

# ASIAN INTELLIGENCE

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## Is the US Getting On or Off?



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**POLITICAL & ECONOMIC RISK CONSULTANCY LTD.**

## REGIONAL OVERVIEW

### *Reconfiguring the balance of power in Asia*

The conundrum posed by China's increasing assertiveness and uncertainties about America's response is forcing every country in Asia to recalibrate its strategies for protecting and promoting its own economic and national security interests. They will have to make adjustments, which will depend, first and foremost, on their individual domestic political situations and national security concerns and, second, on how they anticipate the policies of China and the US to evolve going forward.

Some ways of thinking are likely to change quite radically, and institutions like the WTO and ASEAN that were set up decades ago in response to a very different global environment than exists today will have to adjust or lose their relevance. The concept of "neutrality" has lost all its old meaning. There was a time when the Cold War was at its height when it meant not being aligned to either the former USSR or the US. The end of the Cold War and demise of USSR meant there was nothing to be neutral about. It regained some relevance with the rise of China as an economic and military power, and until recently the prevailing view was that China and the US would be the two major powers in Asia, and other Asian countries could be separated into those that were more closely allied to China, those more closely allied to the US, and those that tried to have balanced relations with both countries (the new neutrality).

Now, however, Donald Trump seems to be taking the US in a very different direction. He wants to focus on what is best for the US. Although he talks tough about reducing the US trade deficit with China and taking unilateral action to defend the US against North Korean aggression, he seems to have little interest in playing a counter-balancing role to China in the Asian region, in shaping trade and investment alliances through initiatives like the TPP, or in supporting the efforts of multilateral institutions like the Asian Infrastructure Investment Bank. He is proposing to slash the budget of the State Department and other vehicles through which the US has projected soft power and, instead, focus on building up the US military – not to intervene in

foreign conflicts or to defend US values internationally but to protect the US borders against foreign attack.

It is a much more narrowly-defined foreign policy than any the US has pursued since the end of the Second World War, although the recent missile attack on targets in Syria shows he is not abandoning the projection of US values on other countries entirely. The missile attacks are not sign of a new US strategy but a gut reaction by Mr. Trump. It would seem that North Korea could be pressing him to make a similar decision. Having decided the best course of action for the US was to send a message with missiles to Syria – and generally being applauded for doing so in the US Congress – he might decide the same type of action would be appropriate to make a point with North Korea. Maybe he would be right, but such action would raise new immediate threats for South Korea and Japan both in the form of military threats and domestic demonstrations pressing their governments to either support or distance themselves from the way the US is employing military force.

Another concern for most Asian governments is that the credibility of the US has seriously diminished. Some, such as China, never put much stock in trust to begin with. However, others like South Korea and Japan have become very dependent on the US. Their own defense policies have been based on the promises of the US to help defend them against attack. The assurances today do not look as solid as they did before. There are growing doubts about how committed the US really is, and this is starting to cause more governments to consider a future in which the US does not play the role of a counter-balance to China in Asia. It is less relevant for companies to declare neutrality in their relations with China and the US. The new paradigm is to declare specifically what kind of relationship the country wants to have with China. Being too close has advantages and disadvantages, while being too distant has other tradeoffs. The answer is different for each country.

One possibility is that Asia will increasingly revolve around China – sort of a unipolar region. Countries that hold this view are already moving closer toward China. They include countries like

Cambodia and Laos, and they could include countries like Malaysia, Thailand and the Philippines in the future. Beijing is cultivating closer relations with all these countries, and they are reciprocating by looking more to China for certain needs than to the US. For example, the Philippines is having more success growing its exports to China than it is to the US. Thailand has just announced that it intends to replace its old military tanks that it bought from the US with new ones bought from China. Beijing helped Malaysia's prime minister deal with the 1MDB crisis and is now positioning for major new infrastructure projects there.

In contrast, other countries have already had unpleasant recent experiences with China and are trying to avoid a unipolar Asia by forming alliances with other countries that, collectively, can offer alternatives to China. Myanmar is one example of this kind of country. Another is Vietnam. Taiwan is a third, although it is a very special case, since it is the only country that Beijing admits it wants to take over and is still threatening to do by force if Taiwan refuses to work toward a negotiated solution.

Indonesia and Singapore are related to this group, but somewhat differently. Both are relatively comfortable in having close economic and diplomatic relations with China, but neither wants to be under Beijing's thumb and will strongly resist anything that compromises their own sovereignty. Now that the US commitment to playing a balancing role in Asia is in doubt and China is at times flexing its muscles in ways that are running counter to what Singapore and Indonesia consider their own best interests, they will have to re-examine their strategies.

For example, China's aggressiveness is forcing Jakarta to shift from a position in which it tried to play the role of a mediator of disputes in the South China Sea to one that emphasizes its commitment to the defense of its own interests around the Natuna Islands.

Singapore has had to stand its ground in the face of criticism from China for actions that previously were accepted practice – as exemplified by the recent dispute over Singapore military vehicles seized in Hong Kong. It is less important that there are points on which China's interests and

Singapore's interests do not coincide than the way China has unilaterally acted at Singapore's expense. Clearly, Beijing was less interested in a diplomatic way to inform Singapore that Beijing is shifting its policy towards the island's interactions with Taiwan than in making a very public point to show Singapore, Taiwan and the rest of Asia that it is tightening the screws on Taiwan's isolation and expects other countries to comply or suffer consequences.

This leaves Australia, South Korea, Japan and India. They are the middle powers of the region – with large economies and sophisticated militaries (or a potentially sophisticated military in the case of Japan). None of these countries are allies of China and none have a desire for a unipolar region that revolves around China. In many ways, China's expansion of influence in the region is coming at their expense, rather than that of the US. Individually, they are not in a position to be an effective counter-balance to China economically or militarily. However, in alliance with each other and with some of the smaller countries of Asia like Singapore and Vietnam, they do have the ability to prevent Beijing from having the whole game its own way.

The middle powers do not have to form a single, formal alliance, but they might. They are already moving through bilateral initiatives to support each other and several of the smaller countries economically and militarily so these economies have alternative markets, sources of direct investment, and enhanced military defense capabilities. India and Vietnam also have access to weapons and other support from Russia, while the US even under Trump will be supplying Australia, South Korea, Japan and India with considerable military support and access to the latest technology.

