

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

At the 45th ASEAN Ministerial Meeting (AMM) held in July at Phnom Penh, ASEAN Foreign Ministers failed, for the first time, to issue a joint communiqué, signalling their inability to reach a common position on the activities of claimant states in the South China Sea. Cambodia, the current ASEAN Chair, was expected to take the lead in working for a negotiated compromise.

This failure led to the subsequent issuance of the “ASEAN’s Six-Point Principles on the South China Sea” statement by ASEAN Foreign Ministers on 20 July. Following this a month later was their statement on recent developments in Myanmar’s Rakhine State, issued on 17 August. The furore following the 45th AMM, and the subsequent diplomatic endeavours by Indonesia to secure a common ASEAN position, highlight two key learning points.

The first is the importance of ASEAN’s unity of purpose. This unity, though often echoed in ministerial speeches and the organisation’s rhetoric, may not always be as steadfast as one may be led to believe. External or internal factors may weaken this unity, and it is up to the political will of key individuals of the day to salvage it. The second is the crucial role of the ASEAN Chair. To be an effective ASEAN Chair requires a deep understanding of, and commitment to, ASEAN processes and institutions, and to ASEAN’s central role in regional and international dynamics.

The pressing question now is how future ASEAN Chairs will deal with the South China Sea and other contentious issues. Brunei Darussalam will chair ASEAN in 2013 and Myanmar in 2014. There are concerns over Myanmar’s ability – taking the ASEAN Chair for the first time – to deal with attempts to influence the Chair. It is to be hoped that Myanmar – taking the lessons from Phnom Penh – will give importance to the country’s commitment to ASEAN in 2014.

Key points: *The immediate task is to ensure ASEAN’s unity at the upcoming 21st ASEAN Summit in Phnom Penh in November, when ASEAN leaders will meet with counterparts from big nations, including the US and China.*

The Region: Economic Overview

Southeast Asia is estimated to have grown by 4.3 per cent in the first half of 2012 year-on-year against ISEAS’s estimate of 4.5 per cent (ISEAS Monitor No. 2 2012).

Domestic demand has been crucial in keeping the growth figure at a healthy level, albeit at a slower pace. The last three months saw negative global developments. In Europe, increased political uncertainty in Greece and the Spanish banking sector problem have led to financial stress in the global market. The big economies of Asia, such as China and India, have been hit by slowing domestic demand as policy tightening measures in the last year take effect. With perceived growth uncertainty and increase in investor risk, many emerging market economies have witnessed not only equity price decline but also capital outflows and currency depreciation. Prices of crude oil declined to around US\$78 per barrel in June, 27 per cent below the end-February highs. Going forward, it is expected that the condition in Europe will ease as policymakers work on the decisions made at the EU leaders' summit in June.

For Southeast Asia, the GDP is expected to grow by 5.1 per cent year-on-year for the full-2012 (see Table 1). Most of the economies are expected to slow down in the second half of 2012, with the exception of Thailand, which was recovering from flood related losses in end-2011. Exports, with repercussion on the manufacturing sector, will be a drag on the economies. Growth in the services sector (transport and other trade related services) will ease, but will remain stable. Again, domestic demand should hold up. Although there can be some degree of moderation, investment (especially government development projects) and private consumption should keep the region on a fairly healthy growth path.

With an expected moderation in the economy and lower crude oil prices, elevated levels of headline inflation may come down. The consumer price inflation may slip from 4.5 per cent in 2011 to 3.6 per cent in 2012. This will keep the policy rate on hold or will translate into further easing. For Southeast Asia, downward risk continues to loom large from external factors such as insufficient policy action to tackle the Euro crisis, possible fiscal tightening in the US, and slowdown in China's investment spending.

Table 1: Economic Forecasts

	GDP Growth (constant prices, % y-o-y)				Inflation (average CPI, % y-o-y)			
	2011	2012			2011	2012		
		Jan-Jun	Jul-Dec (f)	Full-Year (f)		Jan-Jun	Jul-Dec (f)	Full-Year (f)
Indonesia	6.5	6.3	6.0	6.1	5.4	4.1	5.1	4.6
Malaysia	5.1	5.1	4.7	4.9	3.2	2.0	2.0	2.0
Philippines	3.7	6.0 ⁺	4.6	5.3	4.7	3.0	3.7	3.4
Singapore	4.9	1.8	3.9	2.8	5.2	5.1	3.9	4.5
Thailand	0.06	2.3	9.5	5.9	3.8	2.9	3.6	3.3
Vietnam	5.9	4.35	6.0	5.2	18.7	12.3	5.0	8.7
Southeast Asia*	4.4	4.3	5.8	5.1	4.5	3.4	3.7	3.6

CPI: Consumer Price inflation.

f: forecast.

+ estimate as second quarter official GDP figures were not out till 26-08-12.

