The chief executives of some of ASEAN’s largest companies have warned that ASEAN’s goals for a liberalised economic zone are under threat.

In particular, the lack of progress in harmonising ASEAN’s 10 different tax systems as well as tackling non-tariff barriers were cited as key issues in a meeting of the ASEAN Business Club, a private sector initiative to promote ASEAN economic integration.

Furthermore, Indonesia’s recent implementation of foreign ownership restrictions and foreign worker hiring limits are considered barriers to ASEAN’s vision of an economic community free from protectionism.

“Asean is nothing without Indonesia and unless the government in Jakarta pulls back from economic nationalism I think we’re going to really fall short,” said Nazir Razak, chairman of CIMB, the second-largest bank by assets in Malaysia, Asean’s third-largest economy.

Financial Times (8 September 2014)
India had signed the FTA in goods with ASEAN members after it had concluded the negotiations for FTA in services and investments two years ago. With the signing of the pact in services and investments, a comprehensive economic partnership can now be formed between two sides. Trade between India and ASEAN members was at about US$76 billion from 2012 to 2013. It is expected to increase up to US$100 billion by 2015 and envisage lifting import tariffs on more than 80% of traded products by 2016.

- However, there is some criticism for the Philippines as every country has ratified the deal except for Manila. The Philippines had argued that its own services sector may worst-off while facing competition from Indian professionals like chartered accountants and those from the IT and ITeS sector.
- Besides, the erstwhile United Progressive Alliance (UPA) II government, a coalition of centre-left political parties in India formed after the 2004 general election, had argued that imports from ASEAN countries had increased, but exports from these nations from India were not significant.
- In December 2013, the then cabinet of PM Manmohan Singh had approved the FTA in services between India and ASEAN. ASEAN members have to approach their respective Parliaments for ratification of such pacts.

As more governments in emerging Asia allocate more resources into the process of developing infrastructure for cities, some Singapore firms are gearing up to take advantage of such growth.

- Mr Rajiv Biswas, the Asia-Pacific Chief Economist at IHS said: “There is a huge need for such projects, so it does need a huge capability. I think that’s one of the reasons that we’re seeing this JTC-Temasek initiative to create an end-to-end solution capability, and also for economies of scale by creating sufficient size for the organisation to be able to handle such a large number of projects across many countries in Asia.”
- Singapore companies such as Singapore government agency JTC Corporation and investment company Temasek announced that they were in exclusive talks to merge four of their subsidiaries to tap opportunities in sustainable development. If confirmed, JTC’s Ascendas and Jurong International will merge with Temasek’s Singbridge Group and Surbana International Consultants.
- Experts said the connection will create a strong Singapore conglomerate that can better compete internationally for larger-scale projects although it will be a complicated and long-drawn process.

In response to Joko Widodo’s recent victory and promised economic reforms, Indonesia’s benchmark Jakarta Composite Index closed up 0.56% at 5,246.48 on Monday, its highest reading, and is up 25% this year, making it one of the world’s best performing emerging markets.

- First and foremost on Widodo’s list of economic reforms would be to cut Indonesia’s ballooning fuel subsidy bill, which is forecasted to cost more than US$21 billion this year, representing 13% of Jakarta’s total budget: whilst equity and bond investors are betting that Mr Widodo will be able to push the politically unpopular bill forward, it should be noted that Widodo’s slim margin of victory in Indonesia’s recent elections may hamper his ability to pass economic reform.
- Whilst current economic trends seem positive, investor expectations have fallen from earlier estimations of 10-12% growth, to predictions of 7-8% growth in the present; currently, expectations of future economic growth are reflected within Indonesian stocks, which are trading on a forward price/earnings ratio of 14.7, above the five-year average of 13.7 and ahead of China on 9.5 and South Korea on 9.7, according to JPMorgan Asset Management.
- However, burgeoning economic growth in Indonesia may very well also be negatively impacted by continued US tapering; earlier tapering efforts by the US had sparked capital flight within the region.

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<th>Indonesia, One of the World’s Best Performing Emerging Markets</th>
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**05**

**INDONESIA’S LEAD IN PROMOTING DEMOCRACY IN ASEAN**

**INDONESIA**

The differences among member states on the nature of democracy serve as a major constraint on the democracy building process in ASEAN. Indonesia’s consolidated democracy continues to strengthen as shown in the 2014 presidential election make the people believe that the country will strengthen its leadership role in the building of the ASEAN Community 2015.

According to the report: Southeast Asia’s Regression from Democracy and Its Implications in May 2014, Joshua Kurlantzick argued that there are three main reasons that caused Southeast Asia’s retreat. Firstly, abuse of power by democracy leaders against their rivals. Second is the lack of awareness of importance of democracy among ASEAN members.

Lastly, there is a lack of political will from member states to promote democracy under the ASEAN Political-Security Community (APSC), a community that gives a hint to the association to support the democracy agenda through the promotion of human rights and good governance as an alternative to the attempt to transform the political systems of member state.

Strengthening the current ASEAN Intergovernmental Commission on Human Rights (AICHR) could serve as a starting point to promote democracy in ASEAN. The AICHR should review country’s human rights regularly in order to develop effective and meaningful civil society engagement in ASEAN.

**06**

**ASEAN COMPANIES FACE GROWING DEBT**

**ASEAN**

Vietnamese Minister of Transport Dinh La Thang announced in a recent statement that Vietnam had brokered a deal with Cambodia to establish a new, more direct flight route between Vietnam and Laos whilst using Cambodian airspace.

