

ISEAS MONITOR is a socio-political survey of Southeast Asia which examines current events to identify trends in specific countries and in the wider region.

The Region: Geopolitical Overview

November 2012 saw US President Barack Obama given a second mandate, while in China, Xi Jinping was elected General Secretary of China's Communist Party. Both superpowers have reaffirmed Southeast Asia's political and economic importance.

The question now is the extent to which the "new" administrations in the US and China will impact and influence Southeast Asia's agenda, both bilaterally and regionally. A new geopolitical contest is emerging in the region, with the US and China going on a charm offensive.

ASEAN – which has dialogue relations with both the US and China – will inevitably find itself in the middle of this contest. The furore over the differing positions of claimant states to the South China Sea that took place at the ASEAN Ministerial Meeting in July 2012 served as a wake-up call for ASEAN not to be complacent about the region's geopolitical realities.

For the foreseeable future, Myanmar will be at the centre of this contest. President Obama stole a march on China by making landmark visits to countries in the region (including Myanmar and Thailand) en route to the November 2012 East Asia Summit in Phnom Penh. His whirlwind visit to Myanmar was meant to encourage the country's "remarkable journey of reform". Myanmar is the ASEAN member representing the grouping for ASEAN-US dialogue relations for the 2012-15 cycle. Yet, Myanmar has significant economic relations with China. The two countries elevated political relations to a "strategic level" in May 2011.

Deep reflections are now necessary on how ASEAN should position itself in the power rivalry, and maintain its central role in the regional architecture. It remains to be seen whether ASEAN's pragmatism will prevail in balancing US and China's interests in the region.

Key points: *Countries in the region need to 1) recognise that divisions will arise out of the big power rivalry for influence in Southeast Asia, and 2) prepare proactively for managing these divisions. To do so, Southeast Asia – specifically ASEAN – needs diplomatic leadership by a country seen as neutral and impartial by the other members.*

The Region: Economic Overview

After growing by an estimated 5.1 per cent year-on-year (y/y) in 2012, Southeast Asian countries¹ are expected to maintain their growth rate in the first six months of 2013. Indonesia is likely to lead on this front, followed by Vietnam and Malaysia. The pace of global growth continues to be a key concern among policymakers who are closely watching uncertainties in the US and the Euro zone economies. According to the IMF, the world output is expected to rise by 3.6 per cent in 2013, a little improvement from the 2012 estimate of 3.3 per cent.

After being an export-oriented region, post-2008, Southeast Asia is generally working towards a more balanced growth pattern. It is relying more on domestic demand in order to raise its economic resilience to external shocks. This can be observed in minor adjustments in the share of domestic demand to overall GDP, which rose from 86.3 per cent of GDP in March 2005 to 88.5 per cent in December 2011. On average, the current account surplus for the region (excluding Vietnam) fell from 11.3 per cent of GDP in 2007 to 8.7 per cent of GDP in 2010, mainly on the back of strong import growth. However, the size and nature of external adjustments differ across Southeast Asian countries.

For 2013, the strength of domestic demand is expected to outpace net exports. Many Southeast Asian economies have embarked on large infrastructure projects involving public-private partnerships. ASEAN is expected to start major cross-border infrastructure projects in 2013, which will again help to hold up the regional investment demand. Moreover, the region's middle class will continue with their spending on education and health, as well as durable goods such as cars and household appliances.

For the first six months of 2013, the monetary policy in the region will remain accommodative, based on global growth uncertainties that stem from reduced confidence in the US fiscal policy and continued Euro Zone debt crisis. Moreover, inflation in the region is expected to stay low.

Key Points: *Domestic demand will be key to Southeast Asian growth while 2013 GDP will be maintained at around 5.0 per cent y/y. There will be reduced confidence due to the US fiscal policy and Euro zone debt crisis.*

¹ Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam.

