

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

### **The Region: Geopolitical Overview**

The geopolitical interests of China and India intersect in Myanmar. For China, Myanmar provides a land route to the Indian Ocean for gas and oil pipelines and access to natural resources. For India, it is the only land link to Southeast Asia.

For two decades China has had virtually unchallenged strategic primacy in Myanmar because of the absence of the West and Japan, while Western sanctions have prompted Myanmar to turn to China for regime survival. However, over the years the relationship has turned into one of uncomfortable overdependence for a country that has traditionally treasured its autonomy and sovereignty. A conspicuous Chinese presence has also generated anti-China feelings among the local people.

Myanmar's opening up, if sustained, will see China's strategic primacy reduced as the former expands its economic and political relations with other countries. The net effect will be more balance in Myanmar's foreign relations. This will also enable it to hedge against its northern neighbour. Nevertheless, out of need and a reluctance to offend China, Myanmar will retain much of the on-going cooperation with Beijing.

Indeed, given its power and proximity, China will remain the single most important factor in Myanmar's external relations.

**Key points:** *China, on its part, will see the trends as less favourable to its interests. It will closely watch Myanmar's relations with the US and its allies and friends, given its anxiety about "encirclement" by potentially hostile powers. There will be more Sino-US and Sino-Indian competition for influence in Myanmar.*

### **The Region: Economic Overview**

The economies of Indonesia, Malaysia, Singapore, the Philippines and Vietnam have cautiously picked up their momentum as Europe has remained calm. Industrial production (IP), exports and GDP have accelerated and are likely to rise for the rest of 2012.

In January-February 2012, IP rose by 7.0 per cent in Indonesia, 4.0 per cent in Malaysia and 5.8 per cent in the Philippines. Exports from the region also surged, with China's share growing from 12 to 16 per cent between 2010 and 2011. This is key as China's imports offset the lack of US and European demand. Importantly, regional consumption demand has kept the growth momentum positive

for the past couple of years. In the last three quarters of 2011, Southeast Asia's consumption expenditure expanded by 4.7 per cent in real terms (vis-à-vis 1.5 per cent for the US and 1.0 per cent for the Europe). This domestic demand will help the region grow at, or near, its potential for the rest of the year.

After falling for a quarter or two, the GDP growth of the region is back on track. In 4Q-2011, GDP growth of the region accelerated by 5.0 per cent from 4.1 per cent in 2Q-2011. Given such positive trends, GDP is likely to grow by another 4.5 per cent in the first half of 2012. The optimistic sentiment is also reflected in the capital markets. Meanwhile equities in the region have been up by 13 per cent since December last year, as are US and European equities. However, risks remain.

In Europe, the better sentiment is due to the long-term refinancing operations under which the European Central Bank has loaned €1 trillion to banks for three years at a cost of 1 per cent per year. This has helped to stretch short-term problems into long-term ones, but has not addressed the conundrum that is Greece. The US is still struggling with its consumption growth despite positive economic data. Hence, for Southeast Asia, barring major shocks like significant economic instability in the US and Europe, growth based on domestic consumption and Asian regional demand will continue.

**Key points:** *Inflows into the region have returned with positive outlook in the capital markets. But risks remain in Europe. For Southeast Asia, so long as the situation in the EU and US does not worsen, the region will continue with its better growth performance.*

## Cambodia

Contrary to international speculation, Cambodia has shown it will chair ASEAN this year in an even-handed manner without being unduly influenced by China. It passed the initial test by steering the two-day 20<sup>th</sup> ASEAN Summit to a successful conclusion in April. The critical issue was always going to be the South China Sea, where four Southeast Asian countries have territorial and jurisdictional claims that overlap with those of China.

With Cambodia being a non-claimant and an ASEAN member with close ties to China, the worry was that Phnom Penh would be persuaded by Beijing to ignore the concerns of the Philippines and Vietnam, whose exploration ships have been confronted by Chinese vessels. The fears were compounded by the arrival of Chinese President Hu Jintao in Phnom Penh just days before the summit, speculated to be with the aim of pressuring Cambodia into taking Beijing's stand into account. It appeared that Chinese arm-twisting was working when Cambodia announced that it would not put the South China Sea on the agenda. But Phnom Penh's only misstep was to

declare publicly what is standard ASEAN practice: to keep sensitive issues off the declared agenda, but discuss them anyway if raised by any leader. And that was what happened. Moreover, the Chairman's Statement issued at the end of the summit noted that the Declaration on the Conduct (DoC) of Parties in the South China Sea was "signed between ASEAN and China", when Beijing wanted the DoC to be identified as an agreement between China and the four Southeast Asian claimants.