In short, ongoing changes in the US and China are likely to force the middle powers of the Asia to look beyond their traditional security arrangements to find ways to support each other better. They all want to engage China economically and none really wants to turn the relationship into one driven by confrontation. However, they are determined not to have China's emergence come at their expense if they can avoid it. China really has no more chance of sitting on top of a unipolar world

than the US did. The other players will position themselves in ways that ensure there will be limits on how China can project its power. This could produce the paradoxical result that the more China tries to project its power on the regional stage, the more other players will take actions that show the limitations or highlight the weaknesses of Beijing's capabilities.

As for the approach of Asia's middle powers to the US, the main variables are no longer just whether the US stays involved in Asia or turns more inward. They now have to worry about how the US

stays involved. Depending on whether or not the US adopts a similar aggressive approach to dealing with North Korea that it has done with Syria, even the closest allies of the US in the region like South Korea and Japan will have to consider the possibility more than before that the tactics used by the US might put them at such heightened military risks and be so unpopular with parts of their population that they need back-up plans that are less focused on the US. It is not a matter of being neutral or gravitating more toward China but of defending their own interests in the face of action by the US that has not adequately factored in those interests.

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## CHINA

### Comments

Although China's president, Xi Jinping, has had to focus on China/US relations this past week and on developing a working relationship with US President Donald Trump, everything he does on his trip to the US ultimately needs to be seen through the prism of his bigger concern, namely, how to improve the Communist Party's grip on power in China and his own central position within the Party. Depending on who is promoted and who retires at the 19<sup>th</sup> Party Congress scheduled for this autumn, it will be clearer just how much Mr. Xi really has consolidated power, and if he is still limited in his actions by unwritten rules that define important Party processes like top level promotions and transfers of power. The more he breaks with precedent and personalizes power, the more effective the government could be in implementing its policies in the near and medium-term. However, it would also eventually create transition risks that could be destabilizing for the political system.

One of the main things to look for at the Congress is whether it follows tradition or tries to break with the past by disregarding such unwritten rules as compulsory retirement for Politburo members if they are 68 or over at the time of a Congress. For example, there is speculation that the party's top graft-buster Wang Qishan might be asked to stay on or even be promoted despite reaching retirement age. The coming Congress will be Mr. Xi's first opportunity to pack the Central Committee with his own allies; the outgoing one was picked in 2012, when he took over, not by him but by the people then running the country, including his two predecessors. The next Congress will provide insights into who the Party is considering as Mr. Xi's successor or if Mr. Xi might be considering making an unusual bid to stay on for a third term.

Mr. Xi is leaving little to chance. Provincial party bosses are required to make sure that all goes to Mr. Xi's plan. Over the past year, Mr. Xi has appointed numerous new provincial leaders, all allies, who will certainly comply. Indeed, just before he left on his trip to the US, the government announced a reshuffling of regional party bosses and government heads in seven key provinces, including Guangdong, Sichuan and Shandong.

Mr. Xi had several priorities that he wanted to achieve at the US summit so he could take them to this autumn's Party Congress as proof of his success in defending China's interests. One was to get a reassurance from Mr. Trump that his administration will adhere to the One China principle. Mr. Xi does not want to go to the Party Congress and have to explain why 25 years of progress in bringing Taiwan back into the fold have now been setback. His only choice would be to respond by taking much stronger steps to isolate Taiwan and force it into concessions. He would much prefer to be able to boast to the Congress that he successfully stood up for China's "non-negotiable" position.

A second goal of the US trip was to frame the debate of China's trade surplus with the US in a way that minimizes the threat to Chinese exports. He will argue that both sides will lose if the US focuses on reducing imports from China and that the better solution is to allow China to buy more from the US (especially advanced technology that the US currently restricts) and to step up direct Chinese investments in the US – in both infrastructure projects and industries (again, with the emphasis on investments that until now have been restricted by the US). Such negotiation tactics might not work with conservatives in the US Congress who consider such an offer little more than a Chinese Trojan Horse, but they might work with a president who wants to show his grassroots support base that he can create jobs in the US and get the funding he needs to pay for expensive new infrastructure projects without raising taxes.

A third goal of Mr. Xi will be to convince Mr. Trump that the North Korean threat is a concern he shares with the US president. Mr. Xi's concern is that the US does not appreciate what China is doing to contain the threat and that it is wrong to blame Beijing for not helping more. Mr. Xi will probably express China's concerns over the US deployment of the THAAD anti-missile defense systems in South Korea and Japan, but Pyongyang's continuing missile tests – right up the time Mr. Xi left for the US – have seriously undermined any arguments Beijing could make on this issue. Therefore, Mr. Xi will probably try to make the most of an inevitable loss on this issue by using it as an argument at home to push his military modernization efforts even harder. North Korea is not an issue that Beijing would like to turn into a disagreement of principle with the US. Rather, it is a disagreement over the best tactics needed to address a common concern. There is room for give and take on this, although Mr. Trump's decision to launch missiles at targets in Syria probably reduced the "take" China can expect. This has created a whole new dimension of risks for China, since the fallout from a similar missile attack on strategic targets in North Korea poses downside risks for China that Beijing previously thought were only a remote possibility. That Mr. Trump has acted on Syria in ways the Obama Administration was not prepared to do shows he might be prepared to do the same thing when it comes to North Korea.

Just as important as what Mr. Xi and Mr. Trump discussed when they meet are issues that Mr. Xi did not want to discuss. For example, he is not about to change China's current position regarding its territorial claims in the South China Sea or its actions to expand its military presence in this region.

Similarly, he did not want to discuss China's success in convincing some smaller Asian countries like the Philippines, Malaysia and Thailand to strengthen their relations with the Mainland and rely less on the US. For example, Thailand's recent decision to purchase 10 Chinese tanks worth US\$58 million to replace an old US model (M41 tanks) and the recent success the Philippines has had in selling bananas and other fruit to China are all examples of how these countries are turning away from the US and more to China.

Finally, Mr. Xi did not really want to discuss the issue of globalization with Mr. Trump. As far as Mr. Xi is concerned, the speed with which Mr. Trump has turned the focus of the US inwards has opened the door for China not only to replace it as a driver of globalization, regional trade pacts and new multilateral investment/development agencies but also to have a major say in the standards that will apply to these initiatives. These are all major new opportunities for China that Mr. Xi can bring to the 19<sup>th</sup> Party Congress to show the success he is having in promoting China's interests internationally.

