



A19 Rival trade blocs vying to lead

A20 New governor's challenge to change Jakarta

Tough times for Japan's next leader

THE economic morass in Japan that forced Prime Minister Yoshihiko Noda to dissolve the Lower House of Parliament last week is unlikely to disappear if the general election next month returns another weak government. If it takes over from the Democratic Party of Japan (DPJ), as it is expected to, the Liberal Democratic Party (LDP) is likely to head another coalition.

The problem is not just the huge budget deficit, the financing of which the opposition had blocked in ransom for a snap poll. In calling for unlimited monetary easing, a zero benchmark interest rate and a higher inflation target, the putative next premier, LDP leader Shinzo Abe, seems to have caught the critical

need of the moment, in contrast to DPJ's thrashing about.

Although Japan has pulled back from its version of the "fiscal cliff" that looms in the United States, it faces longer-term challenges that an LDP administration might not be able to meet successfully. The public debt remains massive. Exports continue to suffer as much of Europe goes deeper into recession and the US remains unable to return to even modest growth.

As well as taking steps to boost a faltering economy now edging towards recession, the new government will have to accelerate the recovery from last year's disastrous earthquake and tsunami. Mr Noda's team has been so indeci-

sive in reconstruction efforts that, according to an independent audit, almost US\$238 billion (S\$292 billion) remains unspent.

An even more deeply rooted problem is the rapidly ageing population, which saps economic vitality while burdening social services. To reduce the dependency ratio, there has to be less reluctance to widen immigration despite longstanding misgivings of a dilution of ethnic homogeneity.

The new government will also need to do a better job of managing the simmering dispute with China over maritime claims in the East China Sea. Tensions rose in recent months, provoking many Chinese consumers to boycott Japanese

products. Relations with China will have to be rebuilt to ensure bilateral trade is not again damaged so badly. Japanese exporters have had to lower their sales forecasts to this big market.

An LDP return to power, however, makes improving ties with Beijing less likely. Mr Abe, who wants to stand strong against China, will have to outbid the likes of rightist politicians such as Mr Shintaro Ishihara who has vowed to create "a stronger and tougher Japan". A turn to the right will be untimely, yet it is more likely than it has been under the DPJ. So, all signs point to the next government facing some severe tests, at home and abroad, hopefully without too much fallout for the rest of the region.

China plays its Asean game



EYE ON THE WORLD

By WILLIAM CHOONG
SENIOR WRITER

PHNOM Penh, the capital of Cambodia, used to be a sleepy capital which seldom experienced the kind of traffic jams often seen in other Asean cities such as Bangkok and Jakarta.

However, on a recent visit to Phnom Penh, one could see the city's transformation. The ubiquitous motorbikes are always there, but jostling among them on the capital's increasingly congested roads are Toyota Camrys and the occasional Lexus – not too bad for one of the poorest countries in the world.

Such a happier state of affairs, my Cambodian interlocutors told me, is fuelled by Chinese money and aid over the years.

A visible outcome of such Sino-Cambodian friendship was on show for all to see in July. At an Asean meeting in Phnom Penh, Cambodia as Asean chair blocked the issuing of a communique – the first time in the grouping's 45-year history.

Many observers laid the blame on China, adding that Beijing had leaned on Cambodia to scuttle any mention of territorial disputes in the oil- and gas-rich South China Sea.

That said, Cambodia's move is not that surprising, given the historical amity between Phnom Penh and Beijing.

According to Mr Pheakdey Heng, a lecturer at the Royal University of Phnom Penh, Sino-Cambodian cultural and commercial relations are historic and can be traced back to eight centuries ago when a Chinese diplomat paid a visit to Angkor City in 1296.

Today, China is Cambodia's top investor, a major donor and an important trade partner. According to Reuters, Chinese investment in Cambodia was US\$1.9 billion (S\$2.3 billion) last year, more than double the combined amount of Asean countries and 10 times more than the United States.

Given its status in Cambodia, China has been known to call in its chips. In December 2009, for example, China requested the repatriation of 20 Uighurs in Cambodia, which Phnom Penh granted to a global outcry. Soon after the Uighurs were returned to China, then Vice-President Xi Jinping arrived in Phnom Penh with nearly US\$1 billion of foreign investment, loans and grants.

