kim-Trump summit at the end of May or in June (no decisions have been made at the time of writing).

**These events** have largely overshadowed South Korean President Moon Jae-in's promise to establish a Northeast Asia Plus Community of Responsibility (NAPCOR), an election promise made in May and flesh out in subsequent months. In November 2017, Moon visited Indonesia and announced the New Southern Policy (NSP) component of NAPCOR. Earlier the previous month, while at the Eastern Economic Forum in Vladivostok, Russia, he unveiled the New Northern Policy (NNP). How these will be taken forward given current UN sanctions on North Korea and the outcome of the summits remains to be seen.

For obvious reasons, Taiwanese leader Tsai Ing-wen's New Southbound Policy (NSBP) holds less political significance for the region's architecture, but nonetheless bears mentioning. Faced with plummeting relations with Beijing and, like South Korea, an overdependence on the China market, Taiwan continues seeking to diversify its economic relationships through the NSBP by attempting to sign upgraded investment agreements and added soft power elements.

The redrawing of the regional architecture is obviously driven by changing regional political circumstances. Pains have been taken to frame them in non-confrontational terms, but – and as Wang Yi's comments clearly indicate with respect to the Indo-Pacific – the real world implications are not lost on countries. These initiatives add a measure of risk, complexity and duplication that will have to be managed carefully. There are reasons, however, to believe that they are not entirely unwelcomed. The BRI is an emergent reality and one that carries substantial benefits for participating countries. Any costs in participating in the BRI would need to be managed domestically (and cooperatively), but also perhaps negotiated bilaterally (with China). As the BRI proceeds, a constant negotiation process between China and other countries can be expected in relation to the costs involved.

The Indo-Pacific idea, with its strategic maritime implications, presents an opportunity to temper any overt unilateral attempt to control waters through which one-third of all world trade passes. It is in the interest of littoral states to ensure that the two great oceans, the Pacific and the Indian, and the interconnecting seas remain global commons in every sense of the word.

As the main regional process facilitating engagement of countries on both sides of the Pacific Ocean, the APEC remains crucial. Current trade policy actions by some countries might signal a setback, possibly heralding a trade war, but the CPTPP provides an important counterpoint. The NAPCOR, and its NNP and NSP pillars, potentially address a global flashpoint on the Korean Peninsula and likewise deserve consideration. Taiwan is a regional economic powerhouse and its NSBP deepens mutually beneficial economic engagement with the region.

In short, energy is being poured into finding new forms of connectivity and engagement. Given the rising reactionary, illiberal and isolationist pressures around the world and in the region, this should be considered a good thing. ●





# SEEING THE BIGGER PICTURE

*The BRI isn't a case of charity or pure altruism.  
But are security analysts in danger of being too suspicious  
of its strategic consequences?*



BY THOMAS DANIEL

**B**e it politicians, civil servants, business leaders, academics, analysts or even the everyday *rakyat*, everyone seems to have an opinion on the positives and negatives of China's Belt and Road Initiative (BRI) and Malaysia's involvement with it. The past year and a half have seen many articles and forums on the BRI and its impact on Malaysia – both in favour of and against the nature and extent of our involvement. Given the significance of the BRI, ISIS Malaysia itself is conducting an ongoing assessment of the initiative.

In the midst of this chatter and research, as someone who looks at issues through the lens of foreign policy and security, one cannot help but wonder – are researchers like me over-securitising how we approach the BRI?

Not too long ago, during a discussion on the impact of BRI with several members of a local chamber of commerce, I was told that the “problem with security people”, or those who look at issues of strategic security and defence, is that they tend to “securitise everything”, thus missing the bigger picture. Opportunities for mutual benefit are wasted because of “paranoia” about some threat or another.

On the flipside, many of my “security people” peers have often cautioned that in the rush to embrace the BRI and reap the benefits of being early adopters, there seemed to be little thought given to the wider implications for Malaysia of such a comprehensive initiative beyond dollars and cents. And this, they argue, could have serious long-term implications for Malaysia and indeed the region.

**While** no one really denies the strategic impact of the BRI, it is the strategic aspect that sees the various stakeholders at odds with each other. China, along with supporters of the BRI, has always maintained that there is no grand strategic security or hegemonic intention behind the BRI. Such allegations, they add, are instead propagated for a variety of reasons by those opposed to the BRI and China's growing international stature. In fact, BRI advocates, including President Xi Jinping himself, have positioned the BRI as a stabilising initiative at a time of turbulence and uncertainty in the global strategic and economic landscape.

There is a demand for significant investment in sustainable infrastructure projects throughout the developing world – a

**“Dollars and cents aside, the state of strategic flux facing the Asia-Pacific region, with Southeast Asia caught right in the middle, means that larger forces are inevitably at play in the ongoing scramble for regional positioning and influence”**

demand China feels it can cater to in terms of expertise, materials and loans. Make no mistake, the BRI isn't a case of charity or pure altruism – and China readily admits this. China needs a prosperous and stable region to guarantee its own prosperity and stability – the cornerstone of the Chinese Dream. In discussing the BRI, the Chinese constantly remind us that China seeks cooperation and a mutually beneficial relationship – with the term “win-win” being peppered throughout every major policy paper or speech. China does not seek to export its ideologies or values. They pointedly add that, unlike the United States, China isn't in the business of opening military bases around the world and will not use the BRI as an excuse to do so.

By contrast, when one looks at the narrative of the BRI in countries like India, Japan and the United States, a different picture emerges. Instead of greater trade and connectivity with its immediate region and the wider world, a greater economic dependence on China is what the rising power is allegedly aiming for. Greater dependence will presumably lead to countries being less likely to do anything that could upset China – increasing the cards it holds when dealing with other major powers and in international organisations, like the United Nations or World Trade Organization (WTO).

This growing influence will also be used to keep external powers at bay from what China views as its traditional sphere of influence – much of East Asia. It could also mean that countries might find themselves inevitably favouring Chinese bids or propositions for future developmental needs – an allegation that Malaysia is all too familiar with. Thus, developing countries in the Asia Pacific are urged to be wary of the hidden costs of the BRI and of Chinese largesse.

Those that argue that there is a strategic security dimension to the BRI also often highlight reports of the possible actualisation of elements of the Strings of Pearls theory – especially in the Indian Ocean. They argue

that China's growing stake, and in some cases, direct control, of key port operations in Pakistan, Sri Lanka, the Maldives and Myanmar could see Chinese naval elements asserting a greater role in the region. Some of the abovementioned countries are in the unenviable position of having to delicately balance the competing influence of two powers – China and India.

This view has been further supplemented by some Chinese analysts who state that Beijing will inevitably find itself in a position where it would need to ensure the security of its growing interests and assets abroad and sea lines of communication – just like the United States does today. Hence, the country should start preparing its security forces to deal with this eventuality. Its first and only military outpost abroad – in Djibouti – could then be a vanguard.

**Given** the vast scope of the BRI and its implications, it is a disservice to any analysis of the BRI if researchers overly focus on just one particular aspect of it. This includes security-focused researchers.

Nevertheless, it would also be a mistake to ignore the wider security and strategic implications of the BRI. Dollars and cents aside, the state of strategic flux facing the Asia-Pacific region, with Southeast Asia caught right in the middle, means that larger forces are inevitably at play in the ongoing scramble for regional positioning and influence.

Indeed for countries like Malaysia, it goes even beyond that – impacting longstanding domestic socio-cultural aspects and sensitivities that we are still trying to figure out as a nation.

There really isn't a one size fits all solution here. The challenge for researchers and observers is to balance the various viewpoints based on the focus of their research – and to make clear this focus and approach from the onset. 📍

---

Thomas Daniel is an Analyst in Foreign Policy and Security Studies, ISIS Malaysia



# XI'S BOLD NEW CHINA

*Through the maze of international misapprehension, obfuscation and intrigue, there is an emerging China the world has yet to know about*



BY BUNN NAGARA

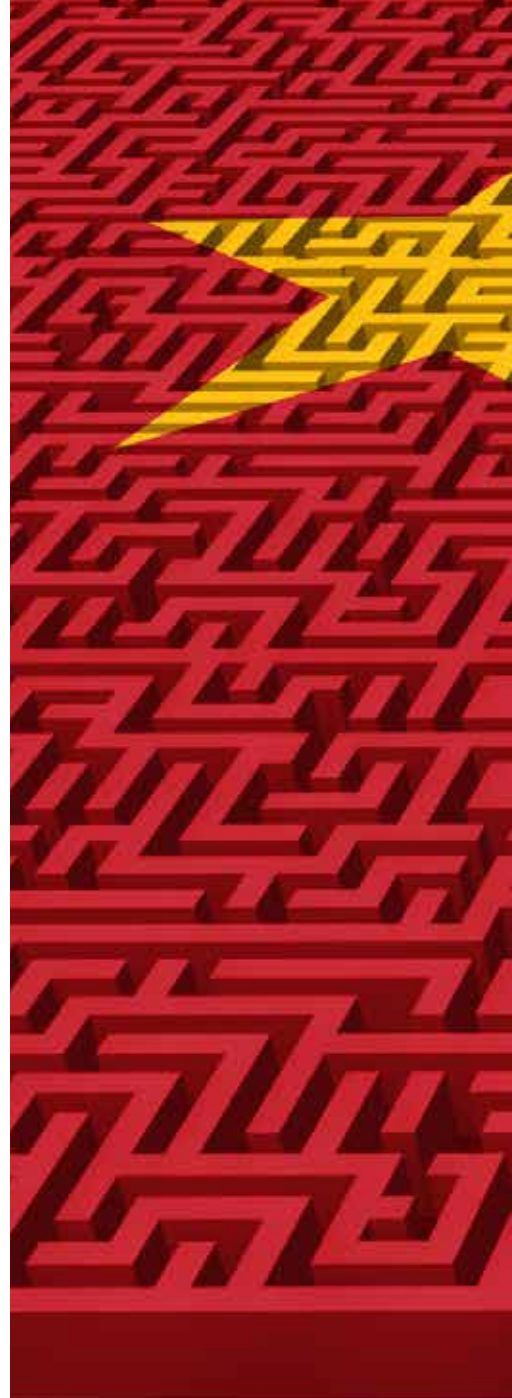
**A**lmost perversely, contemporary China is as misunderstood as it is important to understand. Stereotypes abound; and as the world's oldest state with an unbroken line of governance, stereotypes of China tend to be more numerous, more familiar to more observers, more entrenched than those of most other countries – and that much more misleading. There is its communist revolutionary experience, which seems to have impacted more on certain other countries today than on China itself. Any attempt to understand today's China must begin from at least two points: that it is the fastest-changing country in the world, and its changes have wider global consequences than any other country.

