

# New Frontiers of Southeast Asia

Author: Yap Kwong Weng

## **Bullish Southeast Asia**

Southeast Asia will be Asia's most dominant region. For the last four decades, Southeast Asia has remained as a region of relative peace and stability. It has also posted one of the highest growth rates in the region. A McKinsey report states that that Southeast Asia is one of the world's fastest-growing markets – but one of the least well known.

ASEAN holds a combined Gross Domestic Product (GDP) of nearly US\$ 2.4 trillion, has 600 million people, and is projected to rank as the fourth-largest economy in the world by 2050. This brings about unprecedented investments and opportunities. While the center of gravity in Southeast Asia lies in Singapore, Indonesia, Thailand, Malaysia and the Philippines, emerging markets such as Cambodia,

Laos, Myanmar and Vietnam (CLMV) will clearly be testing grounds for new trade and development.

CLMV countries are resource rich but are trying to make some very difficult transitions. Poverty, unemployment, human trafficking and marginalized communities continue to remain as some issues that require urgent attention. The good news, however, is that these developing countries are gaining traction in regional economic integration and the liberalization of global trade. Having said that, it must be stressed that economic independence does not always guarantee peace.

## **Political Battles amid Growing Economies**

As the region goes through rapid social and economic

Photo by J Maung Maung (Amarapura)



MYANMAR, 2014

## ASEAN-U.S. MINISTERIAL

Nay Pyi Taw, Myanmar, 9<sup>th</sup> August



transformation, Southeast Asia has, at the same time, witnessed its fair share of political upheavals. In the Philippines, a vigorous broad-based social movement overturned two decades of dictatorship under Ferdinand Marcos in 1986 and ousted duly-elected Joseph Estrada during a failed impeachment trial for plunder and corruption in 2001. Now, the Philippines is striding ahead under the leadership of President Benigno Aquino III with new spending programs that focus on enhancing regional trade. Thailand is struggling in the aftermath of its deep political divide. Former Prime Minister Thaksin Shinawatra was ousted from power in 2006; his sister Yingluck Shinawatra suffered the same fate this year after months of political deadlock. As such, Thailand remains in transition under military rule.

Indonesia's broad-based social movements have helped restore democratic practices, and fresh elections are ongoing to chart their future leadership despite a series of high level corruption scandals looming over their heads. The same is true for Malaysia, where opposition leader Anwar Ibrahim's acquittal and current sodomy case have reinvigorated social movements and the latter is gearing up for the forthcoming political battles with Malaysia's dominant political party Barisan Nasional. In Cambodia, the political situation

remains fluid after the Cambodian National Rescue Party rejected the results of the 2013 elections, calling for more transparency within its ruling Cambodia's People's Party. Hun Sen, its longstanding Prime Minister, has served as head of government for over 25 years. He is still holding onto power despite a political deadlock that was intensified by large demonstrations in Phnom Penh.

**Crouching Tigers of ASEAN?**

Countries in ASEAN have maintained or improved their positions in the World Economic Forum's (WEF) Global Competitiveness Index (2013-2014). For the first time, Myanmar and Laos have made it into this index. Laos is ranked 89<sup>th</sup> and Myanmar is positioned at 139<sup>th</sup> out of the 148 countries listed. The Global Competitiveness Index is a comprehensive assessment on a country's competitiveness across areas such as business sophistication, labor market efficiency, financial market development, technological readiness, among others. The focus on Myanmar and Laos sheds light on drivers of growth that are considered to have a profound impact on the region's trajectory.

Despite the inaugural entry of Laos and Myanmar into the WEF Global Competitiveness Index, there are barriers to their transitions. According to the index, **the most problematic factors** for doing business are as follows:

	LAOS	MYANMAR
1	Inadequately Educated Workforce	Access to Financing
2	Access to Financing	Political Instability
3	Inadequate Supply of Infrastructure	Corruption

Source: WEF Global Competitiveness Index 2013/2014

While access to financing is a key common problem faced by these two emerging markets, it can be viewed as the other side of the coin. Of course, some foreign investors will be hesitant to invest because the countries' operating environments are perceived to be incompatible with their business strategy. On the other hand, one could argue that there is significant demand to provide equity or debt financing to companies that need the resources to expand. Either way, the reality is that investing in emerging markets is not for the faint-hearted. Companies, even listed ones, need to adapt to the current operating environments and not expect the environments to suit them. Putting things into perspective, the prospect in both countries does not seem to be that bad in the first place.