ISEAS ASEAN Economic (IAE) Forecast

	GDP Growth (constant prices, % y/y)				Inflation (average CPI, % y/y)				Nominal GDP (US\$ billion)		
	2011	2012 (est)	2013		2011	2012 (est)	2013		2011	2012 (est)	2013 (f)
			Jan-Jun	Full-Year (f)			Jan-Jun	Full-Year (f)			
Indonesia	6.5	6.2	6.2	6.1	5.4	4.3	4.4	4.5	846	868	989
Malaysia	5.1	5.2	5.1	5.4	3.2	1.8	1.7	2.0	288	326	371
Philippines	3.9	6.6	5.5	5.2	4.7	3.1	3.2	3.5	225	254	288
Singapore	5.0	1.5	2.5	3.5	5.2	4.5	3.7	3.8	260	305	348
Thailand	0.18	6.1	5.2	5.3	3.8	3.0	3.5	3.6	346	376	420
Vietnam	5.7	4.7	6.0	5.5	18.6	9.3	7.2	7.4	124	130	141
Southeast Asia*	4.4	5.1	5.1	5.2	4.5	3.3	3.3	3.5	2,089	2,259	2,557

CPI – Consumer Price inflation; est implies estimate; f implies forecast.

* The GDP figures of Southeast Asia are a simple average of the six countries; the inflation figures are simple average of five countries, except Vietnam.

Source: CEIC Database, ISEAS estimates.

Indonesia

The tussle for the Jakarta governorship ended with newcomer Joko Widodo gaining the upper hand over incumbent Fauzi Bowo, with 53.8 per cent of valid votes. Although Joko Widodo's running mate, Basuki Tjahaja Purnama, is from the minority Chinese community, that did not affect the team's appeal. Voters seemed more interested in the personality of candidates, especially in terms of their ability to empathise with the average citizen and to deliver effective policies, than in their political party or ethnic affiliations.

Beyond Jakarta, the next gubernatorial race to watch is the one in West Java, the most populous province in the country, with over 49 million residents. Already, Widodo has endorsed Indonesian Democratic Party – Struggle (PDI-P) lawmaker Rieke Diah Pitaloka. She will however be up against strong candidates such as incumbents Deputy Governor Yusuf Macan Effendi and Governor Ahmad Heryawan, who are running on different tickets this time.

The largest national strike since 1965, estimated to involve more than two million workers, took place on 3 October 2012 in 21 cities and towns. The strikers were demanding increases in the official minimum wage, an end to all outsourcing arrangements, and universal national health care. In response, the government promised to draft a regulation to increase workers' pay and quickly improve conditions for workers not on fixed contracts. Such growing assertiveness of the

labour movement means that those seeking political office will have to address the interests of this constituency in their campaigns.

In late October, communal conflict broke out in South Lampung in Sumatra between Balinese internal migrants and locals, which left 14 people dead. Tensions between Lampung locals and Balinese migrants have been rife for years partly due to the relative economic success of the newcomers. The clash led to the displacement of 2,000 people, of which 1,000 were reported to have returned home after a peace deal was brokered by community leaders. Since Indonesia's decentralisation policies favour local interests, the relationship between local communities and internal migrants is expected to continue undergoing recalibration.

The Corruption Eradication Commission (KPK), Indonesia's anti-graft agency, has been embroiled in standoffs with the National Police. The latest involved the detention of Inspector General Djoko Susilo on 3 December. In turn, the National Police had wanted to recall 13 police investigators seconded to the KPK to carry out its work. Although the President had signed the new government regulation No. 63/2005 on Human Resources which would allow investigators on loan to the KPK to stay on for as long as 10 years, the KPK's independence will be limited unless it can recruit its own investigators.

Meanwhile, Sports Minister Andi Mallarangeng became the first serving cabinet minister to face corruption charges, and consequently tendered his resignation on 7 December. The investigations may further implicate key personnel in President Yudhoyono's Democratic Party, which, with its tarnished reputation, will be disadvantaged in the coming 2014 parliamentary election.

