Source: *The Business Times,* p4
Date: 11 January 2016

Strong intra-regional trade will boost Asean geopolitically: Mahbubani

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CLOSER economic integration among South-east Asian nations will not only bring about deeper and better economic development, it will also serve as a regional bulwark against external geopolitical undercurrents, said Prof Kishore Mahbubani, dean of the Lee Kuan Yew School of Public Policy.

"The government in China has had to do some long-term calculations to decide if it's in China's long term interests to alienate the 625 million people in South-east Asia, and I think they have calculated that it is not in their interest," said Prof Mahbubani at the Business Times-Maybank Kim Eng Invest Asia 2016, an investment seminar held here on Saturday.

Prof Mahbubani and fellow speaker Sadiq Currimbhoy, global investment strategist at Maybank Kim Eng, shared their views with 200 attendees on what they see as opportunities, challenges and the impact on businesses and investors brought about by the establishment of the Asean Economic Community (AEC).

The contesting of sovereignty claims over islands, reefs and atolls in the South China Sea has been a geopolitical flash point in recent years between South-east Asian nations on one side and China on the other.

These contests have at times threatened to flare up into a wider Asia-Pacific crisis, leading to the United States despatching military surveillance planes last year over the South China Sea in a bid to check on China's island-building projects in the South China Sea.

Such tensions have already unsettled investors, with many highlighting their impact on investment sentiment in South-east Asia.



Prof Mahbubani (from left), Mr Vikram Khanna, Associate Editor of The Business Times, and Mr Currimbhoy at the Business Times-Maybank Kim Eng Invest Asia 2016 seminar. PHOTO: ARTHUR LEE

For example in 2014, angry Vietnamese stormed and torched Chinese factories in Vietnam, resulting in a few deaths and millions of dollars of damage. "In the next ten years, Asean could be torn apart by geopolitical stress," noted Prof Mahbubani.

But economic promise in Asean, led by growth in Myanmar, Vietnam and Indonesia, seems to be soothing geopolitical tensions for now.

As China faces a slowdown in growth, foreign investment into Asean outgrew China in 2014, with total investments into Indonesia, Malaysia, Thailand, the Philippines and Singapore valuing at about US$128 billion and China at about US$118 billion. Asean and China in the meantime enjoyed a two-way trade of about US$480 billion in 2014.

"China has actually got a very leveraged economy," said Mr Currimbhoy. "But the bulk of Asean is actually very underleveraged. Balance sheets are not stretched, consumer debt levels are extraordinarily low." Investment in infrastructure as a percentage of gross domestic products (GDPs) is also very low, he noted. Better infrastructure will bring down business costs.

Regional trade agreements and intra-regional trade links are expected to spur that growth. The AEC, which came into being on Dec 31 last year, is aimed at creating a single market that allows the free flow of goods, services, investment capital and skilled labour. This market has a size of over 625 million consumers, the fourth largest in the world.

Just this past week, the World Bank published a study that the Trans-Pacific Partnership (TPP) Agreement, of which the South-east Asian economies of Brunei, Malaysia, Singapore and Vietnam are members of pending ratification, is expected to spur growth in member countries' GDPs by 0.4 to 10 per cent by 2030.

Vietnam and Malaysia are expected to benefit the most among all TPP members, at 10 and 8 per cent respectively. Brunei and Singapore will see the third- and fifth-most percentage growth, at about 5 and 3 per cent, respectively.

When the Vietnamese economy grows faster because of the TPP, explained Prof Mahbubani, the Vietnamese middle class becomes bigger faster, and they'll demand more goods from China.

"Initial reactions to the TPP were completely negative, they (Chinese diplomats) saw it as an attempt by the US to keep China out. Within six months, they dropped their position on the TPP. They did their recalculations and thought: 'Oh, this is not so bad for us'," said Prof Mahbubani.

However, there is still some work to be done to bring about closer economic integration in Asean, said Mr Currimbhoy.

He sees sub-regional blocs forming, with the Indochinese states and southern Chinese provinces forming a Greater Meking Sub-region (GMS), Singapore and Malaysia strengthening ties with a proposed high-speed rail linking the two countries, and Indonesia and Philippines holding their own.

"Is that necessarily a bad thing? In the short-term, it may not be, because there's so much to do (in pushing for economic growth)," said Mr Currimbhoy. "In the longer term, I expect to see the region becoming more united."

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