

Don't forget the political drivers

Investors have focused of late on liquidity and policy issues such as when the US Federal Reserve might start normalising interest rates or how much stimulus China's policymakers are likely to announce. However, political issues have a habit of intruding into markets every now and then, so it might be worth taking note of some potential political developments that could affect markets.

South China Seas disputes: Not likely to escalate

Rival claims over swathes of the strategically important and mineral-rich South China Sea continue to result in occasional tensions. Asean's efforts to work out a Code of Conduct with China so as to limit the risks of escalation have not gone anywhere. More recently, there have been reports that China is reclaiming land around rocks and shoals it occupies with a view to building military facilities to project air and naval power right into the heart of Southeast Asia, a move that has rattled many countries that are not directly involved in the territorial claims. Occasional incidents where Chinese naval vessels are accused of intimidating Philippine or Vietnamese ships in disputed waters have helped to keep tempers short.

However, it is fair to say that the main disputants have dialled back on aggressive measures in recent months. The region is of interest to several powers such as the US and Japan, which helps to provide a balance against China. On its part, China has realised that it is not in its broader interests to risk a conflict by pushing its claims too hard — after all, the last thing it wants is to see Vietnam or the Philippines turn to the US and Japan for military help. The other disputants know they are not in a position to challenge a powerful China that will become ever stronger over time and that their relationship with China goes beyond claims over tiny shoals and rocks to embrace mutually beneficial economic relations as well.

In fact, one might even argue that Southeast Asia could stand to gain from the dispute so long as it is contained. The US is keen to engage with the region through such initiatives as the Trans-Pacific Partner-



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ship, which looks increasingly likely to take shape soon. If the TPP is completed, countries such as Malaysia, Vietnam, Brunei and Singapore will gain access to a massive market of 800 million people and about US\$23 trillion worth of annual economic activity. Similarly, Japan is strengthening its ties with Southeast Asia because, like the latter, it too has territorial disputes with China. As a result, Japan is shifting considerable foreign investment away from China to Southeast Asian countries such as Vietnam. So long as several major powers are checking and balancing each other, the smaller nations of Southeast Asia could stand to gain more leverage while avoiding an outright conflict.

But North Korea could still be a flash point

Recent media reports suggest that North Korea's offensive nuclear capacity might be much greater than thought. It has been reported that Chinese officials briefed their American counterparts about North Korea's stockpile of warheads having reached 20, with that number set to double by next year. Worse still, some fear that North Korea has also developed the capacity to mount nuclear warheads on missiles that could reach the west coast of the US, directly threatening the American mainland.

If this information is confirmed, the threat to the US will become more immediate and direct than the Obama administration had assumed. South Korea and Japan will also be extremely concerned. The fact that China, North Korea's only remaining ally, conveyed this information to the US could suggest that even China is becoming warier of North Korea. The one thing that China, Japan and South Korea can agree on is that a nuclear-armed North Korea that is becoming more militarily sophisticated is not desirable. It is hard to imagine that the Americans can continue with business as usual given the higher threat level — the US is bound to take counter measures against North Korea, which will raise tensions in the region.

Thailand: How long can the military government's honeymoon last?

Thailand is now in the 10th year of its political crisis,

a crisis marked by two military coups, bouts of violence in the heart of Bangkok and protests that have occasionally crippled governments. The two fundamental issues at the heart of this crisis — the nature of Thai democracy and concerns over royal succession — have not been resolved. The initial reaction to the coup in May last year was one of relief as Thais had tired of the constant disruption and the damage done to business. However, almost a year since the coup, there is a growing sense of discomfort. The economy remains in the doldrums as businesses and consumers need much greater clarity on these fundamental issues before being confident enough to spend. Fiscal disbursements that could boost demand have been slow despite the promise of a decisive military-led government. Harsh crackdowns on dissent have not helped while the interim government's proposals for a new constitution are also drawing fire as many, including groups that initially welcomed the military coup, find the proposals too restrictive of freedoms. In the middle of all this, the declining health of both the King and Queen has added to the sense of unease.