Key points: *In the run-up to the 2014 elections, aspiring office holders will have to pay attention to the interests of political constituencies on the ground. At the same time, they need to maintain corruption-free public images.*

Malaysia

Malaysia's Prime Minister Datuk Seri Najib Razak must dissolve Parliament by 28 April 2013 to pave the way for the 13th General Election, failing which the Elections Commission will conduct the election 60 days thereafter. Present signs suggest that the election will most probably be held in March 2013, which would be shortly after beneficiaries of the slew of goodies announced at the end of October last year in Budget 2013 have received their windfall, especially the 1.5 month bonus for the 1.4 million-strong civil service.

The Barisan Nasional (BN) is expected to resort increasingly to fear tactics and political scaremongering that the mainstream print and broadcast media that it controls can be counted upon to exploit fully. Emotionally charged issues will be played up, including the character assassination of members of the opposition coalition Pakatan Rakyat (PR); the spectre of ethnic violence should the BN lose; and,

if the PR wins, the threat that the country will face bankruptcy. To win Malay votes, UMNO will fortify its Islamic and “Protector of the Malays” credentials by accusing PAS and Keadilan of selling out to the “Chinese chauvinist” DAP. In contrast, its major ally, the MCA, will attempt to draw Chinese voters away from the DAP by accusing the latter of being in cahoots with PAS which allegedly intends to introduce *hudud* and establish an Islamic state.

PR and its supporters will, in their turn, utilise the new and social media, as well as regular *ceramahs*, to attack corrupt and crony practices, as well as other excesses committed by the BN government. Needless to say, issues of poor governance such as the bad public provision of substandard transport, electricity, and water services will also be highlighted. Among urban voters, PR will focus on issues such as their concern over high crime rates and the high cost of living. The opposition will also reiterate its promise to write off student loans owed to the National Higher Education Fund Corporation and to scrap the imported car duties currently monopolised by UMNO cronies.

The results of these elections will be highly significant for how Malaysian politics will develop in the coming years. While a two-party system has come into being, it is still far from certain how the federal system will be affected, and whether some political decentralisation in the wake of a newly diversified political field will take place, in the near future.

Key points: *BN may have done enough since March 2008 to retain their electoral support, and would most likely win the 13th General Election. However, the two thirds parliamentary majority will continue to elude them.*

Myanmar

After the reacceptance of Myanmar last year into the community of nations as defined by the US and the EU, the country is once again considered a ‘normal country.’ This means that many of its problems are now acknowledged and openly discussed, a significant change from the past. However, until the General Elections in 2015, the country looks set for a period of muddle rather than resolution.

The major challenges facing the country remain the same as before: the lack of economic development and a shortage of jobs; the absence of national unity and incipient armed conflict, particularly in the border areas; and conflict between the Buddhist majority and the Muslim minority of Bengali descent, sometimes referred to as the ‘Rohingya’.

There are several huge projects on the government’s plate. These include rebuilding the government’s fiscal system, developing infrastructure, creating a financial system, and capitalising on the country’s primary industry, agriculture. Denied foreign aid and assistance for more than two decades, these are massive challenges for an impoverished country whose government has generated great expectations recently but whose citizenry suffers a skill-deficit stemming from the period of

isolation. Economic reforms will be hampered by problems arising from the attempts by newly minted politicians with little knowledge of constitutional governance to get a new form of constitutional government to work. A bureaucracy, known to fiat, must now try to anticipate pressures from the bottom.

Despite more than 20 years of ceasefires and peace talks, the certainty of peace in the border areas remains elusive. Old and new conflicts remain unresolved, and until the government and the economy can begin to make a difference in the border areas, this will remain the case. However, the prospects for peace in some areas are as good as they have been for years, and the question of minority separatism is now largely dead.

Key points: *The economy remains at the bottom of all issues and unless foreign assistance and investment increase, both of which much promised but little yet seen, the future looks uncertain for the government in Naypyitaw.*

Philippines

The Philippines will enjoy political stability in the short term. In May 2013, mid-term elections will be held for half the seats in the Senate and all in the House of Representatives. President Benigno Aquino's consistently high popularity ratings place his Liberal Party in a strong position going into the elections. Indeed, it is likely that the Liberal Party will gain another few seats, which could add momentum to his reform efforts.