In Myanmar, a new civilian government promises to deliver reforms, signaling a new political direction for the country that would emulate market-based democracies. The International Monetary Fund highlighted that Myanmar's GDP growth is estimated to be 7.5 percent for 2013/14 and is projected to reach 7.75 percent for 2014/2015. Increases in investments, predominantly from the energy and tourism projects, and rising exports have been identified as key drivers of growth.



The country's population ranges around 61 million, growing at 1 to 2 percent annually. A fresh graduate typically earns around US\$ 150 to US\$ 200 per month in a local company. A garment factory worker in the Yangon Industrial Zone is reported to earn US\$ 35 per month, which is much lower in comparison with Laos (estimated to be around US\$ 75 to US\$ 80 monthly). Myanmar is pushing ahead with its financial reforms. With its new foreign investment law that offers guarantees against the nationalization and termination of investment during the permitted term, the country is trying to diversify its investment risks and in turn create a more balanced business environment.

Laos holds significant resources but has not realized its full potential. Laos is one of Southeast Asia's most consistent emerging markets and is a landlocked country bordering Myanmar, China, Vietnam and Cambodia. Being transformed from a nation isolated and riven by the Cold War conflict to one that is opening up its economy in the Greater Mekong Sub-region, Laos is envisaged to gradually transit from a low middle-income country to an upper middle income one by 2020.

The country's progress is clearly reflected in its economic data. Its GDP growth averages around 8 percent, one of the fastest rates in the region. Furthermore, the global financial crisis in 2008 had only a mild effect on the economy, with hydropower and construction sectors supporting its growth. The long-term economic outlook will depend heavily on how well Laos balances the need to spur economic growth vis-à-vis the need to address political and economic interests of its powerful neighbors, i.e. China, Thailand and Vietnam.

For both, the economic indicators seem to be positive. There have been consistent growth and continuous progress in their various sectors. Myanmar has shown the world that it is ready to receive foreign investors and is making immediate reforms. Likewise, Laos has demonstrated a clear impetus to grow its energy, mining and tourism sectors and to accelerate its economic thrusts. It will continue to play an increasing role as a transnational road link, thus driving up cross-border trade and investment in the near term. Without a doubt, these new frontier countries will open doors of opportunities for companies that are ready to operate in volatile and varied markets. However, the pace and extent of progress in each country will vary according to the adaptability of its political will and investor confidence.

**Threats and Opportunities**

Singapore's Ambassador-at-large, Professor Tommy Koh states that Asia faces three key challenges: the need for inclusive growth, good governance and environmentally sustainable development. These are essential elements for any developing country that wishes to make it to the mark of being a developed country.

Here, civil society plays a critical role. For example, the media

can choose who to feature, consumers can choose goods and services from socially responsible businesses, and young people can work with stakeholders to plan and lead change. Even in Myanmar where civil society organizations are still in their embryonic stages and the media have previously faced severe restrictions, the Myanmar people have found spaces within the existing political structures to have their voices heard and registered.

In Indonesia, the Philippines, Cambodia and Thailand, social movements have been an integral part of the fabric of social life. When protest groups have taken to the streets, these have been, by and large, relatively peaceful despite the occasional violence and destruction to public property.

How these protests can lead to policy reforms continues to remain vague but it does ring alarm bells for the governments in question. Ultimately, people want to live in cities that are safe, beautiful, well planned and have good amenities. Businesses want a fair and non-corrupt system of doing business, regardless of whether it is business-to-business or business-to-government. In essence, there must be effective regulatory systems ready to match these economic demands.

However inadequate these processes are, most Southeast Asian nations are poised to consolidate their economic and political gains in the years to come. Optimism is present despite increased social pressures for greater reform. For one, governments and citizens need not worry about a contagion effect, nor should street politics be misconstrued as an Arab Spring copy-cat.

If at all, social movements and civil society should be considered as an indication that the social contracts between the governments and the people are subject to enforcement by a vigilant citizenry. In the end, long-term stability must depend on the implementation of democratic and transparent practices. As with matters of the heart, a spirit of reconciliation with the aim to address fundamental problems will need to be effectively implemented first before any real progress can take place.



**Yap Kwong Weng** is a Singaporean based in Yangon. He is currently the Chief Operating Officer of Parami Energy Group of Companies. He previously served in the Singapore Armed Forces as a Commissioned Officer and is a graduate of US Navy Seal / BUDS Class 237. He received a Master of Public Administration from the Lee Kuan Yew School of Public Policy and is a Young Global Leader of the World Economic Forum.