Without a major initiative to encourage reconciliation, it would not surprise us if another bout of political tensions erupted.

Do we need to worry about Malaysia?

Former prime minister Tun Dr Mahathir Mohamad's recent attacks on Prime Minister Datuk Seri Najib Razak have set tongues wagging about a power struggle within Malaysia's dominant Umno party. Najib's opponents have used allegations that first surfaced in social media about possible financial malfeasance in 1Malaysia Development Bhd (1MDB), a state enterprise chaired by Najib himself, to cast him in a bad light. As a result, some senior Umno leaders have also gingerly questioned the goings-on in 1MDB. Some have interpreted statements by Deputy Prime Minister Tan Sri Muhyiddin Yassin who is also deputy president of Umno, one of the three elected vice-presidents of Umno and a clutch of retired senior leaders as suggesting a gradual loss of confidence in Najib.

CONTINUES ON PAGE 54

The big trade-off in the world of labour

Many people have long dreamed of becoming less chained to their workplace. Their vision is to become freer in managing their various tasks throughout the day. They especially want to be able to better blend work and leisure. Others dream of no longer having to do monotonous, highly repetitive tasks.

That world is getting ever closer to becoming reality. Even so, instead of feeling freed from past shackles, there is great nervousness all around. The questions anxiously raised now are these: Will we run out of work? More specifically, will there be a job for me in the future?

Remarkably, these worries actually unite much of the world, developed and developing.

After all, this is a time when the focus even in China's manufacturing sector is on installing massive amounts of industrial robots. Part of the reason is that the size of China's labour force — long the source of existential worries in the Western world about assembly jobs being shipped to China — has peaked.

If anyone needed a wake-up call about how much the world, as we know it, is changing, consider this: China betting its future on robots is certainly about the starkest signal imaginable.

Labour market pressures are also felt elsewhere. In India, soon to be the world's most populous nation, over 10 million new jobs are needed each year just to find employment for new labour market entrants.

And all around the globe, university graduates — whether in rich countries or developing ones — find that their academic degree alone is no guarantee of getting a job.

Meanwhile, robots don't threaten just assembly line jobs in the manufacturing sector. So-called service robots and computerisation are bound to take a toll on a range of occupations — from airline pilots



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and truck drivers to surgeons and cooks.

Even the military, long a source of steady employment for young men across all skill levels, from front-line ground troops to fighter pilots, is changing. It has begun to rely much more on robots, from unmanned fighter vehicles and aircraft to cyber-defences and bomb-defusing rovers.

At present, there is much techno-hype and much techno-phobia when it comes to robots and automation. And we still need to work out many practicalities on either side of that divide. For example, there are sweeping visions of a world of autonomous, driverless cars.

If you have ever been stuck in traffic for hours or travelled long distances, that sounds like a great idea. Until you read reports that, freed from the steering wheel and a strict forward orientation inside the car, drivers and passengers may experience motion sickness. Or until you hear about the vexingly complex implications for the insurance industry.

True as well that services like Uber usher in a world of independent operator entrepreneurs. I have seen quite a few graduate students in the US feeling relieved because they can generate income from being Uber drivers on weekends and evenings.

But creating more flexibility, and potentially value, for customers and drivers alike does not yet herald a world of new wealth. Some of the smartest thinkers in the field — and long-time techno-optimists — now worry that the basic promise of creating "more wealth with less labour" does have a negative impact on employment.

The best evidence we have collected so far points to negative employment effect on low-skilled and also some middle-skilled workers. However, Oxford University researchers forecast that, within 20 years, as many as half of all jobs could be affected. This includes quite a few job categories that are widely considered

to require high skill levels. To guide policymaking, we will clearly need to track these developments carefully.

Change is always unnerving. And while the precise shape of the future is uncertain, we know about some key shifts. Lifelong employment by one firm and even formal employment contracts will become rarer than they were over the past three quarters of a century (at least in developed countries).