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## HONG KONG

### Comments

Carrie Lam has been selected as Hong Kong's next chief executive. She is currently putting together her Cabinet and will take over from the current government at the end of June. Whereas in most of the other societies covered by this report, domestic issues are the main drivers of political change, in the case of Hong

Kong, the main driver is external, namely, what China wants to see. More than in any of the three previous exercises in selecting a chief executive, the latest one saw China use its influence to determine the outcome. This was probably not because China felt the need to have a certain candidate selected over another; all three of the leading candidates would probably have been acceptable to Beijing under normal circumstances. However, China wanted to be seen in control of the selection process. This was not so much to pop the balloon of local democratic activists, who want universal suffrage, but to redefine the “one-country, two-system” model that defines Hong Kong’s system in a way that puts more weight on “one-country” than was previously the case. This is very much in line with Chinese President Xi Jinping’s desire to consolidate his power and to polish the Communist Party’s credentials as being in control of everything in China, including the selection of the leaders of its special administrative regions like Hong Kong and Macau.

The selection of the Carrie Lam as the new chief executive has not changed Hong Kong risks in a major way. However, there are important changes taking place. One is that the historically close relationship between the local political leadership and major local property developers is coming under pressure. There has not been a falling out between these two groups. However, the institutions that exist in Hong Kong like the media, the Independent Commission Against Corruption, and the court system are becoming more critical of certain aspects of conduct of political and business leaders. Courts have just sent former Chief Executive Donald Tsang to jail following his conviction for accepting inappropriate favors. His conviction followed others, including a former Chief Secretary and one of Hong Kong’s biggest property developers.

While the behavior of Hong Kong’s indigenous elite groups is coming under scrutiny, their leadership roles are also being diluted. In the case of local politicians, Beijing is becoming more direct in pointing out the policy directions they expect to be followed in Hong Kong. In the case of local business elite, they are being displaced by Mainland companies. This is evident from the way Mainland companies are squeezing out major local companies from such roles as being components of the Hang Seng Stock Market Index. Mainland individuals and companies are also becoming much bigger players in the local property market – not only as buyers of residential properties but also as bidders of land at government auctions and developers of that property. This means that Mainland companies are starting to become a much more important source of revenue for the Hong Kong Government. If local developers got much of their political influence due to their role in providing the bulk of the government’s revenues, it is reasonable to expect that role to diminish as their relative contributions to the economy and the government’s fiscal coffers decline and, conversely, the influence of Mainland individuals and companies to increase.

One thing that needs to be monitored closely is if Hong Kong’s institutions are forced to change as this internal power structure in Hong Kong shifts. The local elite might find common ground with the new Mainland participants in the local market in wanting to reduce the independence and powers of local institutions. One sign that this might be happening is the way several Hong Kong deputies appointed to China’s National People’s Congress have recently called for a reduction in the number of foreign judges in Hong Kong. Apparently, these people were unhappy with the way one expatriate judge passed heavy jail sentences on police convicted for beating up an activist at the height of the Occupy Central protests in 2014. Similarly, during Donald Tsang’s trial, a long list of his colleagues, including senior civil servants and civil servants-turned-politicians argued he should have been given leniency in view of his years of service.

There is a great deal at stake if Hong Kong’s courts actually start to show favoritism in their verdicts. It would indicate a shift away from the legal system Hong Kong inherited from the British based on rule of law towards one currently practiced by China that is effectively rule by law. In the Mainland’s system, the Communist Party is above all other institutions, including the judiciary. Those who are arguing that the Hong Kong courts were wrong to convict the policemen and former chief executive for misbehavior are essentially arguing that justice should not be blind but should support the political system and protect its image.

So far, Hong Kong institutions are standing out more because they are demonstrating their independence and professionalism than because of the way they are bowing to pressure to carry out their functions in ways that would be more consistent with China's system than with the one Hong Kong inherited from the British. However, Beijing's emphasis on control is likely to manifest itself in other ways in Hong Kong in the future, and the new chief executive is not the kind of person who is likely to oppose this creep. Beijing sees her job, if anything, is to facilitate it further.

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## INDIA

### Comments

Prime Minister Narendra Modi has presented himself as an agent of change. While his main tactics to date might not have been particularly effective, they have been shocking, and it is this shock value – such as the kind he caused when he suddenly banned large banknotes – that seems to appeal to average people. They might have been seriously inconvenienced by the banknote withdrawal, but they were impressed that he was trying something new to fight what for many is their biggest frustration, corruption. Judging from recent state election results, his support base is increasing rather than diminishing.

Altogether there will be seven state elections this year. The most important results – in Uttar Pradesh and the Punjab – are already in. Others have been held in Goa, Uttarakhand, and Manipur. Congress emerged as the single largest party in the Punjab Assembly election. However, the BJP scored a stunning victory in Uttar Pradesh, taking over 75% of the seats on offer in India's largest state. The BJP also took Uttarakhand and was vying for dominance in close races in Goa and Manipur.

The state elections are crucial at national level because each state nominates a proportional number of representatives to India's upper house of parliament. While the BJP has a clear majority in the lower house, it is underrepresented in the upper house, which has stymied some of Mr. Modi's reform proposals. He still lacks a majority in the upper house, but it should not be the obstacle it was prior to the recent elections.

With Modi now firmly ensconced in power until at least 2019, the focus will shift to whether he can deliver on his promises of rapid development. That will mean pushing ahead with major infrastructure projects and creating more opportunities for the private sector. In the latest Budget, unveiled in February, the government announced record spending of 3.96 trillion rupees (US\$59 billion) to build and modernize its railways, airports and roads. The government says it will build airports -- now a near monopoly of the state -- in smaller cities in partnership with private companies. More suburban railways will come up across the country and Indian Railways, a state monopoly, will form ventures with logistics companies to provide greater connectivity to ports.

India-US relations are in relatively healthy shape. India never has been under the US defense umbrella, but the two governments have moved closer together over the past two decades – under both Republican and Democratic administrations in Washington. The Trump Government is unlikely to reverse that progress.

In contrast, there is little reason to expect India's relations with China to improve dramatically, if at all. Other countries that share India's concerns about China – such as Vietnam, Japan, South Korea, Indonesia and Australia – might now have even more incentive to cooperate in ways that act as a counterbalance to China. The Modi government has an opportunity here. Its election manifesto called for the creation of a "web of allies" to further India's interests. That net should be easier to weave now.

## INDONESIA

### Comments

Indonesian politics appears to have stabilized, with no obvious major sources of disruption until national elections in 2019. The current government headed by President Joko Widodo started off weakly. He is the country's first president who does not come from the military or one of country's elite families, and his leadership was initially attacked by people from these groups, including from within his own political party. However, he has found his own political stride, forming new alliances and broadening his base of support within the parliament. Consequently, his position today is more secure. He has a greater ability to navigate his policies through parliament, and erstwhile political rivals are already lining up to say that they will support Jokowi, as he is popularly known, for re-election in 2019.