Indochina cultivation

DURING the 50th anniversary of Sino-Cambodian relations in 2008, China also spared no effort courting Cambodia's top leadership. According to US embassy cables released by Wikileaks, China lavished Cambodia with royal banquets, trips to Beijing, the first-ever visit by a Chinese warship, and high-level visitors.

Following the recent death of

King Norodom Sihanouk, Chinese media were quick to state that the late leader was an "old friend" of China. They added that King Sihanouk had stood at Tiananmen gate tower six times with Chinese leaders – more than any other foreign head of state.

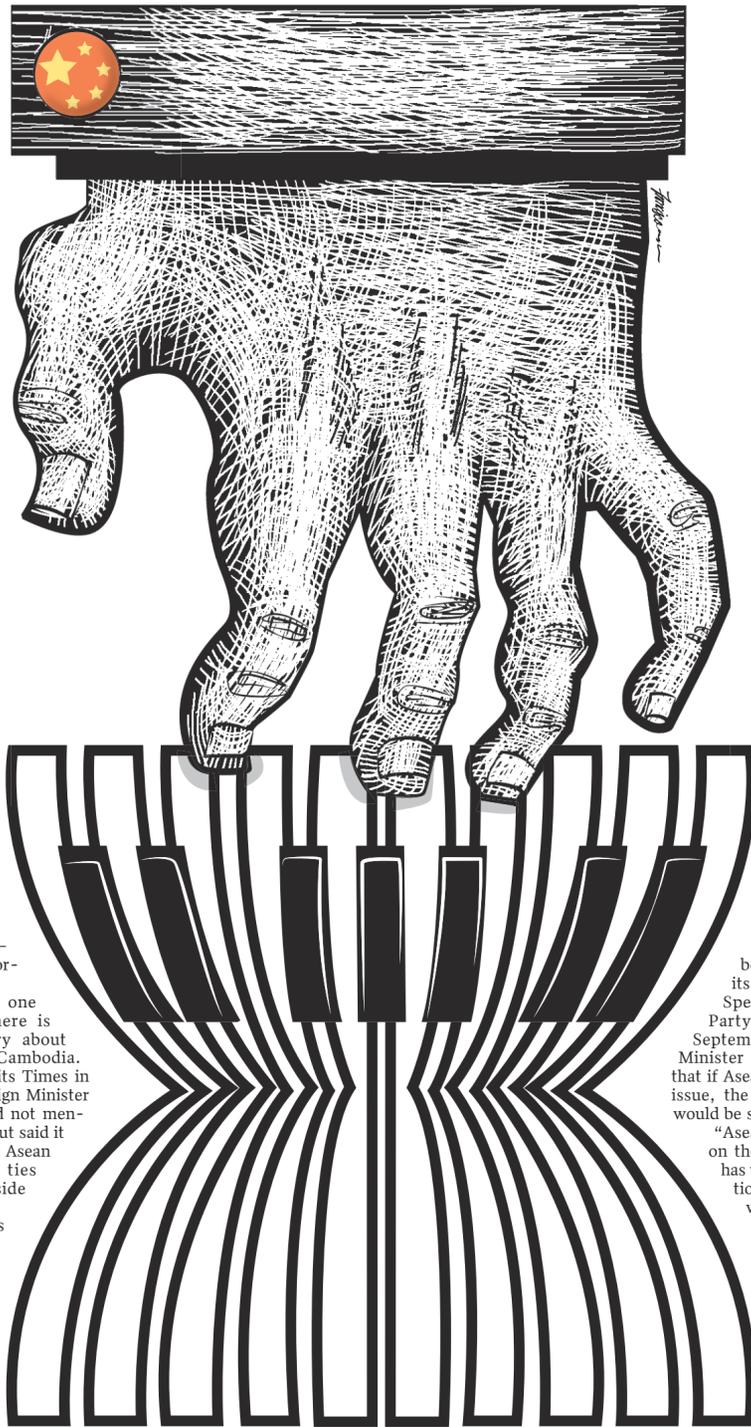
On the face of it, one could argue that there is nothing extraordinary about China's wooing of Cambodia. Speaking to The Straits Times in July, Indonesian Foreign Minister Marty Natalegawa did not mention China by name, but said it was a "win win" if an Asean country cultivated ties with a country outside Asean.