Meanwhile, Prime Minister Hun Sen's government has successfully torpedoed the appointment of a UN-nominated judge to the Khmer Rouge trials in Phnom Penh, further undermining the credibility of the mixed Cambodian-international tribunal, leaving its future in doubt. Laurent Kasper-Ansermet, a Swiss national, supposed to replace a German judge who quit earlier, resigned as well, saying he was also being prevented from carrying out his duties. The government is determined to block cases identified by the international co-prosecutor involving the Khmer Rouge air force and navy commanders, as well as three regional officials accused of committing genocide and crimes against humanity. The ongoing crisis suggests the government will prevail, but at a severe cost to its international standing.

**Key points:** *While Cambodia has worked hard to enhance its international credentials and win a non-permanent seat on the UN*

*Security Council, it does not seem to appreciate that its efforts can be undermined by its refusal to follow the rule of law domestically.*

## Indonesia

The trends apparent earlier this year are likely to carry on for the foreseeable future. One such trend is the outbreak of corruption scandals every few months. President Yudhoyono's Democrat Party, especially, has been hit by a string of corruption cases. Corruption amongst governors and district heads will remain rampant with about 33 per cent of them reported to be currently under investigation. The most severely affected institution, however, continues to be parliament with more than 40 lawmakers convicted of graft. More politicians and lawmakers are likely to be implicated in corruption investigations in the coming months.

The Democrat Party's shaky coalition with its partners is also likely to continue. Main coalition members such as the Golkar Party and the PKS play the role of de facto opposition to the government. In-fighting within parties over prospective candidates for the 2014 presidential election will draw most attention in the coming months. There is mounting rivalry in Golkar between Chairman Aburizal Bakrie and Akbar Tanjung (head of the party's Advisory Board) over the question of presidential candidature. A special caucus to make Bakrie's nomination official is being discussed. There will also be rising – and

potentially confrontational - rivalry between incumbent Fauzi Bowo and Joko Widodo (current mayor of Solo) ahead of Jakarta's governor elections. The former is known for his connections to the Islamic Defenders' Front (FPI).

Authorities are also bowing to hard-line Islamist sentiments, particularly to the FPI. The FPI has been acting with impunity and has even grown confident enough to issue orders to the police. This has affected Shi'ite minorities in East Java and the island of Madura. Attacks against Ahmadi Muslims in West Java are another concern as the Ahmadiyah's legal status remains in a limbo. The hard-liners' campaigns are spreading to other regions such as Solo, Jakarta and Aceh where 16 churches were shut down by authorities "to prevent inter-religious conflict". These incidents are doing damage to Indonesia's otherwise favourable investment climate.

**Key points:** *Two issues continue to challenge Indonesia's favourable investment climate – corruption and the spectre of ethnic-religious conflict. Where will the tipping point be?*

## Malaysia

The past few months saw political competition taking an interesting shape between the ruling Barisan Nasional on the one hand, and forces opposed to the government on the other. In mid-April, Premier Najib Razak pushed through legislative

reforms such as the Security Offences (Special Measures) Act to replace the Internal Security Act, supplemented by the Criminal Procedure Code (Amendment) Bill 2012, and also the University and University Colleges (Amendment) Bill. These were the latest of many reforms that he had implemented, meant to appease the unsettled urban middle class.

However, measures to improve electoral fairness did not meet with popular approval, and *Bersih*, the broad coalition of NGOs and political parties demanding clean elections, organised a huge demonstration on the streets of Kuala Lumpur on 28 April drawing about 100,000 participants.

This show of discontent, along with the violence that broke out between police and demonstrators after the rally had officially ended puts enormous pressure on the Prime Minister to shelf any plans he may have had for General Elections in June. His announcement on Labour Day that minimum wage laws would be implemented throughout the country also failed to rouse the warm welcome he had expected.