However, other rivals are positioning now for those polls. The maneuvering by different political factions was obvious in the recent first-round elections for Jakarta governor and the attacks on the incumbent in that office, an ethnic Chinese Christian, for allegedly insulting the Koran. The incumbent, Basuki Tjahaja Purnama, was a deputy to Widodo when he was the previous Jakarta governor, and he is backed by the president's ruling party. His main rival, former education minister Anies Baswedan, is backed by a retired general, Prabowo Subianto, who would like to make a comeback to the national stage after losing to Widodo in the 2014 presidential vote. Another original contender for the Jakarta post was Agus Yudhoyono, the son of former President Susilo Bambang Yudhoyono. He came in third in the first round of voting, but is widely seen to have future presidential ambitions of his own.

This is Indonesian politics as usual. It is not particularly destabilizing. Crowds are mobilized, but the demonstrations rarely get out of hand. The main social unrest threat comes from Islamic terrorists, including local militants, extremists returning from the Middle East, and other extremists training in southern Philippines. More terrorist incidents in Indonesia are likely, but local counter-terrorism forces have done a good job containing the threat. This is likely to continue to be the case for the period between now and the 2019 elections, which is not to minimize the risk of isolated bloody incidents but to say that Islamic terrorists will not gain much traction in Indonesia despite their efforts.

Outside powers are steering clear of Indonesia's domestic politics, but that is not for a lack of interest. The country is one of the key pieces on the Asian chess board. It is the world's largest Islamic country, the most populous in Southeast Asia, positioned along some of the world's most strategic sea lanes, and a leader of the ASEAN group of nations. It is suspicious of China's growing influence in the region, but also does not want to cozy up too closely to the US. President Jokowi has shifted Indonesia's focus from playing the role of a Third Party diplomatic actor seeking a peaceful resolution to territorial disputes involving China and other ASEAN members, to one that emphasizes Indonesia's own interests around the Natuna Islands while not antagonizing China.

The 2019 elections in Indonesia will be held at a time of profound change in the US and China too. The Trump Administration will have had two more years to redefine US Asian policy, and the US will have its eyes on the next presidential elections there, while China will be well into President Xi Jinping's second term. It is possible that he will be trying to position for a third term, which would be quite controversial and mean he would need to fortify his domestic and foreign policy arguments by explaining why such an extension is a good idea. Even if he is planning to step down when his second term expires, he will recognize that Trump's presidency has provided China with a unique opportunity to expand its own influence in the region and to make progress on several key foreign policy goals. Unlike in previous periods, Indonesia might have to worry less about striking the right balance between the US and China and more about protecting its own interests against a resurgent China that is not really worrying about how Washington will react.

As large and politically powerful as Indonesia's military may be, it is no match for China. Jakarta's most obvious military allies are other ASEAN nations like Singapore, Malaysia, the Philippines and Vietnam, but ASEAN's inability to form a really united front on matters like defending members' territorial claims in the South China Sea against rival claims by China means ASEAN will not become a bloc that presents a united military front against China. Cooperation that does take place is likely to involve subsets of ASEAN members policing against the movement of would-be terrorists between the countries. Because of ASEAN's limitations, Indonesia is a prime candidate to form alliances with other middle-level powers in the Asian-Pacific like Australia and India to protect their own security interests better against China's attempts to expand its own influence.

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## JAPAN

### Comments

Prime Minister Shinzo Abe's Liberal Democratic Party and its junior partner, Komeito, hold 329 of the 475 seats in the Lower House, giving the coalition the critical two-thirds supermajority needed to initiate a national referendum on amending the Constitution, Abe's longtime dream. However, Mr. Abe's personal popularity has fallen sharply since last December. First, there was disappointment that his summit with Russian President Vladimir Putin was widely regarded as a failure. Then he lost support from the haste with which the LDP passed the controversial casino legalization bill through the Diet. Most recently, he has been unable to shake his involvement in a conservative school scandal that links him to far-right lobbying groups.

Because more Japanese are suspicious of his nationalist leanings, Mr. Abe is in a much weaker position now to push for some of his constitutional reforms. He is also less likely to call for early elections in the lower house, since the outcome could reduce the LDP current majority. This year's Diet session will be swamped with important bills, including special legislation to permit the Emperor's abdication. Elections could still be called this year, but Mr. Abe will probably have to wait at least until September, when an extraordinary Diet session is usually called, and he might wait until next year.

An election any time between this coming September and September next year makes sense in that victory would guarantee Abe another four years in office until fall 2021, when his term as prime minister -- assuming he successfully seeks a third term at the end of his current tenure in September 2018 -- would likely end. Such a scenario would give him a freer hand to pursue even his more controversial policy goals.

In the immediate future, Mr. Abe will have to focus on other issues like trying to build a strong working relationship with the Trump Administration despite Mr. Trump's mercurial personality and his complaints about the size of the US trade deficit with Japan. The threat from North Korea is something he has to address now, as is the need to position Japan for a further move by China to expand its influence in the region, especially if the US policy shift opens the door for Beijing to make such an expansion.

Lacking a powerful military, Japan is handicapped in its ability to counterbalance China on its own. Whereas China is consolidating its position as the leading military and economic power in Asia, only a few Asian countries are prepared to align themselves closely to China. In the past, the strategy had to be to look to the US as the best counterbalance to China in the region, but now that Mr. Trump is threatening to turn the US more inwards, there is much less confidence in the willingness of the US to help other Asian countries protect their own security. Even if Mr. Trump stays engaged in Asia, his recent go-it-alone threats regarding North Korea and his decision to launch missiles at targets in Syria indicate that the nature of that engagement could entail significant risks for Japan, since it could be a target of retaliation from this type of unilateral military action.

Japan, along with South Korea and Australia, are perhaps in the strongest position to ensure the US stays engaged in a stabilizing way, but even they have less confidence in the security offered by this relationship. Japan therefore has a strong incentive to form alliances with the other middle power countries and to develop a back-up strategy of encouraging a more multipolar world in which its strategic relations with other middle power countries offer an additional degree of security against an emergent China and greater influence over the thinking of the US Government.