The pace of that change has been relentless and continues to be so, regardless of China's growth performance. Although growth has dipped, with GDP growth in slow decline for nearly a decade, its potential and promise remain robust. Much of the inner confidence, external thrust, and general "opening" and embrace of globalisation introduced by Deng Xiaoping remain or are being taken further. However, as befits a large and complex nation, there are also some perceived reverses. For example, the Xi Jinping era is often said to signal a return to authoritarian strongman rule. But to what extent is that an accurate portrayal

of current events, or is it even a reliable indicator of developments in China at all?

What many foreign commentators on China tend to miss is that governance has long been at the heart of the Chinese nation, the acknowledged home of statecraft. That in turn determines much else in China. It is no accident that despite the turmoil in its history and various changes in its political system, China as we know it represents an unparalleled five millennia of nationhood and civilisation. And since pragmatism is at the heart of Chinese and much of Asian culture, the primary purpose of governance is stability for development. The state is at the front and centre of the nation and, for today's China, the Communist Party of China (CPC) operates as the hub of the state.

Among the ups and downs in China's long history has been its "closed-door policy" of the 15th and 18th centuries, followed by the period of isolation in the mid-20th century after the communist revolution. Despite Maoist egalitarianism within, this accorded with China's earlier "Middle Kingdom" outlook that regarded the external world as unworthy of its imperial attentions, other than for trade and paying tribute to China as the centre of a radial tributary relationship. China would not deign to conquer or otherwise absorb "heathen lands" into itself, in the way European powers







had, since doing so would be to consider the “barbarian world” worthy of cultivation. For much of its history China kept itself apart, separate and distinct from the rest.

In an old country bound by tradition, history plays a prominent role in its present. Throughout the 19th century, a weakened Qing dynasty witnessed the undermining of China by European, Russian and Japanese interests. Vestiges of a dismembered China remained well into the 20th century as Britain held on to Hong Kong, the Portuguese to Macau, and Japanese imperialism of the Meiji period flowed into that of the fascist Showa period. China’s “century of humiliation” saw it buckling under trade disputes, unequal treaties, losses of territory and wars foisted on it. Following these foreign incursions, China settled into licking its wounds.

When Mao’s revolution came, it did with very domestic reasons given China’s internal disabilities at the time. When the Sino-Soviet split emerged, it did so again with very internal reasons rooted in and unique to China. Then, in the late 20th century, two significant, albeit related, developments happened: the leadership of Deng Xiaoping (Paramount Leader from 1978 to 1989) after Mao’s death, and the return to China of Hong Kong (1997) and Macau (1999), orchestrated by Deng along his principle of “one country, two systems”. The handover of Macau in December 1999 on the eve of a new century signalled the coming of a new China.

Deng is widely held as the most important Chinese leader since Mao Zedong. However, while Mao’s leadership spanned four decades, Deng was Paramount Leader for just over one decade. Nonetheless Deng’s imprimatur on modern China is self-evident: after turning to the market for resuscitating the economic base of an impoverished China, Deng upended Mao’s earlier inversion of Marxist historical materialism (which had predicated China’s future on its cultural and political “superstructure” rather than its economic “base”) as well as building the wherewithal for China’s growth and rise. The result was a thriving Dengist “socialist market economy” as part of China’s “socialism with Chinese characteristics”.

Deng’s pragmatic reforms by way of a “national opening” centred on economic development, but also – if less prominently – touched on political liberalisation. The Carter Center was invited to introduce bottom-up democracy at village and provincial levels for elections of multiparty



**“Xi has pledged to make China a fully developed country by 2035, 15 years ahead of Deng’s schedule. The reforms Deng introduced are not only alive but supercharged”**

and independent candidates. After years of working in China, the Center oversaw democratic elections in virtually all of China’s 600,000-plus villages. Deng had also introduced a cap on the tenure of the President at two consecutive five-year terms.

After Deng came, in turn, Jiang Xemin and Hu Jintao, who each served the maximum of two consecutive five-year terms as President. They also served as Chairman of the Central Military Commission (CMC) and General Secretary of the CPC over largely but not exactly the same period when they were President. In China’s party-centred system of collective leadership, the post of President is less important than those of CPC General Secretary and CMC Chairman, which in the past had been occupied by persons other than the President. The CPC remains pre-eminent throughout the state system and government organs. The constitutional role of the People’s Liberation Army (PLA) is the defence of these institutions at the heart of national governance, arrayed around the CPC as hub. (In contrast, the office of the President is definitive in the US system, which comes with the role of Commander-in-Chief of the armed forces.)

However, after decades of successful economic reforms, problems soon emerged and became obvious. The gap between China’s rich and poor widened, social safety nets became worn and disused, and corruption was becoming entrenched in practically every sector. Mounting debt, unemployment and unbalanced development between eastern coastal and interior provinces were additional challenges. At the same time, public expectations of constantly improving lifestyles became a norm as private enterprises bloomed, while party mechanisms at local and provincial levels began to fray. By the time of Hu’s second term (2008-2013), keen observers and government insiders on both sides of the Taiwan Straits became convinced that unless drastic measures were taken very soon, governance throughout the People’s Republic of China would be in crisis.

Reforms in China always had to be calibrated carefully because there is no alternative to the CPC as a means of national governance in the world’s most populous country with a hulking economy prone to exerting global repercussions. This was why Deng had prioritised economic growth over political reform. A measure of political liberalisation was introduced to avoid any possible disjuncture with decades of high growth, but it would no longer be encouraged if breakneck growth triggered runaway political change that was unanticipated, unmanageable and disruptive – while corruption ate away at the higher echelons of the CPC and the PLA. However, Chinese leaders remained convinced that market-opening measures must remain a chief priority for the country. The question was how best to manage it at ever-higher levels of competence in the face of multiple challenges.



Official coinage of the term “socialist market economy” in 1992 during Jiang’s tenure was not enough to assure party conservatives and an expectant public at the same time that, respectively, socialism was being maintained and the interests of the poor would be served by embracing the market further. After Hu, a tough new leadership fully cognisant of China’s urgent needs and new imperatives became paramount. That leadership would be Xi Jinping’s, who was Hu’s senior deputy in the CMC and Vice-President during Hu’s second term. Xi swiftly rose to the challenge of reviving party ideology, beating back corruption, staying the course with the market and suspending any political loosening in his first term. By the end of that term last year, Xi had proven his drive, determination and vision, as well as acquired the gravitas to begin his second.

Viewed from a Western perspective, however, a different picture of Xi emerges. At the 19th CPC National Congress in October 2017, Xi did not name a successor as President as he was expected to do. No Vice-President was named other than the incumbent Li Yuanchao, a holdover from 2013 and was understood to fade soon from the scene. Next, Xi’s governing philosophy was incorporated into the CPC constitution and then also the state constitution. Then term limits were removed by the National People’s Congress (NPC) in March 2018 for Xi to remain President after his two five-year terms. All this sent many Western commentators into a near-frenzy. A common view saw China abandoning collective leadership to return to strongman rule under Xi. It was even seen as a Maoist throwback and a betrayal of Dengist reforms.

Much of this perception derives from a misreading of China, again. First, the moves promoting Xi’s leadership were not undertaken by him personally, but by the party collectively. Xi had in effect been assigned to his present posts. Second, the post of President is the least important of three, the other two being CPC General Secretary and CMC Chairman, which had no term limits. Coordinating all three in one individual amounts to streamlining these positions for greater clarity of authority and a more direct chain of command. Third, Dengist reforms and the priority on economic development through the market are very much retained, if still somewhat camouflaged from party conservatives. Chief ideologist and progressive reformer Wang Huning (“Xi’s brain”), who had previously advised Jiang and Hu, has been promoted to the Politburo Standing Committee (PSC).

## **“There is a new urgency in China’s leadership today, focused on rooting out serious domestic ills as much as fashioning a bold new future”**

Furthermore, the view that Xi is simply amassing power for himself by not naming a successor at the 19th party congress is not logically consistent. If indeed Xi has accumulated such power, he would not need a designated occasion like a party congress to anoint a successor, but can do so at any time. In March 2018, the NPC endorsed the former chief of China’s draft watchdog, the Central Commission for Discipline Inspection (CCDI), Wang Qishan, as Vice-President. Wang is not only a trusted Xi loyalist, economic reformer and tested troubleshooter, but also a capable “America hand” who can help Xi deal with the United States over many growing issues between the two countries. This is where China’s recent appointments to its highest echelons of decision-making become interesting.

In March, the NPC also approved Yi Gang as incoming Governor of the central bank, the People’s Bank of China. He had obtained his PhD from the University of Illinois and taught at Indiana University. Xi’s economic adviser, Liu He, was also appointed Vice-Premier in March. Liu obtained his Master’s degree from Harvard University’s Kennedy School of Government. Wang Huning himself had been a visiting scholar at the University of Iowa and the University of California at Berkeley. Together with Wang Qishan, who had helped improve cooperation with Morgan Stanley, these reformists head a team of technocrats better prepared to fettle the increasingly prickly economic relations with the United States.

Also in March, the NPC endorsed anti-graft official General Zhang Shengmin to the highest levels of the CMC, serving only under Xi and the CMC’s two vice-chairmen. This came after Zhang’s promotion from Lt-Gen to full General in October 2017, signalling Xi’s determination to follow through in his anti-graft battle in the PLA as much as in the CPC. At the same time within the party, the deputy head of the CCDI Yang Xiaodu was promoted to head the National Supervisory Commission, a new high-powered body against corruption. In addition,

there is Zhao Leji, China’s “anti-corruption czar” and a new member of the powerful PSC. They operate at different levels of the party or the state apparatus, but together form a formidable team to excise corruption on all fronts.