The coming months will see a continuation of this political one-upmanship. Technically, General Elections can be called as late as 27 June 2013, but the government will wish to surprise the opposition by choosing an earlier date that is to its own advantage.

What should also worry this government, the longest serving one in the world, is the heightened level of political activism in the country. This is expected to lower its chances of regaining the two-third majority in parliament that it enjoyed for over half a century, which it lost in 2008.

The newly emerged two-coalitional system in Malaysia is in many ways normalised and will continue to configure the nature of politics in the country. Most consider the government to have a slight edge in the next elections, but not much is needed in this country where politicking is a way of life, for that advantage to shift the other way.

**Key points:** *Pictures and video clips showing excessive use of force by the police on protesters have emerged in the aftermath of the Bersih rally. These will go some way in entrenching the already deep distrust of the state.*

## Myanmar

A year after taking office in March 2011 the government of President U Thein Sein is on a roll, capitalising on its much applauded economic and political reform initiatives. All this has been accomplished without the *Tatmadaw* (Myanmar Defence Services) in clear public view. As Myanmar's ruling elite strives to return the country to 'normalcy' the accompanying discourse seems to revolve around issues relating to top-down economic and political reforms with particular emphasis on

personalities; viz. the President and Daw Aung San Suu Kyi (ASSK), the iconic leader of National League for Democracy (NLD), who recently swept into parliament with an overwhelming victory (43 out of 44 contested seats) in the 1 April by-elections. However, in the euphoric atmosphere of a rapidly changing Myanmar, there has been very little attention paid to the *Tatmadaw* commanded by a new generation of officers who had no part in the 1962 and 1988 coups that led to military dominance in Myanmar.

The *Tatmadaw* was put under the spotlight earlier this year when ASSK questioned the military's commitment to support ongoing reforms and mooted the possibility of a coup. In her campaign speech, ASSK identified Constitutional amendments (to change "undemocratic" elements) as one of the three prioritised aims of her party; the other two being the rule of law and internal peace. All these aims can be seen as threatening to the military, which constitutionally holds 25 per cent of the seats in central and provincial parliaments, and is exempted from civilian adjudication. The replacement, just a day before the reconvening of the parliament (on which NLD was sworn in) of 59 majors from the military representatives in the Union assemblies (Lower and Upper House) by brigadiers, colonels and lieutenant colonels reflected the military's concern over new political dynamics brought about by ASSK's coming into parliament.

Although the President's chief political advisor has repeatedly stated publicly

that the new military leaders are loyal to the government and harbour no intention to seize power, the success of Myanmar's reforms hinges on the military's cooperation. ASSK and the NLD as well as the reformists in and out of government would do well to allay the military's anxieties and address its concerns without prejudice. Confidence-building between the reformists and the military is imperative for improving Myanmar's civil-military relations.

**Key points:** *The Tatmadaw is the proverbial elephant in the room. Its taken-for-granted presence should not lull observers into believing it will have little part to play in Myanmar's fast-changing political landscape.*

## Philippines

The dispute between the Philippines and China regarding overlapping claims in the South China Sea reached tense new heights in April. Chinese fishing vessels were spotted by the Philippine Navy in the Scarborough Shoal, a group of low-lying islands with scarce direct economic value, but with supposedly significant oil, gas, and marine resources. While lying within the Philippines' exclusive economic zone, the Shoal is also claimed by China.

The Philippine's largest warship, recently acquired from the US, was sent to arrest the crew. However, two Chinese maritime surveillance ships blocked the way. A stand-off ensued, with the Philippines Foreign Affairs

Secretary declaring that the incursion of the Chinese ships was a violation of its national sovereignty and with the Chinese re-stating their claims. The warship was subsequently replaced by a Philippine coast guard vessel, and the Chinese boats were eventually allowed to leave the area.

The conflict has direct implications for regional stability, as four ASEAN members along with China and Taiwan have competing claims to all or part of the South China Sea. In addition, the US-Philippines Mutual Defence Treaty could escalate a conflict between the Philippines and China. While the US has avoided engaging in this current dispute, the recent US 'pivot' to Asia has involved help to modernise the Philippines' armed forces as well as more frequent joint-training exercises. The latest round has been expanded to include other countries in the region such as Australia, Malaysia, and Vietnam.