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## **MALAYSIA**

### **Comments**

The next general election in Malaysia is not due until August 2018, but it might be called sooner. Prime Minister Najib Razak is expected to lead UMNO to another victory, but this election will be different from those in the past. For one, the prime minister's image has been hurt by the 1MDB scandal. In most democratic countries, such an embarrassment would spell disaster for the political incumbent. A good example is Korea, whose president has been impeached for her involvement in a much smaller scandal and whose ruling party has been so disgraced that it has changed its official name. However, in Malaysia there are other priorities on which the incumbent can focus to convince voters to ignore such ethical lapses. For example, Malaysians still vote along racial and religious lines, and UMNO still draws its strength by pandering to Malay economic, social and religious priorities. Hence, one fallout from the 1MDB scandal is that it is likely to push Malaysia even more in the direction of politics based on race and religion, with the emphasis more on Malay rights and Islamic values and less on the promotion of inclusiveness and equality. As in many countries, "liberalism" is likely to develop more negative connotations than positive ones.

Another difference with the coming elections is that the constellation of political parties is different – not so much in Sabah and Sarawak, which will continue to vote for local parties that are closely aligned to groups already holding political power in these states, but in Peninsula Malaysia. The minority parties in the ruling coalition -- the Malaysian Chinese Association (MCA) and the Malaysian Indian Congress (MIC) – have both lost support, since the ethnic groups represented by these parties feel they have not been well represented. There has been a big shift in Indian and Chinese votes away from the ruling coalition to the Opposition parties. This swing is likely to continue in the next elections. This means UMNO will have to rely even more on the parties from East Malaysia to stay in power, which will probably mean allowing these states to keep a larger share of the revenues from their natural resources than is currently the case. This will weaken the central government's fiscal position, but it is a cost the government has no choice but to accept.

The Malay vote will be split among more parties in the next election than past ones. The traditional Malay opposition has been led by the Pan-Malaysian Islamic Party (PAS), but when former Deputy Prime Minister Anwar Ibrahim was kicked out of UMNO, his supporters formed around the People's Justice Party (PKR), which was less focused on Islamic issues and more on bringing moderate Malays together with opposition Chinese and Indian groups, although another Opposition party, DAP, has a head start in getting the votes of ethnic Chinese and Indians. The PKR has adopted a platform that seeks to abolish UMNO's New Economic Policy and replace it with a policy with an emphasis on a non-ethnic approach to poverty eradication and correcting economic imbalances – very similar to the DAP platform.

Then, last year, yet another Malay party formed around disgruntled former UMNO members led by the nonagenarian former prime minister, Tun Dr. Mahathir Mohamad. Calling itself Parti Pribumi Bersatu Malaysia, or Bersatu, the new political party is really UMNO version 1.0, whereas the current UMNO under Najib is version 2.0. Version 1.0 accuses Version 2.0 of having too many defects, but Version 2.0 is the operating system that is currently loaded. It controls the government's purse strings, is better organized at the grassroots level, and has

control over institutions like the media, the attorney general's office, and other bodies that can tilt the playing field toward Mr. Najib and UMNO 2.0.

Still, the Malay vote has been divided into so many different parties that UMNO needs to form alliances in order to ensure it can retain political power. Since it cannot depend on the parties of other ethnic groups, it will have to look to factions of Malay parties that are currently in the Opposition. Version 1.0 is not about to come back into the fold as long as Dr. Mahathir is alive, nor will it be invited. DAP and the PKR have more in common and are likely to remain the backbone of the opposition, but even together they are unlikely to win a majority of seats in the next elections. PAS is the swing factor. Officially it is still in opposition, but it has its own factions, and ultimately has to win elections if it is to gain political power and not be viewed as being primarily a religious lobbying group. PAS can help the other Opposition parties defeat UMNO and its coalition, but it has almost nothing in common with the policy platforms of the DAP and PKR. Consequently, they would not be able to form an effective government. It will be much easier for PAS as a whole or for a large faction within PAS to cut a deal with UNNO than it would be for PAS to cut a deal with the existing opposition parties. This helps explain why Prime Minister Najib is trying to court this conservative Islamic-focused party by supporting bills to expand the application of hudud law.

While the role of ethnic Malaysian Chinese in the local economy will remain prominent, there is likely to be a shift towards more Mainland Chinese involvement in Malaysia's main economic development projects. Beijing has already shown it is willing to work with the Najib Government and vice versa, and it is in the interests of both sides to deepen this relationship going forward. This is one reason Malaysia is less likely to join with middle powers of the region like Japan, India and Australia to cooperate militarily in ways that act as a counter balance to China. Although Malaysia has territorial disputes with China, both sides have downplayed these conflicting claims, and it would probably be a mistake for China to press this issue. Its interests are better served by cultivating closer economic and diplomatic links with Malaysia.

The US might have shown more interest in developments in Malaysia if Mr. Trump had not been elected. To the extent that the US prosecutors are pursuing aspects of the 1MDB case that touch on the US, this investigation was started before the change in US government and is likely to continue. It is not something that is likely to interest Mr. Trump or his close circle of advisors much. They are also unlikely to do much to try to counter China's efforts to win major infrastructure projects in Malaysia and or to criticize the weak governance practices that are likely to be a feature of these projects. With the end of the TPP, Malaysia has even less incentive to try to benchmark its business practices against those set by the US.

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## PHILIPPINES

### Comments

The Philippines could be heading for major political change – so much so that the current democratic system of government could be at stake. On the one hand, the president is threatening to declare martial law and to do away with elections at the local level. On the other hand, his domestic critics are looking for ways to mount an impeachment motion against the president. Either way, the status quo could change radically.

President Rodrigo Duterte is threatening to declare martial law in order to have a freer hand to fight drugs and crime. When he first made this comment last month, he implied that martial law would be nationwide. More recently, Malacañang Place has been trying to walk back this threat and say he was referring only to Mindanao, where he wants to pressure local officials to do more to help the military in the fight against terrorism and crime there. However, another of the president's controversial reforms would apply nation-wide, namely, he is looking for a way to appoint leaders of more than 42,000 districts, known as barangays, across the

country instead of having them elected in polls that are scheduled for October. Duterte wants barangay elections canceled because, he alleges, 40% of barangay captains today are involved in drugs. Such a revision, if implemented, would greatly expand Duterte's network of loyalists at the grassroots level and give him more leverage to press his own agenda.

At the same time, Opposition politicians are trying to mount an impeachment motion against the president, blaming him for corruption and violating the constitution. While the rhetoric of the debate is a throwback to the years when Ferdinand Marcos was elected president and was laying the ground to declare martial law, just as worrying is that both sides are also taking a page out of the "People's Power" precedent used to overthrow the Marcos regime. This justified the use of crowds to bring about extra-constitutional change.