That said, China's cultivation of Cambodia – as well as other Asean members such as Myanmar and Laos – will have implications for Asean in years to come.

Like the way it has wooed Cambodia, Chinese banks have offered Laos US\$3 billion in loans, in addition to a promise to build a US\$7 billion high-speed rail network. Trade between China and Myanmar has boomed, with Chinese investments in energy projects in that country.

China's wooing of Asean's poorer Indochina members will have three effects.

The first effect was already seen at the July Asean meetings in Phnom Penh. The significance of the non-issuance of the communi-



que was that China had managed to game the system in Asean, by using a proxy in the form of Cambodia.

In the event that Cambodia had failed to do China's bidding at the meetings, Asean officials told The Straits Times that China had backed up in Laos and Myanmar.

The second effect is that China's cultivation of Cambodia, Laos and Myanmar could in the long run undermine Asean unity and cohesion.

plus China, Japan, South Korea, India, New Zealand and Australia) and the East Asia Summit (which comprises the Asean+6, plus the US and Russia).

On the South China Sea issue, Asean will be similarly effective if it plays a mediation role. Speaking to the Central Party School in Beijing in September, Singapore Prime Minister Lee Hsien Loong said that if Asean failed to address the issue, the grouping's credibility would be severely damaged.

"Asean must not take sides on the various claims but it has to take and state a position which is neutral, forward-looking, and encourages the peaceful resolution of issues," he added.

To its credit, Beijing has said it supports Asean's centrality and its playing a role in safeguarding the region's peace and stability. That said, Chinese Vice-Foreign Minister Fu Ying has said that Asean playing a role "does not mean that Asean should speak for any one country because if Asean takes sides, then it will be very difficult".

And at this, China's cultivation of ties with Cambodia, Laos and Myanmar could undermine Asean's effectiveness going forward.

Speaking to a gathering of journalists in Phnom Penh last week, Asean Secretary-General Surin

Pitsuwan said Asean was seeing the "first phase of conflicting, competing, contending interests in the region" by major powers such as China and the US.

"I think it's a natural consequence of this kind of geopolitics. We just have to learn to deal with it. Asean centrality is being tested."

"This is not to say I'm not worried, but we should have expected this kind of thing and be measured up to the challenges coming towards us," he added.

The third – and most extreme – effect is that great power competition in Asean's backyard could lead to a fracturing of the grouping along Chinese and American spheres of influence.

Competing influences

CHINA is trying to carve up a sphere of influence over countries in Indochina such as Cambodia, Laos and Myanmar. The US, in its high-profile "pivot" to Asia, is cultivating strong ties with allies and partners such as Australia, Japan, South Korea and India.

In his recently-published book, *The China Choice: Why America Should Share Power*, Australian academic Hugh White argues that the US should carve up Asia with China. The US, he added, should give China a sphere of influence in Indochina.

If such a carving up actually occurs, it would happen not due to an agreed-upon design between China and America, but by default, given China's cultivation of countries in Asean and the US pivot.

This is not to say that such fracturing would definitely occur.

Despite its intimate ties with China, Cambodia has maintained a semblance of foreign policy independence.

Cambodians use China as a "blank check". That said, Phnom Penh maintains a "steely pragmatism by which Cambodia balances China with others, including the US", wrote officials at the US' Phnom Penh embassy in a 2008 cable released by Wikileaks.

Dr Ian Storey, a senior fellow at the Institute of Southeast Asian Studies, agrees with such an assessment. Cambodian Prime Minister Hun Sen is a "consummate political survivor who has been able to very cleverly play off one country against another".

Similarly, Vietnam continues to maintain an "inside track" in Laos, despite the country's increasingly close ties to China, he adds. Many Laotian ministers were educated in Vietnam and speak Vietnamese.

Myanmar has also shown its independence from China. Last year, for example, it suspended the building of the US\$3.6 billion Myitstone dam, a project backed by China.

Ultimately, the complex manoeuvring by great powers in the backyard of Asean is what makes this week's Asean and EAS meetings in Phnom Penh so fascinating. To many observers, the effects of such manoeuvring on Asean – and Asia in general – will not be evident for some time yet. williamc@sph.com.sg