On balance, Xi’s second term will see little change from the first, other than more of what had been experienced. His signature campaigns – declaring war on corruption, realising the “China dream”, constructing the Belt and Road Initiative (BRI), developing global markets, sustaining the world trading system – will take more than two terms to accomplish. The CPC and the country as a whole are united around these goals, and appear satisfied that Xi has the substance and the heft to carry them through. Some initial public apprehension over the lifting of term limits placed Xi and the CPC on notice that the state must continue to deliver, and no individual, however exalted as leader, may overstay his welcome.

**Given** the tasks ahead, Xi will have little time for intra-party factionalism as some have alleged. He may have loyalists, but not a faction set against other factions divvying up party spoils. Until the close of Hu’s tenure, party infighting between his “Tuanpai” (Youth) and Jiang’s “Shanghai” factions had weakened the party, the more so with rampant corruption, as the government was distracted and the country careened off course. Xi has acted to prevent any of these factions from dominating key levels of government, but has not extinguished any particular faction. Prime Minister Li Keqiang, often identified with Hu’s faction, remains the number two leader with Wang Yang from the same faction in the top-tier seven-member PSC.

Xi has pledged to make China a fully developed country by 2035, 15 years ahead of Deng’s schedule. The reforms Deng introduced are not only alive but supercharged. At the 19th CPC Congress in October, the National People’s Congress in March, the Boao Forum in April and all other relevant occasions, Xi has underscored China’s commitment to a healthy and thriving global trading system. There is a new urgency in China’s leadership today, focused on rooting out serious domestic ills as much as fashioning a bold new future. However, the priority on effective governance and the overwhelmingly internal nature of the challenges are as millennia before. ●

# What About The Indo-Pacific “Strategy”?

*What is the Indo-Pacific strategy? How is this initiative different from the Quadrilateral Security Dialogue (also known as the Quad)? And how have countries in the region responded to the vision of a “free and open Indo-Pacific” (FOIP)?*



BY  
STEVEN CM WONG AND PUTERI NOR ARIANE YASMIN

**C**hinese Foreign Minister Wang Yi was widely quoted by the international press in March 2018 as saying that the “Indo-Pacific strategy pursued by the United States, Japan, India and Australia” was an “attention-grabbing idea” that like “the sea foam in the Pacific and Indian Ocean ... may get some attention but will soon dissipate”. What was not widely quoted was his following remark that “contrary to claims by some ... that the Indo-Pacific strategy aims to contain China, the four countries’ official position is

that it targets no one”. He ended by stating, “I hope they mean what they say and their action will match their rhetoric”. Wang Yi’s comments were more balanced than portrayed by the media although traces of ire were still noticeable.

The Indo-Pacific strategy cited by Wang Yi is commonly associated with – but should be distinguished from – the Quadrilateral Security Dialogue (Quad) of Australia, India, Japan and the United States. The former is a *multilateral* initiative announced by

Japanese Prime Minister Shinzo Abe in 2016 to promote a shared vision of a “free and open Indo-Pacific” (FOIP), a region stretching from the Western Pacific to the Indian Ocean, to achieve peace, stability and prosperity. The initiative is supported by Australia, India and the United States and others, but with apparent differences in nuances. The goal of a free and open region – common to supporting countries given competing territorial claims, rising power and security threats – makes the need for the rule of law as well as freedom of





navigation and overflight, and the resolution of disputes through peaceful means, obvious. This, however, is folded into a diplomatic-development cooperation initiative that has become *de rigueur*; the means and mechanisms of which have yet to be explicitly worked out.

**In contrast**, the Quad is a *minilateral* initiative. It is also an initiative of Prime Minister Abe who in 2007 invited India to what had previously been a Trilateral Strategic Dialogue (TSD) of Australia, Japan and the United States. Following China's expressions of concern, issuance of *démarches* (official requests for information) to the Quad members and high-level meetings between China and Australia, the latter's Prime Minister, Kevin Rudd, withdrew from the Quad, although it continued to participate

in the TSD. Held in parallel with strategic dialogues have been naval exercises known as Exercise Malabar. In 2007, a four-party Exercise Malabar was conducted for the first time off Japan's coast. With Australia's subsequent pull-out, Exercise Malabar continued between India and the United States, with occasional Japanese involvement until 2015, after which the latter became a regular participant.

The Quad reconvened at the senior officials level on the sidelines of the 2017 ASEAN Summit and related meetings. Among the issues discussed were rules-based order in Asia, freedom of navigation and overflight in the maritime commons, respect for international law, enhancing connectivity, maritime security, the North Korean threat and non-proliferation, and terrorism. (How soon a ministerial-level Quad will convene remains unknown.) Australia began to express interest in Exercise Malabar from 2015 and asked to participate in 2017, but India declined the request in a move probably designed not to antagonise China. India's explanation was that it wished to scale up defence cooperation from a bilateral to multilateral level in a calibrated manner.

From the above, some propositions may be ventured. First, the FOIP, the Quad and Exercise Malabar, while distinct processes, are connected parts of what Wang Yi (correctly in our view) terms the Indo-Pacific "strategy". Except for the FOIP, Quad members have, for the most part, avoided "connecting" the three.

Second, China figures prominently in shaping the implementation of the Indo-Pacific strategy, and Quad countries will want to continue to not recognise any linkage so as not to be seen to balance, hedge or compete, let alone contain, China.

Third, the FOIP, with its strong development, connectivity and inclusive implications, is hard to criticise even if it competes with China's Belt and Road Initiative (BRI). Japan's FOIP takes a "larger panoramic view of the world" and an overarching framework for its participation in India's 2017 initiative of an Asia-Africa Growth Corridor (AAGC).

**Fourth**, Japan will possibly have to bear the major burden of the FOIP/AAGC given Australia's more limited resources, US probable unwillingness and India's inability. It is an open question whether Japan has the political will or resources to match China in terms of infrastructure and military expenditure in the region.

**Fifth**, the response of individual ASEAN Member States (AMS) is likely to be differentiated, that is mixed.

At an India-Japan-Australia trilateral meeting in New Delhi, India, in December 2017 attended by senior officials, the three countries underscored their support for ASEAN centrality in the political and security architecture of the Indo-Pacific region. Japanese Foreign Minister Taro Kono visited Brunei and Singapore to garner support and seek input for the initiative, while Katsuyuki Kawai, Special Advisor for Foreign Affairs to the Japanese Prime Minister, visited other member states, including Malaysia. Briefing sessions have also been held for foreign affairs and defence officials to secure buy-ins. It may, nevertheless, be difficult for ASEAN to politically adopt the FOIP *en bloc*. AMS are unlikely to reach consensus due to widespread understanding of the nature of regional tensions and the risk of external pressures, especially on smaller states. Furthermore, AMS that feel more threatened security-wise from rising powers will perhaps respond more positively, while those that do not harbour similar insecurities nor benefit economically are likely to be more guarded or unwelcoming.

**Indonesia**, for example, has expressed support with President Joko Widodo expressing similar ideas about the Indo-Pacific albeit with a stronger ASEAN character. Vietnam is another strong proponent, having expressed as much in meetings between US President Donald Trump and having a strong and strengthening strategic partnership with India. The response of other AMS can be expected to be more measured ranging from quiet welcome, ambiguity and quiet disapproval. The FOIP may, therefore, see less acclaim than has been the case with China's Belt and Road Initiative (BRI). Whatever the response, the fundamental vision of "free and open" maritime access is one that benefits all states and can be an opportunity to temper any overt unilateral attempt to control waters through which one-third of all world trade passes. Whatever happens to the FOIP, the future of the reconstituted Quad appears to be more assured and the longstanding Exercise Malabar will continue on a trilateral if not quadrilateral basis in the future. On this score, it may be quite some time before the "ocean foam dissipates". ●

# The US & The Survival Of APEC

*The Asia-Pacific Economic Cooperation (APEC) – like many other international organisations – wrestles with issues concerning its structure and membership. Will it be able to maintain its relevance in an ever-changing world? How so?*



BY FIRDAOS ROSLI, DWINTHA MAYA KARTIKA  
AND CALVIN CHENG



**I**n November last year, world leaders at the 25th Asia-Pacific Economic Cooperation (APEC) Summit in Da Nang, Vietnam, witnessed another of US President Donald Trump's famous trade tantrums. Using one of his favourite narratives, the President railed against cheating, unscrupulous countries that were taking advantage of hardworking, honest America.

Despite his tirades against "entering into large agreements that tie our hands", there was no clear indication of the President's intention to abandon APEC – or even the World Trade Organization (WTO) for that matter.

Indeed, the Leaders' Declaration (Da Nang Declaration) offered a dissonant, much more subdued message, reaffirming the continued importance of APEC in the regional architecture even beyond the expiration of the Bogor Goals in 2020.

One can infer from the Da Nang Declaration that Trump's intentions lie not in leaving the group. Far from distancing itself from APEC, the United States may instead use this institution as an apparatus to reassert its dominance in the region, even with China's presence in APEC.

Several reasons underscore this argument.

First, the current US-China trade spat is not in either nation's best interest. One would hope that cooler heads will prevail in the long-term seeing that negative impacts will increase the longer this dispute persists.

So far, the imposition of tariffs and other punitive measures by the United States on China have yet to put a dent in the latter's geo-economic expansion efforts. China's gargantuan Belt and Road Initiative (BRI), its flagship strategic tool aimed at reducing the region's dependence on Western economies, continues to lay foundations for China to chart its own rules in the game.

More enthusiastic reactions to President Xi Jinping's embrace of trade openness in Da Nang – in stark contrast to the tepid response to President Trump's isolationist outlook – only serves to add to China's confidence in its internationalisation strategy.

Thus, it seems for now, both the United States and China will use APEC as a platform to advance their respective interests, which will in fact serve to validate the relevance of the organisation. In the long run, and largely to everyone's advantage, APEC will continue to play a role in facilitating and fostering greater regional economic cooperation.