More "informality" in work arrangements — long considered a phenomenon mostly affecting developing countries — is also taking hold in developed countries. It is, in fact, becoming a great leveller globally.

A future marked by less formal work relationships undoes a core feature that many people in rich countries have taken for granted. This trend also runs counter to what many people in developing economies are very much striving for.

The net effect of this global trend is that, on balance, the risks associated with work are transferred more to individuals.

That is no news whatsoever to many societies and the overwhelming part of the world population, especially in the developing world. There are places that rarely ever had any dependable labour protection or social safety nets to begin with.

As far as the developed world is concerned, some societies are better prepared for the shift to reliance on oneself — to a world of individual risk-taking — than others. In particular, the social model of the US has — for good or ill — always put more emphasis on the individual when it comes to absorbing financial and economic risks related to one's existence.

This implies that the mental shift required will be harder on Europeans. They are much more accustomed to society as a whole, rather than the individual, absorbing existential risks.

Here then is the key conundrum: To a considerable

CONTINUES ON PAGE 54

Region will see potential leadership changes

FROM PAGE 52

Beyond 1MDB, the mood in Malaysia is a nervous one. Religious feelings have been aroused as a result of a number of developments. Pas, the Islamic party, is seeking to introduce hudud (Islamic law) in Kelantan while a recent protest by Muslims outside a church has also made many concerned about growing intolerance. The introduction of the Goods and Services Tax, a bold policy move by the government that will help strengthen the fiscal position over time, has been unpopular as it has raised the cost of living.

However, it is certainly too early to count Najib out. He is a formidable political leader with a wide power base built over close to 40 years in politics. He continues to retain the support of a solid majority of key power brokers within his party as well as important constituencies within the country.

There are also intensive efforts to clean up the finances at 1MDB, with people in the know suggesting that the company can be salvaged at a relatively modest cost to the exchequer. After Najib's predecessor, Tun Abdullah Ahmad Badawi, was pressured to step down in 2009 following criticisms from Mahathir, some Umno members are not keen to see yet another prime minister turfed out so unceremoniously. The odds are that, so long as there are no further damaging revelations or scandals, Najib will survive as prime minister.

Elections and possible leadership changes around the region

Over the next 1½ years, the region will also see some potential leadership changes:

- Myanmar is set to hold a general election by the end of this year, but it needs

to resolve important differences between the pro-military leaders now in power and the democratic forces led by long-time opposition leader Aung San Suu Kyi. Our view is that a compromise is likely soon that will accommodate the interests of both sides and will then allow elections to be held peacefully and in a way that will further Myanmar's transition to democracy.

- Vietnam will hold a party congress early in 2016 to select a new leadership team. There is some degree of jockeying for position currently, which some say is punchier than in past years. However, the Communist Party of Vietnam has generally shown an ability to manage contests over ideas and personalities. Once the party congress is over, we are likely to see another push for market reform.

- The Philippines will see a new president elected in May 2016, with the polls suggesting that vice-president Jejomar Binay is the frontrunner. The coming year is likely to be dominated by the election, with key reforms and major economic initiatives unlikely and President Benigno Aquino increasingly a lame duck, unfortunately. Binay's opponents are mobilising all their resources to prevent him from winning, with many rallying around Senator Grace Po, a younger and highly popular leader, so there is still considerable uncertainty as to who will lead the Philippines after Aquino.

The bottom line: Political events will have an important effect on the investment climate over the coming year and a half. **E**

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Shift to more flexible work patterns creates new challenges

FROM PAGE 52

degree, the "new economy" gives people what they have asked for. There are fewer hierarchies, more flexibility and more goal orientation. The ability to act in a more entrepreneurial fashion is in demand, as is a compensation model based on results, not just on time put in.

But this gain in flexibility comes at a cost. The key issue is to make sure that this brave new world of labour will not lead to a wholesale shift of risk-taking away from firms (and capital) to the individual.