One of Aquino's main priorities, the Reproductive Health Bill, has been passed and will take effect from mid-January 2013. In October 2012, the government signed a framework agreement with the Moro Islamic Liberation Front (MILF), raising hopes of a peace accord. One key component of this agreement is the replacement of the Autonomous Region in Muslim Mindanao with another political entity, Bangsamoro, which will enjoy more financial and operational responsibilities. A Transition Committee is drafting the law to establish Bangsamoro, which must pass before Congress for approval and, subsequently, be approved via referendum in the relevant areas. Despite its potential, it is quite likely that this agreement will face opposition in Congress and may also be challenged by the Supreme Court.

The impasse with China regarding the South China Sea continues. While there have been no more marine clashes, a number of significant diplomatic incidents have occurred. At the ASEAN Summit in November, President Aquino interrupted a speech by Prime Minister Hun Sen of Cambodia, the Chair of the Summit, who asserted that ASEAN members had reached a consensus that South China Sea issues would not be 'internationalised'. President Aquino stated that there was no 'consensus' on this point, as the Philippines reserved the right to refer its issues with China to international bodies for arbitration. China's new passports – depicting the South China Seas as part of its territory – as well as a declaration by the provincial government of Hainan that vessels that enter 'its' waters without permission would

be boarded and seized, have also met with expressions of disapproval from the Philippines government.

Key points: *How will internal party politics over the Reproductive Health Bill affect dynamics within the Liberal Party in the run-up to the mid-term elections? What diplomatic measures will the Philippines take in response to China's latest moves?*

Singapore

Michael Palmer's sudden resignation as PAP MP and Speaker of Parliament in late 2012 has triggered a by-election for 26 January 2013 in the single member constituency of Punggol East. The by-election is shaping up into a multi-cornered fight. The ruling PAP; Workers Party (WP); Reform Party (RP); and the Singapore Democratic Party (SDP); along with possible independents have indicated interest. The magic number for the PAP is 54 per cent, Palmer's previous share of the vote, with any result significantly lower than this translating into a poor showing. The WP will have its party brand tested by the entry of RP and SDP. RP is essentially a vehicle for Kenneth Jeyaretnam who is not expected to make much headway, while the highest profile candidate eligible for SDP is Vincent Wijesingha whose appeal to young middle class Punggol residents will be closely watched.

On the industrial front, while the strike by 171 SMRT bus drivers on 26 November has been resolved, its ramifications continue to reverberate in two ways. Firstly, although Singapore's reliance on foreign workers has kept corporate profits up, the strike suggests that such a strategy may not be a long-term solution, and that providers of 'essential services' will either have to standardise the salaries of workers of foreign nationalities, or look to the local workforce which would, in turn, demand a steeper climb in salaries.

The second is the concern that an increase in bus driver salaries will result in a fare hike for the commuter. In light of the S\$120 million in profit accrued by SMRT in the last financial year, not to mention an additional S\$1.1 billion of public funds pumped into transport companies in order to purchase new buses earlier this year, it is clear that the public is growing weary of the contradictions inherent in government-linked companies that walk the fine line between market logic and taxpayer support. These contradictions will, no doubt, be articulated in the upcoming by-elections.

Key points: *The PM has called for the review of the sale of town council computer software systems to AIM, an IT firm owned by the PAP. AIM's termination of its contract with an opposition-run town council has resulted in heated online scrutiny, and will be highlighted repeatedly at the by-election rallies.*

Thailand

The Phuea Thai Party (PTP) government of Prime Minister Yinglakh Shinawatra will press ahead with its plans to amend or rewrite the 2007 constitution. It may call a referendum for March or April, perhaps to win support for a constitution-drafting assembly. Tension and confusion over these plans reflect fears that they are designed to annul former Prime Minister Thaksin Shinawatra's criminal conviction and permit his return to Thailand. Whether the government is confident enough of its control over the judiciary, military, and bureaucracy to press ahead with this plan remains unclear.