Second, the recent embrace of the Free and Open Indo-Pacific Strategy (FOIPS) by the United States has been met with much fanfare,

## **“After all, the bureaucratic costs to establish a new regional economic forum that is able to truly rival the size of APEC would simply be tremendous”**

raising concerns that it may substitute the function of APEC. Or perhaps, to incorporate APEC into the Strategy by including India as a member of the fora.

In reality, the FOIPS has largely been a US-Japanese reactionary effort to temper China's growing dominance in the Asia Pacific. The official US Special Briefing on FOIPS in early April mentioned the importance of strengthening APEC, suggesting that the FOIPS, in its current form, aims to complement rather than supplant existing regional institutions.

Even if the United States eventually decides to abandon APEC and elevate FOIPS, this fleeting Indo-Pacific dream has yet to pose a credible threat to APEC's three-decade long history. APEC's role as the incubator of ideas for greater regional economic integration is unrivalled.

**Unlike the BRI**, attempts by the FOIPS at infrastructure-building seem half-baked. For example, India – a key partner in FOIPS – is not known as a generous infrastructure donor.

To infrastructure-hungry economies, the proposed use of private capital (as conveyed in the FOIPS Special Briefing) is far less appealing compared to the BRI's attractive terms, given that private capital traditionally demands higher interest rates and less concessionary financing terms.

Other regional allies, like Australia – considering the economic interdependency between these two economies – would also likely oppose any overtly aggressive action against China.

Further, this focus on “Indo-Pacific” – a superficial attempt to drag India into discussions concerning the Asia Pacific – is challenged by India's own hesitance towards FOIPS, at least from a trade perspective.

India could perceive Trump as playing both Jekyll and Hyde – elevating India's prominence and, at the same time, imposing a series of unfavourable actions against India's economic interests, such as tightening H-1B visa proceedings and threats of reciprocal duties on Indian exports.

Third, the signing of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the potential US return to the original TPP agreement instils

hope for APEC's continued existence.

APEC was created to support and facilitate the progress achieved through the WTO. However, stalled progress at the multilateral level had threatened to diminish the relevance of APEC as an incubator for greater trade and investment liberalisation – prompting the proposal of the Free Trade Area of the Asia-Pacific (FTAAP).

As the TPP is one of the main stepping stones towards the realisation of the FTAAP, the prospect of other countries like South Korea and Thailand joining the TPP offers APEC with a renewed purpose post-Bogor.

In the *State of the Region 2017-2018* survey conducted by the Pacific Economic Cooperation Council (PECC), nearly 80 percent of respondents agreed that APEC should focus on its work on trade policy to achieve the FTAAP, suggesting that this could be a priority beyond Bogor.

Let's say APEC survives, so what would an APEC look like beyond 2020?

APEC, as an institution, continues to grapple with issues regarding its structure and membership. It cannot afford to merely survive; concerted efforts need to be directed at tackling the myriad challenges that remain.

In the same PECC survey, nearly half of the respondents reported an openness to expanding APEC's membership. APEC may need to review its membership moratorium in response to ever-shifting regional dynamics. At the same time, APEC member economies need to be aware about the potential costs that may arise as membership grows.

After all, the bureaucratic costs to establish a new regional economic forum that is able to truly rival the size of APEC would simply be tremendous.

Thus, for the foreseeable future, APEC will likely remain as the most convenient avenue for the United States and China to showcase their economic might in the region as well as to discuss pressing regional trade and investment issues. Therefore it appears that APEC's survival may just go full circle. ●





# Whither South Korea's NAPCOR Initiative?

*The Northeast Asian Plus Community of Responsibility Initiative endeavours to open up new channels of engagement and craft options that serve larger regional as well as national interests. But how will the region respond to President Moon Jae-in's grand vision?*



BY  
STEVEN CM WONG

**W**ith world attention focused on North Korea's nuclear and missile tests and then its sudden rapprochement with its southern neighbour in the run-up to the latter's 2018 PyeongChang Winter Olympics, President Moon Jae-in's New Southern Policy (NSP) received little fanfare. Announced in Jakarta in November 2017, ahead of visits to Vietnam for the Asia-Pacific Economic Cooperation (APEC) and Manila for the ASEAN-related Summits, Moon's NSP is one of the three pillars of a larger, more ambitious multilateral security architecture initiative called the Northeast Asian Plus Community of Responsibility or NAPCOR.

NAPCOR continues the policies of

previous Korean administrations, but on a scale and comprehensiveness not previously envisioned. It is ambitious and clearly an effort to incentivise cooperation with the promise of infrastructure connectivity and development to promote peace. Comparisons with President Xi Jinping's Belt and Road Initiative (BRI), while studiously avoided, will no doubt be inevitable.

The first pillar of NAPCOR is the Northeast Asia Peace and Cooperation (NAPC) Platform. This Platform is a reformulation of the Northeast Asia Peace and Cooperation Initiative (NAPCI) of the previous Park Geun-hye administration. NAPCI is a dual government (Track One) and think tank (Track Two) process for open and inclusive dialogue

and cooperation on non-traditional security matters in order to build *trustpolitik*.

South Korea, the United States, China, Japan, Russia and Mongolia were involved in NAPCI and presumably will continue to do so in the NAPCOR Platform. North Korea had not participated in NAPCI and, until very recently, looked unlikely to do so given its security threat perceptions and responses and the participation of a hostile United States and Japan. This may now be changing given the significant change in diplomatic tack by North Korea's Supreme Leader, Kim Jong-un.

Previously, insistence on complete, verifiable and irreversible denuclearisation of the Korean Peninsula and rejection of the China and Russian sponsored "freeze-for-freeze" proposal would have been a deal breaker for the North. Some analysts continue to maintain that this is still the case, but Kim Jong-un's recent declaration that denuclearisation is now on the table with respect to a potential North Korea-United States Summit offers a ray of hope that it may now be more open to



the possibility. The North, infamous for its unpredictability, may simply be using talks to delay any military actions against it.

Whether other “Plus” countries will be invited to participate in the Platform, and whether they will respond positively, is not known at this stage. Among the concerns that ASEAN Member States (AMS) have are the utterly tiresome bug bear of “dilution of ASEAN centrality”, the effects of participation on its neutrality, and the time and resource commitments of leaders and officials. South Korea will need to spell out more clearly what is expected, but there are already indications that a number of key AMS will show receptivity to the idea.

The second pillar is the New Northern Policy (NNP). The aim of this policy is to accelerate development in the Russian Far East, connecting it with Northeast Asia and Eurasia. Russia is a key stakeholder in the Korean dilemma and South Korea appears to be hoping to increase its economic and political influence so as to have positive spillover effects on the former and North Korea. For this purpose, 9 sectors have been identified: (1) agriculture, (2) electricity, (3) gas, (4) industrial complexes, (5) marine products, (6) ports, (7) railroads, (8) shipbuilding, and (9) the North Pole route. Like the Eurasian initiative undertaken in 2013 by the Park administration, the NNP is currently presented in a manner that does not place a great deal of importance on Korea’s northern most neighbour, China. This could be interpreted as an effort to not only reduce South Korea’s strategic dependence on China, but also deepen closer relations with a geostrategic competitor.

Central to the NNP is the intention that *both* Koreas will participate with Russia. Previous administrations had also attempted to initiate joint Korean cooperation projects, but these were stymied by the North’s nuclear and missile tests. The North is reported to be restarting operations at the 2016-shuttered Kaesong Industrial Zone, while the South Korean government appears to be adopting a wait-and-see approach before allowing its businesses back in. This will be a litmus test to wider economic cooperation envisaged in the NNP and could be discussed at the April 27th Inter-Korean Summit.

Notwithstanding the present warming of relations, distrust of the North’s strategic intentions remains and domestic support for Moon’s initiative cannot be taken for granted. North Korea has backtracked on progress

## **“President Moon Jae-in’s grand vision will have to take a backseat to the manoeuvrings of major powers in the region to a volatile North Korea”**

on more than one occasion and its current diplomacy towards the South, China and even its archenemy, the United States, may not last. At the same time, changes in South Korean administrations and policies towards the North have also not helped contribute to stable solutions. The success of the April 27th Inter-Korean Summit (however measured) and, more importantly, the follow-ups will appear to set the course for Moon’s NNP and, more broadly, NAPCOR.

The third pillar, the NSP, includes ASEAN, along with Australia, India and New Zealand. President Moon has said that he seeks to promote relations with ASEAN to be “on the same level” as that of China, Japan and Russia, countries surrounding the Korean Peninsula. In particular, he promised to “dramatically improve our cooperation with ASEAN” in an effort to have “balanced foreign relations”. Immediate steps were taken of doubling the contribution to the ASEAN-Korea Cooperation Fund and tripling the Mekong-Korea Cooperation Fund, while other measures have yet to be elaborated.

ASEAN is certainly economically important to South Korea, second only to China. Its political influence in Korean Peninsula affairs, although modest, has been recognised. The ASEAN Regional Forum (ARF) and, in recent years, ministerial and leaders’ statements have been more politically supportive of the international consensus and South Korean interests. Add to this the fact that all AMS have diplomatic relations with the North, with some having quite extensive formal and informal economic relations. It would be only natural that the Moon administration would expect AMS to continue to use their relationships with North Korea to do more to achieve outcomes that are beneficial to Northeast Asia and South Korea (hence, presumably, the term “community of responsibility”).

This, however, is not a small task. South Korea’s cooperation with ASEAN does not start from a blank slate. Its existing relationships are extensive and deeply nested in the Plus One, Plus Three and Plus Six processes. Furthermore, ASEAN does not take a unified position on all matters and issues, only those where interests are aligned. At a bilateral level, South Korea has close economic ties and development

cooperation with AMS. Ensuring that a “dramatic improvement” in cooperation with ASEAN, both with the organisation and its members, is not merely rhetorical will, therefore, takes some strategising.

South Korean interests clearly focus on ASEAN’s largest economy, Indonesia, and Moon’s November visit last year elevated ties to a special strategic relationship. It has also extensive economic ties with Vietnam, its fourth largest trading partner, and it is involved with the five Greater Mekong countries. Ties with the Philippines, Singapore and Malaysia have also gained greater importance.