The best guess that labour economists can make at this juncture is not that there will be less work. Rather, it is that work will take on different forms from the ones many people in the developed world have been accustomed to for a century or so.

Important innovations are required, such as finding more portable ways of social insurance that are not tied to longtime employment in one firm. At the same time, safeguards need to be in place to protect individuals' retirement savings against extreme swings in financial markets.

As this new world of labour emerges, we can observe its inherent dialectics. On the one hand, smartphones help us overcome the formal separation of work and "play." On the other, we now take our work home, quite literally, in our pocket.

As a result, the proverbial 9 to 5 world is rapidly disappearing. That can actually be liberating for quite a few people who need more flexible schedules, including mothers who work. And over time, it should also lead to a de-clogging of our traffic arteries, as the twice daily madness of "rush hour" becomes less of an issue in the world's cities.

This shift to more flexible work patterns also creates new challenges. Flexible work can be too unpredictable to reliably schedule other activities, such as hard-to-get medical appointments, or to pick up additional hours

working on another job elsewhere.

For others still, this flexibility means, in effect, that the dividing line between work and leisure time is erased. That can generate considerable stress. Many Americans, accustomed to working long hours in the office or workplace already, have experienced blurry lines between work and leisure for decades. For other countries, this might come as a sudden shock to the system.

The positives and negatives of the changing workforce and workplace will need to be balanced carefully and smartly. We should be confident in tackling that task. After all, the world's economies have grappled with far larger changes — and the social stresses and disruptions they have brought — in the past.

One need only look back a century and a quarter ago to find extensive public fretting — from literature and philosophy to political speeches — about what the advent of widespread industrialisation, mechanisation and electrification might mean for society.

The transformations of past eras — particularly the move of many millions of people from the fields to the cities — were indeed earth-shaking. But the result was dramatically improved standards of living and wider prosperity. And society adjusted to a "new normal" and life became better than it had been for the millions living on the brink of famine.

The coming changes will provide opportunities we cannot even imagine. To get there, developing economies will have to continue their transformations while the economies of Europe and North America will have to adjust to changed realities.

The main news is that this time we, as humanity, will all be in this realignment together, wherever we live. **E**

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Increasing awareness of the Constitution

FROM PAGE 51

citizenry and citizenship. The only things that matter are those that matter to them only.

There are those who have no conception of what the Constitution is or what it stands for, or even have an understanding of how government works and the roles of the judiciary and the legislative branch. There are politicians and even elected representatives who do not understand that even the legislative branch is not unencumbered by the Constitution. There are limits to legislation and these are defined by the Constitution.

I cannot recall having been taught about the Constitution in the 11 years that I went to school and I suspect that has always been the case for most Malaysians. Somehow, the smart people at the Education Ministry, all these years, decided that the Constitution is not important to form an educated citizenry.

I checked the National Education Philosophy, which says, "Education in Malaysia ... to produce Malaysian citizens who are knowledgeable and competent, who possess high moral standards and who are responsible and capable of achieving high level of personal well-being as well as being able to contribute to the harmony and betterment of the family,

the society and the nation at large".

There is mention of citizens but not citizenship and basic ideas of the civil liberties of citizenship. Come to think of it, it does not even aspire to develop the true potential of individuals. This has got to change.

I once had the privilege and also the burden to take an oath of office that contained the words "... do solemnly swear that I will faithfully discharge my duties as such to the best of my ability, that I will bear true faith and allegiance to Malaysia, and will preserve, protect and defend its Constitution".

It was indeed a solemn moment, the burden of the words so onerous that my signature afterwards was distorted. You cannot take that sort of oath and forget it when you are out of office. You keep it with you.

I do, and I feel that if there is a worthy cause to dedicate my retirement to, it would be towards increasing the overall awareness of the Constitution and what it means to uphold it and live under it. Without the Constitution, we live in anarchy. **E**

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