Democrat Party (DP) leader and former Prime Minister Abhisit Vejjajiva and former Deputy Prime Minister Suthep Thueaksuban face what are, at least in part, politically motivated charges of murder and attempted murder for their roles in ending Red Shirt demonstrations in Bangkok during April and May of 2010. Their prosecution will galvanise support for the PTP government among Red Shirt voters. It is uncertain whether the Thai establishment will intervene to protect these men.

Mid-February brings gubernatorial polls in Bangkok, in which a Thaksinite/PTP heavy-weight will square off against a figure from the incumbent DP. The polls will test the parties' level of appeal to Bangkokians who live on their monthly pay-checks and often have roots in provincial Thailand. A DP defeat would deprive the party of its only foothold in the Thai political order and lead to the Thaksinite domination of the Bangkok Metropolitan Administration.

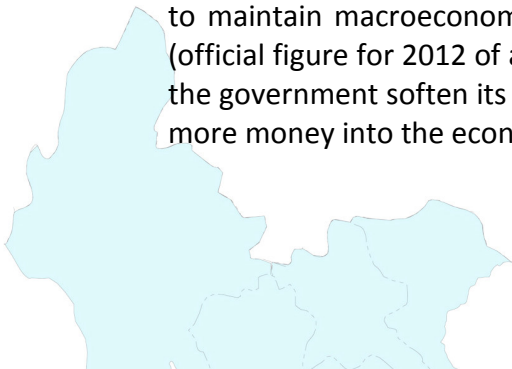
Government purchases of the main 2012/13 crop will focus attention on the Yinglakh administration's "rice pledging" scheme. How and how much the government is paying for this scheme, charges of corruption and success in winning government-to-government sales of rice stocks will fuel controversy in the months ahead.

These developments will unfold amid uncertainty about the health not only of the king but also of other leading members of the royal family.

Key Points: *PTP hopes to amend the Thai constitution will prove a crucial test of its strength. If Thailand is due for a round of "hot season violence" this year, constitutional amendment could well be the spark.*

Vietnam

On the economic front, the main worries for Vietnam in this quarter are not very different from those of the last. The government will exert more effort than before to maintain macroeconomic stability, focusing on ensuring that inflation stays low (official figure for 2012 of about 7 per cent at the end of that year). Only then would the government soften its insistence on high interest rates, and allow banks to pump more money into the economy to spur growth.



The banking sector continues to face the problem of severe non-performing loans (9 per cent of all loans or about US\$12 billion). The government is looking for ways to restructure this sector and has given assurances that it would not allow the banks to collapse. The SME sector continues to report accumulated increases in the number of enterprises that have deregistered or stopped activities altogether. The government has noticed this and will prioritise lending (with rates ceilings) to the agricultural sector and farming households.

In this regard, Hanoi is ready to introduce incentives to boost industrial production, as well as open up alternate markets for its exports so as to reduce inventory. It is also looking at boosting domestic demand, in particular, continuing with huge infrastructure spending, as well as those with social objectives, such as public housing, rural infrastructure, and irrigation and agriculture projects. Another round of increases in pension and minimum salary levels for government officials is also in the works for 2013, but these increases tend to run behind inflation.

Geopolitically speaking, the South China Sea will continue to fix Vietnam's attention. The challenge is to maintain good neighbourly relations and socialist camaraderie with China while, at the same time, securing its economic interests within its Exclusive Economic Zone that overlaps the area enclosed by the Chinese 9-dotted line. There are no signs of any new breakthrough since the visit of the General Secretary to China in October 2011, and the Sino-Vietnamese 6-point agreement reached at that time will be under greater stress with each new skirmish on the seas. Competition among top political leaders in the great game of anti-corruption will also continue to occupy their time. A revision of the State Constitution is expected in 2013 but the results are likely to disappoint because it will not address core weaknesses in the political system which have contributed greatly to the present economic and corruption malaise.

Key points: *As the Vietnamese economy deals with the problems that are partly of the government's making and partly caused by the global economic downturn, the question is whether political elites can reduce corruption and strengthen corporate governance.*