Obviously, South Korea does not wield the same degree of power and influence that China does in the region and the implications of this must be recognised. By upping its diplomatic and economic profile in the region, it understandably hopes to be able to politically leverage these assets when needed. Overall, Southeast Asian countries are expected to respond positively to President Moon’s NAPCOR initiative, but with caution as to the exact commitments entailed. Some may want to see what transpires at the Kim-Trump Summit (if there is one) and the ensuing signals from Washington.

In short, NAPCOR attempts to open up new channels of engagement and create options that serve larger regional as well as national interests. Taking North Korea’s present diplomatic initiatives at face value, prospects for engagement are better now than before. The initiative does face challenges though and there is a chance that rather than changing the toxic climate in the Korean Peninsula, President Moon Jae-in’s grand vision will have to take a backseat to the manoeuvrings of major powers in the region to a volatile North Korea.

Tradeoffs between security and development objectives are rarely ever as straightforward and seamless as commonly thought. Northern and Southern states should, nonetheless, welcome the initiative and participate according to their ability in order to benefit from engagement or, if nothing more, to hedge and diversify against the machinations of dominant powers in the region. ●

# The Little Island Heading South

*Faced with plummeting relations with Beijing and an overdependence on the mainland China market, Taiwan continues seeking to diversify its economic relationships. Will the New Southbound Policy (NSBP) succeed in lessening the island's reliance on China?*



BY FARLINA SAID

**T**aking office under the banner of the China-wary Democratic Progressive Party (DPP), President Tsai Ing-wen announced an initiative to shape the region and build a sense of community between Taiwan and 18 countries: ten ASEAN Member States, six South Asian countries, Australia and New Zealand. The New Southbound Policy (NSBP), which articulates cooperation and exchanges along economic, cultural and social lines, is meant to be the main thrust of Taiwan's foreign policy.

Taiwan's orientation towards the 18 nations, particularly to Southeast Asia, is not new. President Lee Teng-hui's administration in 1994 attempted to mitigate Taiwan's increasing economic reliance on China and aimed to move manufacturing to cheaper bases by developing possible supply chains with Southeast Asian states. However, the initiative sputtered due to the 1997 Asian financial crisis. The opening up and economic development of China and heightened tensions drew Taiwan's attention back towards developing cross-Straits relations.

**In a way**, the NSBP aspires to tackle legacy issues – the vitality and autonomy of Taiwan's economy, which is limited in scope and heavily reliant on a single market, namely mainland China. Trade and investment ties with mainland China account for 40 percent of its exports and the bulk of its outward

foreign direct investment. Domestic economic issues, such as wage stagnation and an aging population, have also shaped the prongs of the NSBP. These can be divided into the economic approach and people-to-people exchanges.

A year into its launch, the NSBP has already indicated some positive returns. In a speech at the end of 2017, President Tsai mentioned that bilateral trade with the 18 countries grew almost 20 percent compared to 2016. Taiwan has also seen a 30 percent increase in tourism and now hosts more than 31,000 students from the 18 countries.

However, if the aim was to mitigate the reliance on China, numbers still pale when compared to Taiwan's economic ties across the straits.

**According** to the National Bureau of Asian Research, between January and August 2017, Taiwan's investment in Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam totalled US\$2.1 billion while Taiwan's investment in mainland China stands at US\$6 billion. Taiwan's total exports to ASEAN countries are also in decline, from 22.1 percent in 2015 to 21.1 percent in 2016, which declined further to 18.8 percent between January and July 2017. In comparison, Taiwan's total exports to mainland China stood at 25.6 percent in 2015, 25 percent in 2016 and 27 percent between January and July of 2017.

There are several reasons why economic integration between Taiwan and ASEAN countries is growing at a slower pace. Many countries recognise Taiwan as an economy, but not a sovereign state, hence





**“While economic growth in the NSPB region and Taiwan is generally accepted by China, relations between NSPB states and Taiwan must straddle a delicate line”**

opportunities to update and expand official agreements are challenging. The absence of free trade agreements (save with Singapore) and outdated bilateral investment treaties between Taiwan and ASEAN countries affect emerging sectors, such as the digital economy. On a positive note, Taiwan and the Philippines signed a new bilateral investment agreement (BIA) at the end of 2017, which will put in place a legal foundation for Taiwanese investors in the Philippines and vice versa.

Identifying and reviewing areas which

meet the objectives of the NSBP will be useful, especially for industries that are most in need of government support. Private sector participation, particularly by small and medium enterprises (SMEs), lags behind participation by state-owned enterprises (SOEs). Although there is financial assistance towards the private sector, particularly SMEs, a more comprehensive approach should be considered especially towards SMEs who may be venturing into unfamiliar markets in Southeast Asia. The Southeast Asian market is significantly more diverse compared to the more familiar and homogenous Chinese market.

Where the NSBP can make real and immediate progress is in increasing people-to-people ties, specifically through tourism, education and talent. The Tourism Bureau reported a rise of arrivals as much as 27.3 percent in 2018, bringing 2.28 million tourists from the NSBP region to Taiwan. These can be seen as a result of government policies, such as easing visa restrictions, promoting Taiwan as a halal travelling destination and increasing the number of tour guides proficient in Southeast Asian languages.

**Taiwan** also offers more scholarships and fellowships for Southeast Asian students. Graduates of Taiwanese institutions can play a role in increasing Taiwan's profile in their respective nations. For instance, the Federation of Alumni Association of Taiwan Universities in Malaysia has played a role in pushing for the recognition of medical and dental degrees awarded in Taiwan. Additionally, the Association organises education exhibitions to promote studying in Taiwan. People-to-people links are further bolstered by budgets for Taiwanese students to participate in internship programmes across the region.

Taiwan is, however, facing great competition from China as both attract students studying Mandarin. Nonetheless, it is said that the nature of Taiwan's society, associated with openness and democracy, builds the island's soft power capacity. This enhances its image on the global stage and could place it in an advantageous position in international society.

The true test of success with the NSBP is the relevance it gives Taiwan on the international stage, be it economically, politically or in socio-cultural terms. This is dependent though on stability in cross-Strait

relations. The DPP government's refusal to acknowledge the “1992 Consensus” as determined by China becomes a burr in the hide of this relationship. At the 19th Communist Party Congress, Chinese President Xi Jinping articulated his concern of attempts for “Taiwan independence” and warned that China will never allow “anyone, any organisation, or any political party, at any time or in any form, to separate any part of Chinese territory from China”. Since Tsai Ing-wen stepped into office, Beijing has suspended official contact with Tsai's administration since June 2016, reduced the number of mainland tourists and students in Taiwan as well as worked to restrict Taiwan's participation in multilateral fora.

The relationship was also rocked by perceived attempts to use Taiwan as a bargaining chip, particularly when President-elect Trump questioned the “One China” policy in December 2016, perhaps to use Taiwan as leverage to draw concessions on trade. Yet, at Beijing's displeasure, President Trump later on reaffirmed Washington's support for the policy in his first telephone conversation with President Xi Jinping.

How do these situations bode for Southeast Asian nations participating in the NSBP?

China's growing influence in the region – economic, political and strategic – has already affected the interaction of ASEAN Member States (AMS) with Taiwan. Indeed the participation of AMS in China initiatives, such as the Belt and Road Initiative (BRI), draws these states closer to China's orbit. For example, a Taiwanese university, National Sun Yat-sen University, has faced difficulties setting up a centre in the Philippines as various universities in the latter do not wish to host a “Taiwanese” facility on campus to avoid upsetting China.

Beijing's red line is in articulations or iterations of Taiwan's independence. While economic growth in the NSBP region and Taiwan is generally accepted by China, relations between NSBP states and Taiwan must straddle a delicate line. This essentially impacts the attempts of AMS to maintain equidistance in political influences. An unsuccessful NSBP will not only affect Taiwan's economy, but also Taiwan's relevance and appeal to NSBP nations and the international community. 🌐

# Making Cents Out of An Evolving Concept

*Discussions surrounding the Belt and Road Initiative (BRI) are very much influenced by the experiences of other countries in dealing with China. Is it possible for us to take stock and assess Malaysia's active participation in the BRI?*



BY  
ELINA NOOR AND FIRDAOS ROSLI

**T**he Belt and Road initiative (BRI), still largely known by its original conception of One Belt One Road (OBOR) in many countries, has attracted as much critique as it has number of interested countries since the People's Republic of China (PRC) President Xi Jinping unveiled it in 2013. While the PRC has marketed the BRI as a cooperative infrastructure and connectivity development project involving the countries dotting the planned 21st Century Maritime Silk Road and the Silk Road Economic Belt, others view it suspiciously if not altogether less benignly as geo-economic entrapment by a rising power.

In Malaysia, where traditionally friendly ties with the PRC have warmed in recent years, the BRI is generally seen as a welcome economic opportunity. Yet, the scale and visibility of Chinese investment – both private and state-funded – has also raised alarm bells among some in Malaysia.

But what is the scope of the BRI, exactly? And how is its reach along with its implications to be measured in order to determine a participating country's interests? An objective assessment of the BRI is challenged from the start by the uncertainty of what qualifies as a BRI project. The PRC's selling point of the BRI is that it is an open, consultative endeavour. However, this also means in practice that the constitutive parameters of the BRI are indeterminate and vary from country to country.

In order to unpack the overall implications of the BRI for Malaysia, ISIS Malaysia

undertook to assess its impact from multiple dimensions, namely economic, political, strategic and social. The following key takeaways are by no means an exhaustive list, but what came through most starkly from the many stakeholder interviews, meetings, brainstorming sessions and conferences attended necessitates closer scrutiny.

First, the BRI remains an evolving concept to date and any assessment of its implications should be subject to open and regular review. The BRI is outlined as a concept in various PRC official documents and speeches. It lacks the definitive clarity and categorisation of projects that are to fall within its ambit. This opaqueness could be deliberate or simply the consequence of the PRC's open-ended approach of engaging with the participating countries of the BRI.

The ambiguity is compounded by the lack of classification of BRI projects by participating countries themselves. Infrastructure projects with a public sector injection of funds would seem, by default, to fall within the BRI, but whether or not large-scale development or infrastructure projects carried out by the private conglomerates would qualify is open to question. In Malaysia, greater clarity is expected soon when the government releases guidelines on what projects are to be treated as BRI ones.

