

Insights

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Asia: Three Things to Watch in 2018

- Geopolitical maneuvering will intensify in 2018, with North Korea as the single most persistent risk.
- Trade will move forward on the back of TPP-11, but RCEP's progress remains questionable.
- Southeast Asia has pockets of potential instability.

1. Geopolitical Maneuvering, With Korea As The Most Urgent Issue

In 2017, the transition to a new and less predictable US presidential administration unsettled Asia's major powers; 2018 is unlikely to provide greater clarity. Traditional US allies remain anxious about the viability of established security guarantees, while China, more secure in its own standing, is wary as to whether the new administration will bolster US military presence in the region or whether "America First" will ultimately mean a reduced presence. Smaller countries will continue to hedge their relationships, adding another layer to the complexity.

With the US likely to continue to view the region primarily through the lens of national security, its Asian policy agenda will be dominated by the diplomacy of security alliances and nuclear deterrence, signaled through military deployments and training exercises. Despite unease about the threat of war around North Korea, Japan and South Korea will continue to welcome US engagement in their defense and seek new ways to deepen defense cooperation. It is still possible that diplomatic talks could proceed as long as the US and its allies insist on denuclearization as a precondition for talks even as North Korea heralds its nuclear arsenal as the ultimate guarantor of its security. Still, Pyongyang will undoubtedly continue to seek to improve its ability to strike the US directly, thus the risk of escalation remains heightened.

Beyond the Korean peninsula, the US, Japan, Australia, and India will build upon the quadrilateral meeting held in November 2017 – the first so-called

"quad" in a decade – to strengthen their ties as the leading maritime powers on China's periphery. This is an important step towards deeper involvement by India in the East Asian balance of power. Indian domestic politics during the run-up to the 2019 general elections could also favor steps to restrain China in cooperation with other countries.

However, despite the US intensifying its East Asian security commitments, China is seeking to expand its regional influence. This could play out as the secondary strategy of the de-escalation of neighborly disputes with the goal of developing an alternative vision for the region centered on economic cooperation. China and the Philippines have sought to reduce tensions in the South China Sea, and in November, China and the Association of Southeast Asian Nations (ASEAN) agreed to begin negotiating a Code of Conduct for the South China Sea, although it is unlikely that anything substantial can be achieved soon. China is not scaling back its claims – after all, Xi Jinping boasted of progress in solidifying China's territorial claims through island building during his Party Congress speech in October –, but Beijing likely sees that a softer approach can strengthen its claims to regional leadership particularly in light of the unbalanced, military-heavy US approach to the region.

Efforts by China to increase its influence through diplomatic and economic ties could therefore increase next year. For example, China and Japan have been exploring new opportunities for cooperation, including Japanese participation in the One Belt One Road (OBOR) initiative, as they mark the 40th



Bob Herrera-Lim

Managing Director,
Teneo Intelligence, Manila



Tobias Harris

Vice President,
Teneo Intelligence, Washington, D.C.



Nora Schlenzig

Senior Vice President,
Teneo Strategy, Hong Kong

anniversary of their Treaty of Peace and Friendship in 2018. The two countries also signaled in December that they had reached an agreement on a mechanism to avoid unintentional clashes in the East China Sea.

These efforts will not, however, be frictionless, as the recent backlash in Australia against alleged Chinese interference in media and academia suggests. Governments throughout the region will be mindful of Chinese influence and potential over-dependence on China as an economic partner and will continue to seek hedges with the US and each other.

2. TPP As A New Regional Bloc

Economic cooperation will be an increasingly important tool against the protectionist turn in US trade policy and against over-dependence on China. The 11 surviving members of the Trans-Pacific Partnership (TPP) have whittled down the number of outstanding issues between them, and a final agreement is likely in H1/2018. Concluding the agreement will strengthen Japan's leverage vis-à-vis the US, whose policies towards other Asian countries running trade surpluses have raised concerns in Tokyo that the US could eventually take a harder line on its economic relationship with Japan.

The successful conclusion of the TPP-11 would also allow Japan and Australia to push for broader use of the bloc's "high standards" for trade and investment in the region. Even as the TPP-11 moves closer to reality, there are few signs that the Regional Comprehensive Economic Partnership (RCEP) – which includes ASEAN, China, Japan, South Korea, Australia, New Zealand, and India – will overcome the structural obstacles that have so far prevented agreement. This reinforces the importance of the Japan-led TPP-11 bloc's emergence as a driver of regional integration and as an alternative source of regional leadership.

3. Southeast Asia Unsettled

Even as Asia's major powers jockey for influence, the developing countries of Southeast Asia will likely be more unsettled and inward looking with some vulnerable to serious political risk. Elections in Malaysia and Thailand

are expected to maintain the status quo, but the possibility of surprise outcomes – an upset of the ruling United Malay National Organization (UMNO) or a strong performance by allies of former prime minister Thaksin Shinawatra – that significantly and broadly change their political trajectories still cannot be fully discounted.

Indonesia will be watched closely for signs of race and religion affecting local elections, since these may become more pronounced in policymaking and during the 2019 presidential race. The latter could trigger greater nationalism and populism in economic policymaking, even though President Joko Widodo is favored to win a second term.

In the Philippines, this year will be crucial for President Rodrigo Duterte: the economy is doing well but the rollout of his infrastructure programs will be watched closely. The next year might also be his best and last chance to pursue his goal of constitutional change. Security risks may increase as prospects for peace with communist insurgents appear increasingly likely to break down and as the possibility of the recent fighting in the southern Philippines attracting foreign fighters remains ongoing. Duterte's drug war will continue to be and remains controversial.

Finally, Southeast Asia may not entirely escape Washington's scrutiny. The violence against the Rohingya people in Myanmar may lead to the US reinstating targeted sanctions causing Myanmar's generals to become more resistant to external pressure, which could slow down the pace of political reform.



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