The warning came in the first of seven reports, to highlight Standard & Poor’s first-ever survey of 100 of ASEAN’s largest companies by market capitalisation and discuss the developments in credit quality, leverage, capital spending, and corporate strategies in anticipation of the 2015 Asean Economic Community initiative.

Standard & Poor’s estimates that internal cash flows and cash balances could fund only about half of almost US$300 billion ASEAN’s largest companies spent on expansion and acquisitions between 2008 and the first quarter of 2014; at the same time, these companies issued approximately $150 billion of additional debt to bridge the gap.

Acquisitions outside the region are expected to rise as companies seek to improve their international presence and counter stalling revenues and profits; acquisitions more than doubled for the 100 ASEAN companies between 2011 and 2012, stayed high in 2013 and are on track for a record year in 2014. Yet, debt-financed acquisitions could pose credit risks.

**07**

**PHILIPPINES’ AQUINO TO SEEK EUROPE’S HELP IN VIETNAM-CHINA SEA DISPUTE**

**PHILIPPINES**

President of Philippines, Benigno Aquino will seek European support in order to resolve maritime territorial disputes with China during a week-long visit to EU nations including France and Germany.

Vietnam-China tensions rose to highest levels in years after China parked an oil rig near the Paracels in May, which led to the trading of accusations between the countries over vessels ramming each other. The dispute also sparked riots in Vietnam that left at least three Chinese nationals dead and hundreds of foreign-owned factories damaged.

On 10 September, Vietnam accused crew members of Chinese boats of harassing fishing vessels and beating Vietnamese fishermen near the contested Paracel islands in the South China Sea, but China dismissed the accusations as groundless.

China has increasingly asserted its claims over almost all of the South China Sea, an area that is believed to hold vast mineral resources. Parts of the contested waters are also claimed by Malaysia, the Philippines, Taiwan and Brunei.

While the Philippine military cannot go with China, Aquino has resorted to diplomatic and legal means including an arbitration case before a UN tribunal. However China has refused to participate in the proceedings. Assistant foreign secretary, Zeneida Collinson said the Europeans have previously supported the Philippines in seeking a “peaceful resolution of conflict.”

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**POLITICS**

- Myanmar lifted on 11 September a curfew imposed in Sittwe, the capital of Rakhine state, in June 2012 when clashes between Buddhists and minority Muslims killed at least 192 people that year. Sectarian tension had since simmered in the state but has now eased, according to government spokesman Win Myaing.
- Myanmar’s Union Election Commission announced on 7 September that it is cancelling by-elections that were scheduled for this year to fill 35 empty parliamentary seats. Commission chairman Tin Aye cited several reasons for the cancellations, including preparations for the 2015 general election and Myanmar’s duties hosting the ASEAN summit in November.

**ECONOMY**

- The Ministry of Commerce is planning to introduce online applications for export and import licences early next year, Deputy Commerce Minister Dr Pwint San said on 7 September. “The online licensing system has been under development for three years but has not been fully implemented yet because of inadequate infrastructure,” he said.
- Myanmar needs to invest more than US$80 billion if the country is to reach US$1.5 billion by 2015 in making Vietnam one of the five largest foreign investors in Myanmar. AVIM chairman Tran Bac Ha said businesses will work to help enhance two-way trade to at least 35,000 in 2015 in making Vietnam one of the five largest foreign investors in Myanmar.

**FOREIGN AFFAIRS**

- Myanmar will begin accepting applications for permanent residency during the last week of October, according to the Ministry of Immigration and Population. Foreign nationals whose applications are approved will be allowed to stay in the country for five years initially, which can be extended for five more years.

**REPORT SLAMS CAMBODIAN CORRUPTION**

In a recent report released by Transparency International (TI), a Berlin based NGO, Cambodia’s judiciary and law enforcement agencies were found to be weak in terms of credibility and integrity.

- Om Yintieng, Chairman of Cambodia’s Anti-Corruption Unit, vehemently rejected the report, stating that “We do not recognise the report of Transparency International (TI) Cambodia because TI Cambodia always wants to lead us and tells us to do this or that, this act is unacceptable”.

The 233-page report on “Corruption and Cambodia’s Governance System” evaluated 13 pillars, ranging from the judiciary, the Anti-Corruption Unit to civil society and the business sector; whilst the findings remained optimistic as to Cambodia’s future, the report stated that Cambodia’s integrity system was flawed, with a robust overall legal framework safeguarding independence and accountability of institutions, whilst lacking execution in practice.

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**TSUNAMI ALERTNESS DRILL BY 24 NATIONS, INCLUDING INDIA, INDONESIA AND AUSTRALIA**

A tsunami simulation exercise involving 24 nations, including Singapore, began in Jakarta on September 9. The two-day exercise is intended to test the ability of the communication systems of Regional Tsunami Service Providers, namely Australia, India and Indonesia, and their speed in disseminating alerts to 24 participating countries and agencies in the Indian Ocean. This exercise, led by UNESCO, is the third after two others in 2009 and 2011.

- In the past decade, an extensive system, including a network of deep sea sensors and coastal tidal gauges, has been put in place to detect and predict tsunamis triggered by undersea tremors.
- Tests were needed to maintain standards and build confidence in the ability of regional officials. “UNESCO’s Indonesia coordinator for the Indian Ocean Tsunami Information Centre, said Mr Ardito Kodijat.
- Experts also said the system known as Deep-ocean Assessment and Reporting of Tsunamis has worked well.