Second, geo-political considerations of the BRI are thus far nascent, at best, and based on anecdotal projects in other countries or regions. The examples of large-scale Chinese investment in South Asia or Africa are often

cited as cautionary tales. However, given that these examples are not always directly related to the BRI, are set in very different demographic contexts, and are often overlaid by larger, strategic filters mean that any balanced assessment of the overall impact of the BRI on a nation's interests will have to account for all these variables and more.

That said, as a concept, the BRI has become inescapably entrenched in discussions on strategic competition among the region's – indeed, the world's – major powers. The BRI is often viewed as a Chinese initiative and as part of a concert of the PRC's other regional architectural designs – the Asian Infrastructure Investment Bank (AIIB), the Shanghai Cooperation Organisation (SCO), and the Conference on Interaction and Confidence Building Measures in Asia (CICA). The BRI has drawn analogous responses, such as the Asia-Africa Growth Corridor (AAGC), and is circumspectly viewed as a challenge to the prevailing framework of institutions, norms, rules and order. For countries in Southeast Asia, the BRI – promises and prospects aside – also raises questions about its impact on the ongoing ASEAN community-building project and the PRC's commitment to it as an important dialogue partner.

Observers have pointed out that the unresolved South China Sea dispute has contributed to the slower progress in the 21st Century Maritime Silk Road component of the BRI relative to the Silk Road Economic Belt. While this may be true, for many countries in Southeast Asia, the ability to compartmentalise economic opportunities from political and security tensions is a matter of practicality and necessity that other more powerful nations may struggle to understand. There is little evidence at this stage that the maritime dispute in the South China Sea will have a direct and significant bearing on the participation of the claimant countries and the economic offerings of the BRI. For Malaysia, the BRI, like the South China Sea dispute, is simply a part of the sum of relations with the PRC.

A number of respondents believe that Chinese-led infrastructure projects, or at least those that are often associated with the





## **“Anecdotal evidences on international cooperation involving China should not be the deciding factor nor should it remain as the only yardstick of the BRI”**

BRI, are done on an ad hoc basis with minimal reference to the government's existing policies. It should be noted, however, that under the Eleventh Malaysia Plan (11MP), infrastructure development is mentioned as one of the strategic thrusts of the blueprint although the policy focus is primarily on improving existing infrastructures rather than developing new ones. As far as new infrastructure projects are concerned, 11MP briefly mentions the need for more rural-urban and inter-city infrastructures without going into specific details. In the case of the East Coast Rail Link (ECRL), for example, market consultation started at least a year before the official project announcement was made. It is believed that the lack of awareness on these BRI-linked projects is due to the non-disclosure requirements when stakeholder consultation takes place.

There are a lot of similarities between the PRC's rise today and Japan in the 1980s from the economic perspective, but respondents do not view them in the same context as far as the BRI is concerned. The PRC's multi-dimensional approach in projecting its national interests and power creates suspicions through the lens of many respondents. It appears that the PRC does not seem to carry the same level of goodwill as Japan did in the past. The PRC's readiness in financing large and risky (often termed as “unbankable”) infrastructure projects demands closer scrutiny of BRI-linked projects around the world, including in Malaysia.

There are reasons to believe that a majority of respondents are influenced by the experiences of other BRI-participating countries over the years. Respondents

are concerned about infrastructure deals involving the PRC's state-owned enterprises (SOEs) and they are becoming more indicative as to what the repercussions are when projects do not go as planned. A majority of respondents highlighted issues concerning the Chinese-built Hambantota Port in Sri Lanka, loan forgiveness in Africa and China-Pakistan Economic Corridor as evidences that may result in political consequences for Malaysia if the economic viability of infrastructure-related projects is not adequately addressed in the public sphere.

There is no clear way to assess the impact of BRI on Malaysia for as long as it continues to be an idea. Anecdotal evidences on international cooperation involving China should not be the deciding factor nor should it remain as the only yardstick of the BRI. Moving forward, the perimeter has to be set or risk measuring the overall impact on piecemeal basis. ●

---

Elina Noor has ended her tenure as Director of Foreign Policy and Security Studies and will be assuming a new position with the Daniel K Inouye Asia-Pacific Center for Security Studies, and Firdaos Rosli is Director of Economics, Trade and Regional Integration, ISIS Malaysia



# Will Malaysia Benefit From China's Belt and Road Initiative?

*Competing interests and ambiguity undeniably surround China's Belt and Road Initiative (BRI). But is the China-led mega-investment scheme in line with Malaysia's national interest? Much ink has been spilled on both sides of the debate*



BY

DWINTHA MAYA KARTIKA AND MUHAMMAD SINATRA

**O**ne can have little doubt that the Belt and Road Initiative (BRI) channels massive capital inflow into Malaysia, generating opportunities for the nation's economic growth. Yet, as BRI-related projects begin to unfold, some stakes are still not stacked in favour of Malaysia's national interest.

First, contending interests of the BRI stakeholders hamper Malaysia's endeavour to derive maximum benefit from this supposedly "win-win" cooperation. This is evident at both interstate and intrastate levels.

At the interstate level, China – *the main actor* – and Malaysia – *the supporting actor* – in the BRI are driven by different incentives. Whilst China considers the BRI as its internationalisation strategy of investing in over 60 destination countries, Malaysia's BRI participation is about localising foreign investment.

**In GDP terms**, China's economy is almost 40 times bigger than that of Malaysia, granting China more capability in offsetting short-term losses. And its diversified BRI portfolio around the globe offers additional advantage of better risk management, as compared to Malaysia, should BRI projects in Malaysia were to experience bumps.

Consequently, Malaysia's embarkation on a multitude of BRI projects puts ever greater pressure for these projects to generate positive cash flows and spillover benefits in the years to come.

At the intrastate level, China's central government's favour to

BRI-related projects incentivises Chinese investors to secure big-ticket projects overseas, so long as they are "advancing the BRI". This would possibly undermine the feasibility of these projects.

With the blessing of its central government, Chinese banks are more likely to approve deals that might be classified under the BRI. And China's outbound capital controls seem to be more lenient for BRI-related projects.

Having placed more chips on the table, the onus is on the Malaysian government to ensure the viability of BRI projects and factor these projects into the country's development plan. But Malaysia's uniqueness as a federated country implies that each state could set its development priorities, which may or may not be in line with the national ones.

Alas, any divergence between state and federal governments' priorities would not yield the most efficient arrangement, should mega-infrastructure projects involving multiple states take place.

Second, the vagueness of what constitutes as a BRI project complicates Malaysia's effort to align the scheme with the country's economic plan.

At the time of writing, there remains an absence of definitive guidelines on what signify as a BRI project in Malaysia. This raises the speculation that Malaysia might have compromised its national standards when it embarks on the BRI.

Criticisms have mounted regarding the necessity of taking on what appears to be





“economically redundant” projects. Many, for example, questioned the need of the Melaka Gateway, a RM43 billion-port project, built within close proximity to the existing Port Klang.

Although Malaysia cannot afford to miss out on the opportunities offered by the future economic superpower, the ball is in the Malaysian government’s court to address legitimate critiques of the BRI. This includes, but not limited to, clarifying what it expects from participating in the BRI.

Reaching clear national objectives regarding the BRI means that rigorous consultations need to be conducted between the federal and state governments.

By accommodating the interests of various stakeholders, a consensus on national objectives would

## **“Commonly raised are concerns that Chinese companies exclusively utilise Chinese labour, goods and services”**

enable Malaysia to stand on solid ground in its BRI engagement. Not only would this place Malaysia on a more equal footing with the foreign investors, it would also minimise speculations that the BRI is not well suited to Malaysia’s interests.

One step has been taken towards that direction. A BRI National Secretariat, under the provision of the Ministry of International Trade and Industry (MITI), has been set up to monitor and ease the coordination of BRI-related projects in Malaysia.





## **“Upholding national standards denotes that the government has to allocate appropriate incentives for foreign investors. Requests for tax break, imported content and other investment leeway must prudently be reviewed, considering the size and scope of the BRI in Malaysia”**

However, the Secretariat has highlighted that at the moment, it is lacking sufficient resources, especially manpower, to carry out its responsibilities. At this infancy stage, the Secretariat requires consistent support from the government in allotting Malaysia a strategic position vis-à-vis the BRI.

**Third**, at a time when several BRI-related projects in Malaysia are already underway, the discussions ought to be centred on not whether Malaysia can maximise benefits and minimise costs of the ongoing projects, but how.

It is imperative that Malaysia's participation in the BRI does not interrupt regulatory safeguards and, to some extent, existing commitments at the regional and international levels.

For instance, there is an assumption that Malaysia's participation in the BRI could lead to the Chinese taking control of Malaysian critical infrastructure, a concern that is amplified by the lifting of foreign ownership cap in Malaysia's strategic assets. The purchase of Edra Global Energy Bhd by China General Nuclear Power Corporation is a case in point.

Commonly raised are concerns that Chinese companies exclusively utilise Chinese labour, goods and services. The recent findings of the Center for Strategic and International Studies in *Reconnecting Asia* revealed that, out of all contractors working for Chinese-funded projects abroad, nearly 90 percent are Chinese companies.

As a country that identifies itself as “business-friendly”, Malaysia is not immune from such practice, limiting benefits that could be gained by local suppliers and workers.

Nevertheless, companies involved in BRI-related projects in the country have taken necessary steps to address such concerns. Alliance Steel, a company inside the Malaysia-China Kuantan Industrial Park (MCKIP), and Country Garden Pacificview, the developer of Forest City in Johor, have indeed employed Malaysians, which make up around 70 percent of their respective workforce.

Upholding national standards denotes that the government has to allocate appropriate incentives for foreign investors. Requests for tax break, imported content and other investment leeway must prudently be reviewed, considering the size and scope of the BRI in Malaysia.

If Chinese companies, for example, were to employ their own skilled workers at a time in which mechanisms such as the ASEAN Mutual Recognition Arrangements (MRAs) are poised to encourage intra-ASEAN high-skilled mobility, this would sideline the relevance of

such ASEAN instruments. Speculations that Malaysia is gravitating towards China's orbit, away from the traditional ASEAN cornerstone, could hardly be avoided too.