It will be a major test of the country's institutions if they can exert their independence from political interference while being pressured on both sides for change that involves violating the constitution. The judicial system will almost certainly not be able to. Congress will be split between those siding with Mr. Duterte and those who side against him. The police have already been compromised, and the military could feel pressure to intervene one way or the other. This would leave the Catholic Church as the main institution with the weight to be an independent voice from the politicians, much as what happened in the final days of the Marcos regime. However, it should be remembered that it took years before the Church really weighed into the debate in a decisive way. Moreover, Mr. Duterte recently has been highly critical of the Church and seems to be trying to undermine its stature with average Filipinos. This could be an indication that he is anticipating a future threat from this institution and is trying to neutralize it before it happens. However, doing so could be extremely difficult in this deeply Catholic country.

It is, of course, possible that the country's institutions will assert themselves now, refusing to give the president the leeway he needs to ignore constitutional provisions designed to block the declaration of martial law. Similarly, the Opposition probably does not have the numbers to impeach Mr. Duterte. However, the way the two sides are moving to extreme positions is likely to hurt investor confidence and ultimately have negative implications for the economy. It is also likely to lead to greater social instability, since both sides will be trying to stage rallies that show fervent, widespread public support for their position.

So far, this is strictly a domestic matter. Outside powers like the US and China are both keeping silent on Philippine political developments. One difference with the past is that the US is in a much weaker position to try to influence the outcome. Washington's relations with the Duterte Government are already poor, so its views would not carry much weight with his decisions. Moreover, US President Donald Trump is unlikely to show much interest no matter what happens in the Philippines. When it comes to Asia, he is focused on North Korea, not the Philippines.

China might try to influence the outcome, especially since Mr. Duterte has tried to move closer to the Mainland. However, there are also limits to what Beijing is likely to do to support the Duterte Government, recognizing that it might be replaced eventually by a government with very different views. Beijing will agree to work with whatever government is in power and might try to show this support by offering to invest in certain infrastructure projects in the Philippines. However, it is also likely to keep expanding its own military presence on islands also claimed by the Philippines, which ensures that there will remain points of friction.

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## SINGAPORE

### Comments

This year will be critical for PAP's old guard leadership to mentor the next generation of people who will be taking over the government soon. Singapore's next parliamentary general election must be held by January 2021. Prime Minister Lee Hsien Loong will want to lead PAP through that contest, but afterwards he will probably want to retire or become a senior minister.

In a recent interview, PM Lee made an interesting comment that shed light on the leadership transition. He indicated that the actual selection of the next prime minister will be left to younger leaders who will be taking over from the current old guard of leaders within PAP. This implies a shift away from previous transitions, when the outgoing generation of senior leaders had a big say in who succeeded them. Singapore has already shown it can manage smooth leadership changes. However, the Lee family has always been heavily involved with these transitions. The government seems to be setting the stage for a transition that might not only result in a new government in which the Lee family does not hold a prominent position but also one in which the Lee family does not play as prominent a role in the selection process as has previously been the case. Mr. Lee still has a major say in who the major candidates to head the next generation of leaders are, since he and other 3<sup>rd</sup> generation leaders are putting them in positions of authority now. But it will be up to these candidates to decide who among them is best suited to lead as prime minister.

Following the last general elections in 2015, PAP promoted a number of young 4<sup>th</sup> generation leaders into positions of authority. Consequently, the public will have five years to grow familiar with these people, and the PAP old guard will have the same time to mentor and monitor them. When the new Cabinet was formed, the spotlight shined most on Ng Chee Meng and Ong Ye Kung, who were appointed co-Acting Ministers for Education, while returning MPs like Ministers Grace Fu and Masagos Zulkifli were given their own ministries to head for the first time. Mr. Heng Swee Keat was tapped to head the finance ministry, while Mr. Lawrence Wong was given the portfolio of the national development ministry.

All these people have been given key roles as PM Lee has identified economic restructuring and the transformation of Singapore's physical environment as priorities in the next term of government. The education ministry is key to raising productivity levels, while past leaders have also had to demonstrate competence in managing defense and financial/economic portfolios. The initial front-runner to succeed Mr. Lee as prime minister was Heng Swee Keat, who has continued to perform well and clearly enjoys the confidence of the third generation leaders. However, he has suffered a stroke, so concerns about his long-term health might cause those who will be selecting the next prime minister to opt for someone with lower health risks.

Following PAP's party congress held late last year, Masagos Zulkifli and Ong Ye Kung were co-opted into PAP's top decision-making body, the Central Executive Committee (CEC). The co-opting of Mr. Ong indicates that he has become the new front-runner to succeed Mr. Lee, moving ahead not only of Mr. Heng but also two other fourth generation leaders — National Development Minister Lawrence Wong and Education (Schools) Minister Ng Chee Meng. Mr. Ong's background includes working with civil service, unions, and the private sector. Prior to his appointment as Acting Minister for Education (Higher Education and Skills), he was director of group strategy at Keppel Corp. Mr. Masagos' appointment as a CEC member indicates that he is likely to be the pre-eminent Malay-Muslim political leader of the fourth generation.

These relative positions of strength are certainly not cast in stone. Depending on such variables as health and performance, some of these people might drop from the race, and a few new ones might be added. However, history suggests that those who take over the highest positions in government are identified very early and given a lot to do. By the time the change to a new prime minister actually happens, PAP wants to have a favorite emerge who stands out from the rest and is the clear choice of his or her peers. As matters currently, Mr. Ong seems to be the person to watch.

## SOUTH KOREA

### Comments

The impeachment of Park Geun-hye and the election of a new president (scheduled for May 9) have provided a fresh impetus for reform. The two candidates who are likely to lead the elections are Moon Jae-in of the Democratic Party and Ahn Cheol-soo of the People's Party. Mr. Moon currently holds a big lead in the polls, but Mr. Ahn is closing the gap. The conservative party, the flag bearer of which is South Gyeongsang Province Governor Hong Joon-pyo, is currently trailing a distant third. The only way he is likely to be elected is if his two more liberal rivals split the vote so badly that he can gain the largest minority vote, but that is extremely unlikely. However, Hong's platform is interesting because it is the most reform-minded of any previous platform by the conservatives, which is an indication of how much pressure there is for change in Korea.