The Scarborough Shoal issue has now become a domestic political issue, as the House of Representatives minority leader has proposed a boycott of China-made goods. However, on the economic as well as the military front, the Philippines has the most to lose. China is a major market, a source of cheap food and manufacturing inputs, and an important investor in the mining sector—not to mention the hundreds of thousands of workers in Macau and Hong Kong who could be sent home.

Any further escalation could disturb the economy's bullish performance,

which is predicted to grow by 5-6 per cent in 2012. The Philippines has reduced its fiscal deficit, has a current account surplus, and is now a creditor country to the IMF. Investors have re-evaluated the country's creditworthiness, and it is a distinct possibility that the Philippines can be awarded investment-grade status.

**Key points:** *How will the relationship between the Philippines and China evolve? What economic, diplomatic, and military strategies will they adopt to advance their claims over the South China Sea? Will the South China Sea issue become a partisan issue in the run-up to the 2013 mid-term elections?*

## Singapore

The court case over whether the Prime Minister has 'unfettered discretion' in deciding when to announce a by-election in Hougang has been rendered moot. By calling for the by-election on 26 May the Prime Minister has avoided the public spectacle of a challenge to his authority as well as the possibility of an unwelcomed court ruling. While the Workers' Party's share of the popular vote is expected to dip from the high of 64 per cent it garnered in May 2011, the general consensus is that Hougang is still theirs to lose given the opposition party's long association with the constituency. No surprise then that the ruling People's Action Party (PAP), as well as the mainstream press, will take pains to assert that the contest is not a

referendum on the ruling party but, instead, tout it as a highly localised election. Nevertheless, given the government's promises to be more responsive in the aftermath of last year's General Elections, the ruling party's share of the vote cannot help but be seen as a barometer of its endeavours thus far.

Another key issue to look out for is the White Paper on population and immigration promised at the end of the year. This White Paper will be based on a report released in April by the National Population and Talent Division which warned of the country's low fertility rate and the need for 20,000 to 25,000 new citizens each year to prevent population decline by 2030. The report reflects the national importance of the matter, and serves as an early signal of a possible relaxing of recently tightened immigration policies.

Finally, the last couple of months have seen some prominent local academics step forward to criticise government policies. The problems of chronically underpaid low-wage workers and the inadequate medical cover of elderly citizens were highlighted by Professor Lim Chong Yah and Professor Phua Kai Hong, respectively. Far from being 'opposition types', such well established individuals may change the character of public debate from the simplistic pro-establishment versus anti-establishment dynamic to a more substantive national conversation. Perhaps more profoundly, does this signal the emergence of a non-partisan

intelligentsia that is at odds with the direction taken by the ruling party over national challenges such as the widening wage gap and a rapidly ageing population?

**Key points:** *The tone of the campaign will be closely watched. Last year's General Elections saw the ruling party make several missteps such as personal attacks and stark warnings to voters from senior leaders, much of which did not go down well with voters. Has the PAP learned from these missteps and what will politics in the 'new normal' look like?*

## Thailand

Matters to watch include the consolidation of the *modus vivendi* between the Yinglax Shinawatra government and the establishment, the government's relations with its "red shirt" base, the political consequences of inflation, prosecutions for *lèse majesté*, progress toward constitutional amendment and Thaksin Shinawatra's return, a cabinet re-shuffle, and the violent southern insurgency.

The Yinglax government is likely to deepen its truce with royalist forces and the military. While bringing surface political stability, this truce comes at the cost of effective abandonment of "red shirt" voters who brought the Yinglax government to power and of vigorous prosecution for alleged insults to the monarchy. Rank-and-file "red shirt" disaffection from the government is likely to

increase. Mounting costs of food, transportation, and electricity may deepen disaffection; inflation will also harden sentiments among the anti-Thaksin public that the government is incompetent.

Inflation will give the Democrat Party, increasingly forsaken by the royalist-military establishment, the pretext to intensify criticism of the government. So will progress toward seating a Constitution Drafting Assembly and efforts to pass an amnesty bill be used to eventually bring Thaksin back to Thailand?

A possible verdict of guilt in the case of *Prachatai* Web-master Chiranut Premchai-amphon, as well as other prosecutions for insulting the monarchy, will deepen international doubts about Thailand's political order.