Reaping the benefits of the BRI, therefore, obliges the government to carefully craft and enforce local content requirements. Still, the value delivered must be commensurate with the funds spent.

Equally important is addressing the discontent surrounding the stratospheric costs of ongoing BRI-related projects. The pricing of the East Coast Rail Link (ECRL), at RM55 billion, with 85 percent being soft loan from The Export-Import Bank of China, is a case in point.

The announced costs would likely increase during the construction phase, like many infrastructure projects, placing an importance on cost control. At the operational stage too, a constant monitoring of the expenses and revenues cannot be sidetracked.

As such, Malaysia cannot presume that it could live off the fat of the land by merely being a BRI host-country. Quite the contrary, Malaysia must assume a hands-on attitude at every stage of the projects.

For all the attention that the BRI receives, the public knows little about the nitty-gritty of these mega projects in Malaysia. Engagements with Chinese investors are mostly conducted at state-to-state level, stimulating political, economic and social insecurities at grassroots level.

**Creating** an atmosphere of transparency becomes a chief imperative on the Malaysian government's part. By providing solid justifications to the BRI projects, speculations, misconceptions and politicisation of the subject could be reduced, if not eliminated.

Though not a panacea, transparency can act as control mechanism for the costs of these projects.

One cannot deny that the BRI constitutes China's effort to assert its set of rules at the international arena. BRI host-countries, however, have some degree of control over their national rules – to champion a BRI that is not exclusively on China's terms.

Malaysia needs to respond in a proactive manner when navigating through these rules, to hit the jackpot at the end of the “road”. More must be done to align the BRI to the national development plan, uphold transparency, conduct constant monitoring and, ultimately, ensure that every Malaysian gets their share of the pie. 🍷

---

Muhammad Sinatra is an Analyst in Foreign Policy and Security Studies, and Dwintha Maya Kartika is an Analyst in Economics, Trade and Regional Integration, ISIS Malaysia



# TREASURE ISLANDS?

*Integrating Melaka Gateway into state development plans is a good first step – but the integration must be deeper and more holistic if the project is to fulfil its promise*



BY CALVIN CHENG

**I**n Melaka, land reclamation has long been a favourite state pastime, the latest and greatest example of which involves Melaka Gateway, the RM43 billion mixed-use development that is part of the Belt and Road Initiative (BRI), consisting of three reclaimed and one natural island off the coast of Melaka covering an area of about 6km<sup>2</sup>. It is a joint venture between the private Malaysian firm KAJ Development Sdn Bhd and Chinese state-owned enterprise Powerchina International. Some parts of the project will be subcontracted to other companies, including cruise operator Royal Caribbean International's partnership in the construction of a cruise terminal, and prominent developer Hatten Group's construction of the Harbour City hotel-mall-theme park mega-building.

The four islands will each have different functions. Island 1 aims to be a tourism and entertainment hub, housing Harbour City, a cruise terminal and a marina; Island 2 is earmarked to be a free trade economic zone,

encompassing financial institutions and business services; Island 3 is the site of the Melaka Gateway port; while Island 4 is slated to be a maritime industrial park with dry bulk, break bulk and shipbuilding facilities.

Since it is a Malaysian private sector project with no monetary cost to taxpayers, Melaka Chief Minister Datuk Seri Idris Haron has been unwavering in his support for Melaka Gateway, routinely expressing his ambition to bring back Melaka's glory days of being a world famous trading port. 15th century nostalgia aside, there are indeed reasons to be optimistic about the development.

Melaka saw some 17 million tourist arrivals last year, according to the chief minister, with that figure expected to grow by about another million each year. Melaka Gateway appears poised to take advantage of rising tourism in the state, alleviating the issues of a shortage of high-end hotel rooms and a lack of night-time activities. The international cruise terminal will also add another channel for

tourist arrivals, with partner Royal Caribbean providing the expertise and demand, while the marina aims to tap into the growing number of affluent boat-owners in the region demanding seafront properties. Besides, a high tourist arrivals-to-room ratio in Melaka compared to other Malaysian destinations presents opportunities to increase tourist length of stay, in addition to attracting high-yield visitors to bolster the current high percentage of budget-focused visitors.

The free trade zone and maritime industrial park on Islands 2 and 4 will also help to strengthen Melaka's industrial sector and diversify the state economy beyond its current reliance on tourism. This is additionally anticipated to broaden and increase state revenue through higher collection of state taxes and fees. Both the free trade zone and industrial park will also support the operations of the Melaka Gateway port, capitalising on increasing regional trade trends as well as a recent port alliance with China (95 percent of Malaysian trade is seaborne and, according to the Port Klang Authority, 50 percent of the world's cargo passes through the region).

The development of the Melaka Gateway port is also in line with the Melaka port masterplan to develop the state's seven



“minor” ports to serve different niches. Research suggests that minor ports can complement major ports by acting as feeder points – facilitating the movement of goods from hinterland to seaport – as well as allowing major ports to focus more on core competencies (such as how the transshipment hub in Tanjung Pelepas Port complements the container/bulk freight in Johor Port). The Melaka Gateway port is reportedly focused on the replenishment of passing vessels, with its liquid cargo facilities working in synergy with nearby regasification plants, a forthcoming gas pipeline extension and oil tanker facilities at the future Kuala Linggi port. Moreover, its proximity to the Segamat inland dry port also helps develop the seaport-dry port corridor, increasing efficiency and capacity.

However, despite its potential, there are a myriad of concerns that need to be carefully considered. Accommodating Melaka Gateway into state development plans is a first good step, but overall integration could be deeper, more holistic and look more at the multidimensional aspects of the project.

**To start**, the state’s international connectivity remains poor. Millions of ringgit and a new airport terminal later, Melaka’s “international” airport still really only has two flight destinations: Penang and Pekanbaru, Indonesia. The many failed attempts to revive the ailing airport through numerous facility upgrades (the latest of which is still underway) and plans, like the establishment of direct flights to China (which was later quietly dropped), supports the impression that Melaka’s airport problem is one of a lack of demand rather than supply. As such, the success of international tourism-reliant projects like Melaka Gateway will continue to be dependent on international airports in neighbouring states.

Furthermore, there are valid considerations about traffic congestion and overcrowding. In a state where chronic road congestion is a daily problem and public holidays render Melaka city roads unpassable, the addition of thousands of jobs and tourists would be disastrous. Worse, the increase in cargo traffic will only serve to exacerbate the problem; many roads in Melaka are narrow, old and unsuitable, even for large buses, let alone heavy container traffic.

The state can also go further in upgrading road networks in the city centre, whilst remaining cognisant of potential trade-offs between vehicle and pedestrian accessibility



## “More clarity would certainly enable better public scrutiny and increase accountability”

– pursuant to the state’s “green city” commitment, which stresses a walkable city with more green spaces. A compromise might include one former Member of Parliament’s suggestion for a “Barcelona solution” to a similar problem in the Catalanian capital: creating pedestrian-only blocks in the city centre closed off to vehicle traffic. Concurrently, regulations for road goods transport, especially for over-sized cargo, should be reviewed and strictly enforced.

Similarly, public transportation networks in Melaka are still in need of improvement to relieve pressure on city traffic. The reopening of the long-defunct Melaka monorail is a well-intended start, though its shortcomings are obvious – the monorail line only covers 3km, carries a maximum of only 15 people (as at the time of writing) and does not move much faster than a determined jogger. Commuters also bemoan both its tendency to break down and its expensive tickets. Clearly, in the state’s plan to increase public transportation connectivity, a focus on reliability, accessibility and affordability is needed.

Furthermore, as with other BRI-related projects in Malaysia, Melaka Gateway’s transparency and disclosure standards have been poor; information is often scarce, ambiguous and conflicting. Unexpected new additions or changes to the project without much explanation are common: such as the sudden inclusion of Powerchina in the project in 2016; the abrupt switch from an earlier 3-island plan to a 4-island configuration to include a port; and more recently, the announcement of a cable car that will connect Island 1 with the mainland. Indeed, an image search for “Melaka Gateway” yields about four

different plans for the same project. This is compounded by the slow pace of construction, with work occasionally starting and stopping with little explanation, leading one news article to label Melaka Gateway as an “on-again, off-again project”.

On this, the state government should aim to increase oversight and enforcement, while both the state and the Melaka Gateway developers should improve transparency and disclosure practices. Though Melaka Gateway is a private project, the close involvement of public officials in its development and its potential for wide-reaching effects straddles issues of public interest – and this should hold it to a different, higher standard. This lack of transparency has led to problems like over-politicisation and misinformation, raising important questions, such as whether or not the government will intervene in the event that the project defaults. More clarity would certainly enable better public scrutiny and increase accountability.

After all, for a place sometimes dubbed the “historic” state, Melaka is developing at an extremely rapid pace, with no shortage of new, expensive projects in the pipeline promising to transform the livelihoods of many. What is crucial now is to ensure that these gains are inclusive, with sufficient efforts to temper the unrelenting forces of gentrification on the disadvantaged – all whilst preserving Melaka’s historic beauty – or as the UNESCO World Heritage Committee puts it, a “living testimony to the multi-cultural heritage and tradition of Asia”. ●

Calvin Cheng is a Researcher in Economics, Trade and Regional Integration, ISIS Malaysia



# NAVIGATING ASEAN INNOVATION

*In November 2017, Singapore took over the rotating chairmanship of the Association of Southeast Asian Nations (ASEAN) from the Philippines. With “innovation” as one of its core themes, Singapore wants to boost ASEAN’s innovation capability to take advantage of the opportunities in digital technologies. Furthermore, Singapore aims to elevate the connectivity of ASEAN Countries to ensure the region’s growth and competitiveness*



BY MOONYATI YATID

**A**ccording to the International Labour Organization (ILO), more than half of the labour force in five ASEAN economies – Cambodia, Indonesia, the Philippines, Thailand and Vietnam – is at risk of losing their jobs in the next 20 years. Those in the garment industry are particularly susceptible, followed by those in the automotive and auto parts industry. ASEAN has been, and will continue to be, affected by the rapid evolution of digital technologies. Indeed the digital revolution continues to disrupt and transform the way we live, work and relate to each other. Now, more than ever, ASEAN needs to focus on innovation in order to be adaptable to the fast changing needs of the industry.