Borrowing from past conservative playbooks, Mr. Hong has vowed to strengthen national defense, by creating a marine special warfare unit to counter threats from North Korea's special commandos, adopting a proactive defense strategy and employing cutting-edge technologies, such as artificial intelligence and robots, to enhance combat capabilities. However, he has also borrowed heavily from liberal party promises to strengthen social welfare by increasing government child-care support for low-earning families up to two times and withhold support for the top income earners. In response to the public outrage caused by the recent political scandals, he has promised to reform the prosecution and give more power to police with a new authority to seek arrest warrants against suspects. Police are currently under the strict supervision of prosecutors with no right to lead any independent investigations. To enhance cooperation with parliament, Hong pledged to appoint an opposition figure as minister for political affairs.

Changing external circumstances will force whoever is elected to set priorities and not simply push ahead for change on all fronts. It is possible that the election could pit a candidate who favors not deploying the installation of the US THAAD anti-missile defense system and adopting a more conciliatory line toward China against a candidate who favors deployment of THAAD and resisting China's sanctions. However, it is more likely that all candidates will support the alliance with the US.

It would take a serious miscalculation by Washington to push South Korea into a position in which it felt no alternative but to move closer to China. Such a miscalculation would be to mount a trade fight against South Korea now, making it such a cause of disagreement that it overshadows the common threat posed by North Korea. Such a risk cannot be ruled out. However, so far most signs are that Mr. Trump's advisors are focusing on the North Korean issue, not trade, when it comes to South Korea.

A new concern relating to the US could be the precedent set by Mr. Trump's recent decision to attack targets in Syria with missiles. Coming at the same time that Mr. Trump told China that he would deal with North Korea unilaterally if China does not take more effective action to defuse the threat, South Korea now has to consider the possibility that the US might launch a similar attack on targets in North Korea. This might be popular with Mr. Trump's US support base, but it would greatly raise the risk that North Korea would retaliate by mounting strikes on the South. The possibility is likely to be a subject of considerable political debate in the South and while it might not figure heavily in the next president elections, which are only a month away, it could be a big issue in the next National Assembly elections.

China will probably not drop its criticism of the deployment of THAAD, but the effectiveness of its arguments have been undermined by the continuing missile tests and other hostile actions taken by North Korea. This has put Beijing in a very difficult position. The US might be moving to a more protectionist, American First position and reducing its commitment to Asia, but that does not apply to the threat posed by North Korea, and no matter what Washington does, China will have to treat the Korean peninsula as one of its biggest border threats.

Intensifying its sanctions on South Korea makes no more sense than giving North Korea free rein to develop its nuclear weapons, delivery systems, nerve gases and other weapons of mass destruction – and actually using them outside its own borders, as it did recently in Malaysia.

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## TAIWAN

### Comments

Taiwan has not yet dodged the biggest new threat to its existence as an autonomous political entity, but it is resting easier than it was a few months ago. The threat was that the new Trump Government would use Taiwan as a bargaining chip in its negotiations with China in order to win concession from Beijing on other issues like North Korea and trade. Shortly after his election, Mr. Trump broke with protocol and accepted a congratulatory phone call from Taiwan's president, Dr. Tsai Ing-wen. This was roundly criticized by China, and Mr. Trump responded by threatening to break with the former One China policy on the grounds that Washington was not bound to this policy, especially since China has been so uncooperative on issues like North Korea and maintaining stability in the South China Sea. Following a very brief period of euphoria resulting from Mr. Trump's accepting Dr. Tsai's call and his aggravating Beijing, the Taiwan Government quickly realized that what Mr. Trump said could be interpreted not as US support for Taiwan but as Mr. Trump's willingness to negotiate the US position on Taiwan in exchange for Beijing's help on other issues that are a higher priority for the US.

This was potentially a game changer – at least it was until Mr. Trump seems to have listened to advice that this kind of reset toward the One China issue was a really dangerous idea, with a lot more downside than upside. He could not undo his acceptance of the phone call from Dr. Tsai, but he did come out publicly saying he will stick to the One China policy adhered to by previous Republican and Democratic administrations. He still has many other points of contention to negotiate with China that threaten to cause diplomatic strains going forward, but he seems to want to preserve the status quo when it comes to Taiwan.

The recent face-to-face meeting between President Trump and President Xi gave both men an opportunity to get a personal measure of the other. They were on their best behavior and tried to create a public image of being able to manage a workable relationship. This means that Mr. Trump had to give Mr. Xi assurances that he will uphold the One China principle. The problem is that neither man really trusts in the other, which means Taiwan is right to be nervous. Mr. Trump is still a deal maker at heart, and no matter what experts from institutions like the State Department and CIA advise him, he is ultimately likely to follow his gut instincts.

Taiwan is not powerless. It needs to stop Beijing from actively trying to constrain Taiwan's precarious international living space, and it needs to maintain the backing of the Trump Administration. One step it could take to reduce the risk of Mr. Trump mis-playing the One China card is for Dr. Tsai to modify her own position and formally accept the 1992 Consensus, under which both sides agreed there is only one Chinese nation but agreed to disagree on everything else. This would do a lot to remove the One China issue from the table. It would also probably be a good idea to resume formal negotiations with China if only to create a framework for dialogue that would reduce the risk of China taking steps outside the negotiating room to further isolate Taiwan. A return to the negotiating table would give Beijing the reason it needs to shift from a stick to a carrot policy in its approach to reunification. Searching for ways in which greater cooperation is possible could be a lot more effective than getting other governments and multilateral agencies to limit their contacts with Taiwan more than they are doing already.

Finally, Taiwan should try to protect its economic relationship with the US. This could be done in several ways. One would be to rely less on the Mainland as a production base for electronics and other products that are ultimately destined for the US market. It is starting to make more sense to look for ways to produce

more directly in the US when it is possible and, when it is not, avoid production bases that have large trade surpluses with the US, because they are likely to be singled out by the Trump Administration for discriminatory treatment. A second will be to use some of Taiwan's national savings to invest in infrastructure projects in the US. China is likely to make a similar offer (President Xi probably made such a suggestion when he met with Mr. Trump this past week), but Taiwan is a less controversial source of such investment from the US perspective and gives Taiwan the opportunity to show its potential economic value to the US in a new way. Finally, Taiwan can buy more arms from the US, which would please the Trump Administration, his military advisors, and the US companies that manufacturing the weapons systems.

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## THAILAND

### Comments

The king's public endorsement of Thailand's new constitution confirmed that the country remains firmly on the political course set by the generals. For the moment there is nothing in sight that could force a major change of political direction before preparations for the general election set for late next year get under way.

Many Thais are not happy with that direction because they know it will not lead to the restoration of democratic government but instead will continue military supervision of politics even after the election. However, the junta's complete hold on power will prevent upsets to the current stability. The ban on all political activities is still being enforced and the government refuses to say when it will be lifted. The generals still argue that the country is not yet "in order".