The end of a five-year ban from political office on 111 members of the now abolished Thai Rak Thai Party is likely to see Yinglax name a number of these figures to her Cabinet. While intended to improve government performance on the political and economic fronts, this re-shuffle may cause conflict within the ruling Phuea Thai Party.

In Thailand's Deep South, insurgents are likely to demonstrate increasing technical and operational sophistication.

**Key points:** *Apparent political stability does not reflect resolution of fundamental national problems. Half a*



*year after the end of the disastrous floods of 2011, political manoeuvring continues to trump effective administration.*

## **Timor-Leste**

With the successful completion of the two-step Presidential Election in April, Timor-Leste has passed the first test of its ability to manage without UN presence. If the country can conduct mid-year parliamentary elections in similar, trouble-free fashion, the UN Integrated Mission in Timor-Leste (UNMIT) is likely to pack and leave by the end of the year. The withdrawal of a 1,200-strong police contingent, several hundred international civilian staff and a few dozen military liaison officers – after 13 years of peacekeeping – will be a vote of confidence in Timor-Leste's political stability. With just a little UN logistical help, Timor-Leste ran the election, largely free of the violence that marred the 2007 campaign.

Taur Matan Rurak became the new president, easily defeating Francisco Guterres "Lu Olo" in a run-off on 16 April, after they outpolled President Jose Ramos-Horta and other candidates in the first round on 17 March. Rurak's assumption of the largely ceremonial post on 20 May makes the outcome of the General Election on 7 July even more uncertain. While he ran as an independent, he was nevertheless backed by Prime Minister Xanana Gusmao's CNRT party. Guterres, Rurak's main rival, representing the

opposition Fretilin party, relentlessly attacked the record of the Gusmao administration, a strategy that conspicuously failed.

Of the 24 political parties expected to contest the election, only CNRT and Fretilin seem capable of obtaining a majority. More likely, one or the other will need to form a coalition with smaller parties. The victor will inherit a resilient but impoverished country, where oil wealth is yet to translate into economic development.

**Key points:** *Timor-Leste's government and main opposition Fretilin party have played their part in attaining political stability. Once the parliamentary election is completed, they must make greater efforts to create jobs, reduce inflation and spread prosperity beyond Dili.*

## **Vietnam**

Vietnam will see significant political and economic activities in the second half of 2012. To be sure, the primary concern of most people as well as the private business sector will be the economy's health. Exports in March and April 2012 surprised with a strong momentum, growing at over 20 per cent. Remittances into Vietnam also grew, while the exchange rates between gold and the US dollar on the one hand, and the Vietnamese dong on the other, have seen some stability. On the negative side, interest rates for loans and inflation rate are still in double digits.

The discussions over economic restructuring have largely been over the streamlining of state conglomerates in order to concentrate on core competencies. While there is no indication that foreign buyers are preferred for the non-core assets of these conglomerates, domestic buyers are, however, short of funds due to the high interest rate for loans. Nevertheless state businesses will continue to receive state funding because the current political leadership is not willing to relinquish its lead role in the economy.

As a quick-fix measure for a severely haemorrhaging state economic sector, a few leading state business leaders were dismissed from their posts in the second quarter of 2012. There may be more firings in the next quarter, although this does not necessarily mean the introduction of more able successors. Instead, these openings are opportunities for competing political groups to capture state resources. As such there may be more controversial appointments, such as the appointment of 24 year old To Linh Huong to chair the Board of Directors of Vinaconex-PVC, the state-owned real estate and petrochemical developer, in April 2012.

This jostling for power will only increase in light of the poor economic performance, some even say mismanagement, of the Prime Minister. Never has the PM's popularity been so low since his ascendance in 2006 when he was hailed as a reform-minded leader. In this ongoing power jostle, more

corruption scandals, as well as dismissals or sudden promotions of key officials in government and Party departments and state companies are to be expected.

**Key points:** *In terms of foreign relations, the Vietnamese leadership will have to deal with two problem spots – the drying up of the Mekong River due to upstream activities and China's assertiveness over the South China Sea. Watch how Vietnam responds to the Scarborough Shoal stand-off between China and the Philippines.*