Although many ASEAN countries are struggling to keep up with the ever-changing technology landscape, there are several encouraging indications that the region is moving forward. Indonesia, the Philippines, Thailand and Vietnam have established various efforts to enhance innovation and digital readiness, including setting up research institutions in science and technology as well as forging stronger linkages between society and industry. In recent years, Malaysia has also launched a number of mechanisms to prepare itself and embrace the Fourth Industrial Revolution (4IR) agenda,

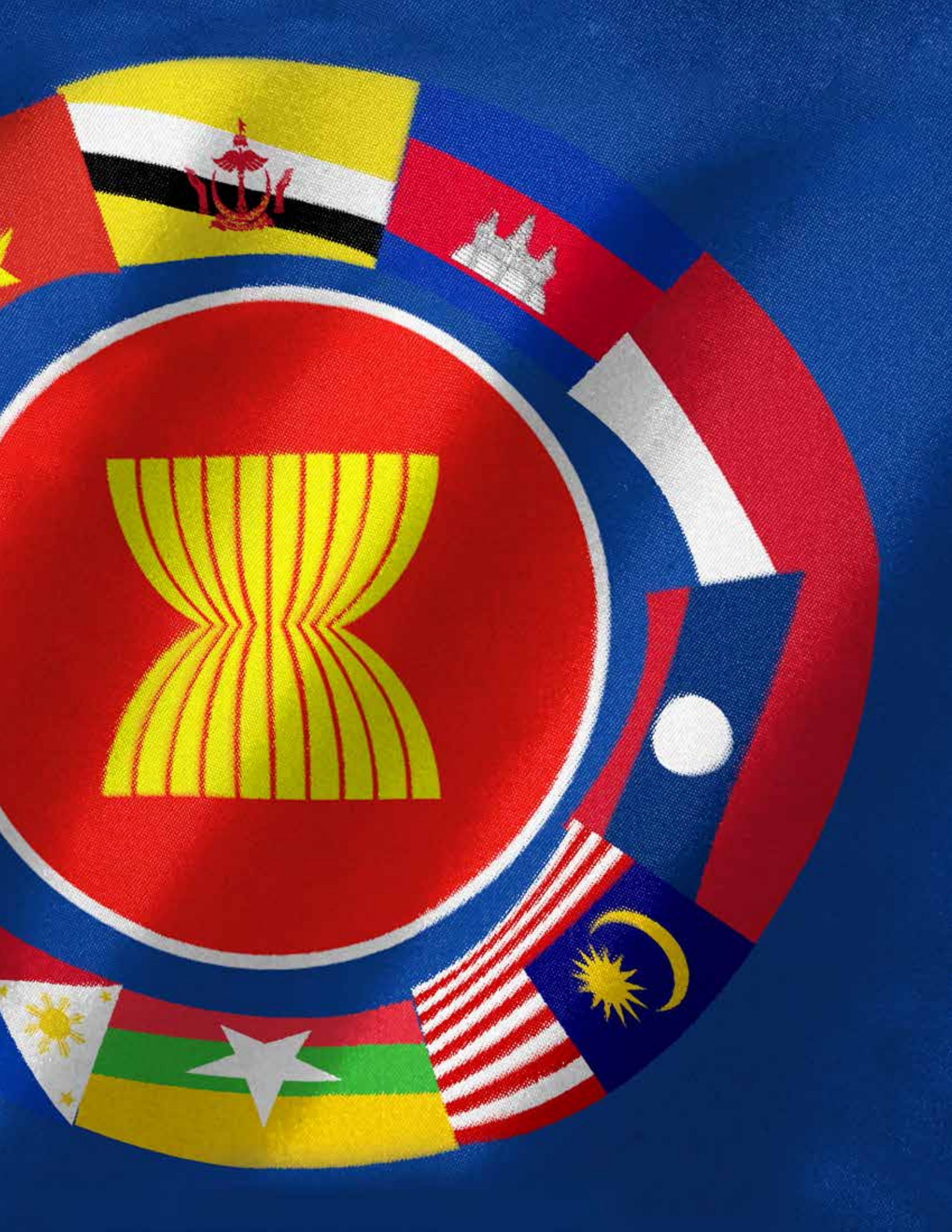
such as the Small and Medium Enterprise (SME) Masterplan, the National Internet of Things (IoT) Strategic Roadmap, the National Graphene Action Plan (NGAP) 2020, and Industry 4.0.

As this year’s ASEAN chair, Singapore is in a position to spearhead ASEAN’s innovation agenda. Singapore is also the suitable country to fulfil this role; the small city-state has attained various innovation successes and was ranked 7th in the Global Innovation Index (GII) 2017. In the past decades, Singapore has strategised and pushed the expansion of its research capabilities, encouraged technopreneurship, fostered a robust startup ecosystem, and actively established partnerships with multinational corporations (MNCs) and local enterprises in support of collaborations that spur innovative outcomes.

According to Singapore’s High Commissioner to Malaysia, Mr Vanu Gopala Menon, the city-state’s plans to advance the region’s innovation will focus on developing smart cities, based on its Smart Nation experience. Singapore will be launching the ASEAN Smart Cities Network (ASCN) to leverage innovative technological solutions as an approach to improve the urban living environment and enhance business opportunities in Southeast Asia.

More than 90 million people are expected







to live in urban areas by 2030. Hence, it is forecasted that more than 40 percent of the region's growth will be propelled by urban centres. The ASCN is envisioned as a platform to share best practices and develop individualised action plans that are relevant to the needs of member cities. Additionally, it will involve ASEAN's external partners, such as the United States, China and European Union countries, as well as the private sector to collaborate with member cities in ensuring a successful implementation of the ASCN.

Singapore's push for the ASEAN Agreement on E-commerce will also provide opportunities for the region to develop a more robust digital connectivity as well as streamline governing trade rules. Although there were various efforts in the past to boost e-commerce, there is a need for ASEAN to coordinate those efforts effectively. Cooperation could start by addressing some common and cross-cutting issues in cross-border e-commerce, such as SMEs' challenges in digital payments and regulatory concerns. Additionally, governments will need to look into existing national restrictions that hamper cross-border supply. Businesses can then look forward to leveraging digital platforms to expand its "domestic" market to 628 million consumers. This would certainly propel

ASEAN's internet economy to reach US\$200 billion by 2025, which is a huge potential for ASEAN in transformation.

During the World Economic Forum (WEF) Annual Meeting in Davos in early 2018, Singapore's Deputy Prime Minister Tharman Shanmugaratnam also pointed out the need to get youths – our future workforce – interested in innovation. "Developing a workforce that is very comfortable with innovation, that feels innovation gives them advantage, is going to be critical," he said. Thus it is imperative for ASEAN's efforts to go beyond high-level government people and experts to include the youth. The United Nation's Youth Volunteering Innovation Challenge in ASEAN (YVIC), for instance, is a great initiative to create interest by supporting youths in their innovative projects for social impact and sustainable development. More importantly, while creating a pool of innovative youths, ASEAN should also endeavour to retain individuals with knowledge, skills and abilities.

Heightening regional efforts – sharing of best practices, safeguarding efficiency in infrastructure investments, developing

human capital and, last but not least, continuously adopting the latest technology – are vital to ensure the success of ASEAN's 2018 aspirations. While some critics may argue that Singapore's efforts to amplify innovation will only widen the development gap in ASEAN, it is each member state's responsibility to ensure that this concern does not materialise. Ultimately, innovative approaches allow us to be adaptable, gain opportunities from the digital revolution and enhance the region's competitiveness for a forward-looking ASEAN. The quest for innovation waits for no man (nor country, to be precise) – don't let the ship sail without us on it! ●

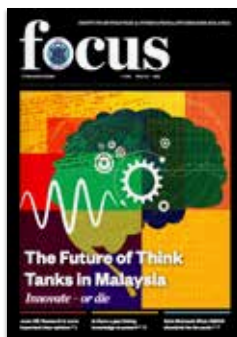
Moonyati Yatid is a Senior Analyst in Technology, Innovation, Energy and Sustainability, ISIS Malaysia



**“While some critics may argue that Singapore’s efforts to amplify innovation will only widen the development gap in ASEAN, it is each member state’s responsibility to ensure that this concern does not materialise”**



# / *Selected Publications* /



## ***The Future of Think Tanks in Malaysia: Innovate – or Die***

ISIS Focus 2/2016, No. 1  
Kuala Lumpur: ISIS Malaysia, 2016  
<http://bit.ly/1XjlyHF>



## ***Peace & Security Dialogue – More Urgent Than Ever***

ISIS Focus 2/2016, No. 2 (Special Report)  
Kuala Lumpur: ISIS Malaysia, 2016  
<http://bit.ly/22z3Dfo>



## ***China on the Defensive?***

ISIS Focus 3/2016, No. 3  
Kuala Lumpur: ISIS Malaysia, 2016  
<http://bit.ly/2kTtySH>



## ***Can the Rohingya Be Saved?***

ISIS Focus 1/2017, No. 4  
Kuala Lumpur: ISIS Malaysia, 2017  
<http://bit.ly/2n8ZjVW>



## ***America First***

ISIS Focus 2/2017, No. 5  
Kuala Lumpur: ISIS Malaysia, 2017  
<http://bit.ly/2pSqlls>



## ***Trial By Fire: The Testing of Asia-Pacific Security Relations in 2017***

ISIS Focus 3/2017, No. 6  
Kuala Lumpur: ISIS Malaysia, 2017  
<http://bit.ly/2AHRn4A>



## ***ISIS Malaysia Annual Report 2016***

Kuala Lumpur: ISIS Malaysia, 2017  
<http://bit.ly/2zxyno8>



## ***ISIS Malaysia Annual Report 2017***

Kuala Lumpur: ISIS Malaysia, 2018  
<http://bit.ly/2HGG8jt>



## ***ASEAN FutureForward: Anticipating the Next 50 Years***

Edited by Mari Elka Pangestu and Rastam Mohd Isa  
Kuala Lumpur: ISIS Malaysia, 2017  
Available in Kinokuniya Malaysia