Red-shirt activists, the militant wing of the last elected government, have been the strongest opponents of the military regime, but their organization has been debilitated and their leadership "disappeared", driven into exile, held in army jails or kept under tight surveillance. They would find it near to impossible to mount any challenge serious enough to destabilize the status quo.

As the election date draws closer, the new "organic" laws needed to put the new constitution into operation will raise hazards. Details of these laws have not yet been disclosed but almost certainly they contain provisions that the military's opponents find objectionable.

Another threat to stability is the reconciliation process that the government insists must be completed before voters go to the polls. Political parties regard the program as unrealistic and just a delaying tactic by the junta but political leaders have signed on to it, pledging not to obstruct the election or reject the result.

The only political leader to refuse to make this pledge has been the renegade Democrat Party veteran, Suthep Thaugsuban, who is demanding that the election be delayed until all the military's political and other reforms are seen to be working. He admits to having been a supporter of Prime Minister Prayuth's coup in 2014 and would be happy for him to stay on as an unelected prime minister after the election.

Thais believe that the king's ratification of the new charter will be seen as a positive political signal by foreign governments and that more cordial relations will be established with those hostile to military rule. The junta indicates that the new administration in Washington is already friendlier than its predecessor and in no way critical of the authoritarian regime in Bangkok.

The government appeared not to be fazed by President Trump naming Thailand unfavorably as one of 16 countries with which the US had a trade deficit. The Thai prime minister urged everyone to stay calm about US trade policies," but Somkid Jatusripitak, the minister responsible for the economy, said Thailand would have

to do more to meet US concerns about trade-related issues, including the protection of IPR, and regulations that unfavorably affect US businesses in Thailand, including slow processes in granting patents.

Thais are increasingly confident that they can have cordial and fruitful trade and other relations with both the US and China, which are its two biggest trading partners, apart from the ASEAN bloc. Military ties with the US were constrained by Washington after the coup but are now in the process of being normalized, including joint military exercises, although US arms sales to the Thais have not yet been restored. The Thai armed forces have been cooperating more widely with Chinese counterparts and purchasing big weapons including submarines and army tanks from Beijing.

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## VIETNAM

### Comments

The Vietnamese Communist Party remains firmly in power. The Party has different factions, but they have developed a relatively smooth working relationship. Intrigue is not a feature of the backroom Party maneuvering that it is in Mainland China. While the leadership will continue to emphasize control over all institutions and society in general, economic reforms will continue, foreign investment will be welcomed, and the size of the state sector relative to the overall economy is likely to diminish, although the state sector will continue to receive a disproportionate share of the banking system's resources.

Vietnam will have to reassess its foreign policy priorities in the wake of the recent US elections. Hanoi has never felt particularly comfortable moving closer to the US diplomatically and militarily, but it welcomed the closer economic relations and the benefits it was getting from embracing "globalization" as pursued and defined by the US. However, the Trump Administration is rejecting the old globalization model. It has dumped the Trans-Pacific Partnership program, spoken out against US direct investments abroad designed to produce goods that are to be exported back to the US (which is the case with many factories in Vietnam), and given reason to doubt the role in serving as a counter-balance to China in the Southeast Asian region. Consequently, Vietnam is feeling more vulnerable and will be looking for ways to reduce that vulnerability.

When it comes to national security issues, Vietnam has more experience than most Asian countries in managing a relationship with China in which Beijing enjoys most of the leverage, and Vietnam has usually succeeded to find ways to defend its own interests – although at times this included standing up to China militarily as it did in the 1979 border war. Although state medias in both countries have maintained low-profile anniversaries of the bloody month-long war, it has shaped relations between the two Communist countries since then, preventing them from being really close allies. The hard feelings in Vietnam are felt as much at the personal level as they are at the government-to-government level, which leaves Hanoi with less room for maneuver, since the suspicions at the grassroots level can easily lead to disruptive outbursts of nationalism if they are not controlled. The government cannot be seen as being too conciliatory toward China and, now that the US seems to be reducing its role, it will force Vietnam to look for other allies, which is why it is likely to gravitate more toward Asia's middle powers like India, Australia and Japan.

The prevailing narrative of China's Communist Party is that China never threatens or attacks its neighbors. However, Vietnam's experience is proof that this narrative is inaccurate. The 1979 war was fought entirely in Vietnamese territory, and this was just the most recent of what have been many Chinese invasions over the course of history, several of which were followed by centuries-long suzerainty. Hanoi is determined not to find itself in a similar predicament again. Since Vietnam held its last Party Congress in January 2016, Hanoi has been less strident in his criticisms of Chinese behavior, but it also has not cozied up to Beijing in the face of tensions in the South China Sea – and no one expects it to.

In many ways, Vietnam is more dangerous for China today than it was back in 1979. That is because the situation in China today is very different. In 1979, Deng Xiaoping was consolidating his power after having overthrown the Gang of Four. Some historians have speculated that a war was necessary to support Deng's modernization plans by highlighting the technological deficiencies of the PLA and keeping the army preoccupied. The war bought Deng precious time in his first full year in charge to cement his own power in Beijing, eliminating leftist rivals from the Maoist era. In contrast, Xi Jinping has already consolidated his power more than Deng had, and Xi has also had more time to push for the reorganization and modernization of the armed forces. If he were to provoke a war with Vietnam, the downside risks of failure would therefore be much larger. There is a risk that Vietnam would mount an effective defense in the short term, which might be interpreted as a failure of Mr. Xi's military modernization program and reason to question both his reform ideas and his leadership credentials. This is not something Mr. Xi wants to risk this year, certainly not ahead of the political reshuffle that will be taking place this autumn. While the outcome of the 1979 war, as disastrous as it was militarily for China, gave Deng the time he needed to consolidate his power, a conflict that resulted in a similar outcome today would carry a higher risk of leading to political change in China, which is why Mr. Xi is unlikely to risk it.

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## EXCHANGE RATES

<i>Currency</i>	<i>4/07/17</i>
Chinese renminbi	6.9044
Hong Kong dollar	7.7690
Indian rupee	64.2703
Indonesia rupiah	13,342
Japanese yen	111.10
Malaysian ringgit	4.4365
Philippine peso	49.7750
Singapore dollar	1.4052
South Korean won	1,137.89
Taiwan dollar	30.610
Thai baht	34.610
Vietnamese dong	22,675

*Commercial middle rate expressed in terms of US\$1.*

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