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

Source: CEIC Database, IMF World Economic Outlook (April 2012, update July 2012), ISEAS estimates.

Key points: *Global conditions point towards weaker production output and exports. 2012 GDP is expected to be 5.1 per cent year-on-year. Europe remains the biggest risk.*

Country Analysis

Cambodia

Bilateral ties between Cambodia and Thailand have been strained by border clashes between their troops since the historic Preah Vihear Temple was granted UN World Heritage status in July 2008. The International Court of Justice (ICJ) ruled in 1962 that the temple of Preah Vihear belonged to Cambodia, but Thailand's recent claims over 4.6 sq km of land surrounding the Temple set in motion a series of border clashes between the two sides from 2008. This has damaged not only bilateral relations between the two countries, but has also threatened regional peace and stability as well as the credibility of ASEAN, of which both countries are members.

Both countries have tried to settle this through existing bilateral mechanisms but to no avail. Thailand has insisted on a bilateral approach, but Cambodia has opted for a multilateral approach because of its lack of confidence in bilateral negotiations with Thailand.

In July 2011, the ICJ ordered Thailand and Cambodia to withdraw their troops from the temporary demilitarised zone in a disputed portion of their border around the temple, and urged both countries to allow ASEAN observers into the disputed zone. Although the two neighbours agreed to abide by the court's order, little progress has been achieved and the prospect of a peaceful solution is still somewhat elusive.

In late July 2012 both countries pulled back their troops from the dispute border, but ASEAN was not formally invited to observe the troop withdrawal. However, the Joint Border Committee has resumed its work on border demarcation since the Yingluck government came to power in Thailand.

Key points: *The ICJ is expected to announce its decision over the interpretation of the 1962 judgment at the end of 2012. It remains to be seen if the court ruling will bear any positive resolution and allow ASEAN to mediate.*

Indonesia

The interest in Indonesian national politics is currently focused on Surakarta mayor, Joko “Jokowi” Widodo’s, unexpected challenge to incumbent Fauzi Bowo for the position of Jakarta governor. As all parties have failed to garner 50 per cent of the vote, the two frontrunners will face each other again for a final run in September. Widodo’s attention-grabbing bid has even prompted some to consider him and his running mate, Basuki Tjahja, as potential contenders for the presidential elections in 2014. This is interesting as Widodo and President Yudhoyono are both from the Democrat Party, with the latter supporting the campaign of Fauzi Bowo. The Democrat Party has been struggling with corruption allegations involving several key figures for over a year, with potentially detrimental consequences for the 2014 parliamentary polls. Widodo, by contrast, has an image of a comparatively “clean” politician.

The polls are still almost two years away but several parties have made public their candidates for presidency. Among the nominees, the former head of the Army Strategic Reserve Command and chairman of the Gerindra Party, Prabowo Subianto, is perhaps the most divisive. All major surveys put him amongst the three leading contestants. The two others are usually the chairperson of the Indonesian Democratic Party, Megawati Sukarnoputri, and chairperson of Golkar cum business magnate, Aburizal Bakrie.

There is considerable national attention currently on the trial of Anand Krishna, a spiritual activist whose books promote religious pluralism. During his trial, the court appeared to pay more attention to his teachings than the (lack of) evidence related to the charges of alleged sexual misconduct. His eventual acquittal was recently overturned by the Supreme Court and he is currently filing a case review. Anand’s case is a manifest sign that corruption in its various forms continues to be the biggest and most complex challenge in Indonesia. Of 33 governors, 13 currently are in jail or face trial. Estimates put the number of corrupt senior public officials at about 30 per cent.

Key points: *Among the main institutions tasked to tackle corruption in Indonesia, only the Corruption Eradication Commission has a clean record. However, its efficiency is often compromised by parliamentarians themselves.*

Malaysia

Even though net exports fell by 36.2 per cent, the Malaysian economy registered a strong second quarter growth of 5.4 per cent mainly due to a 13.8 per cent growth in domestic demand. Domestic demand in the next few months will remain strong because there is momentum generated by huge public construction projects and by

the civil service pay rises and government cash handouts. While the full year growth for 2012 is expected to be nearly 5 per cent, global economic uncertainties could adversely impact growth as early as the first half of 2013.

Because the public sector will remain a key driver of growth, Najib's administration will struggle to rectify the pitfalls posed by ballooning federal budget deficit and federal debt. In view of the impending general election, the government cannot afford to scale down subsidies or increase its revenue base to reduce its deficit and debt. Strong economic growth, however, will barely address the rising costs of living faced by ordinary Malaysians, triggered by privatisation and corporatisation of services, especially in the education, health care, and utilities sectors. Malaysian household debt, RM540.5 billion, the second highest in Asia, will hold steady, if not rise, as citizens take out more loans and make use of easy credit from credit cards to cope.

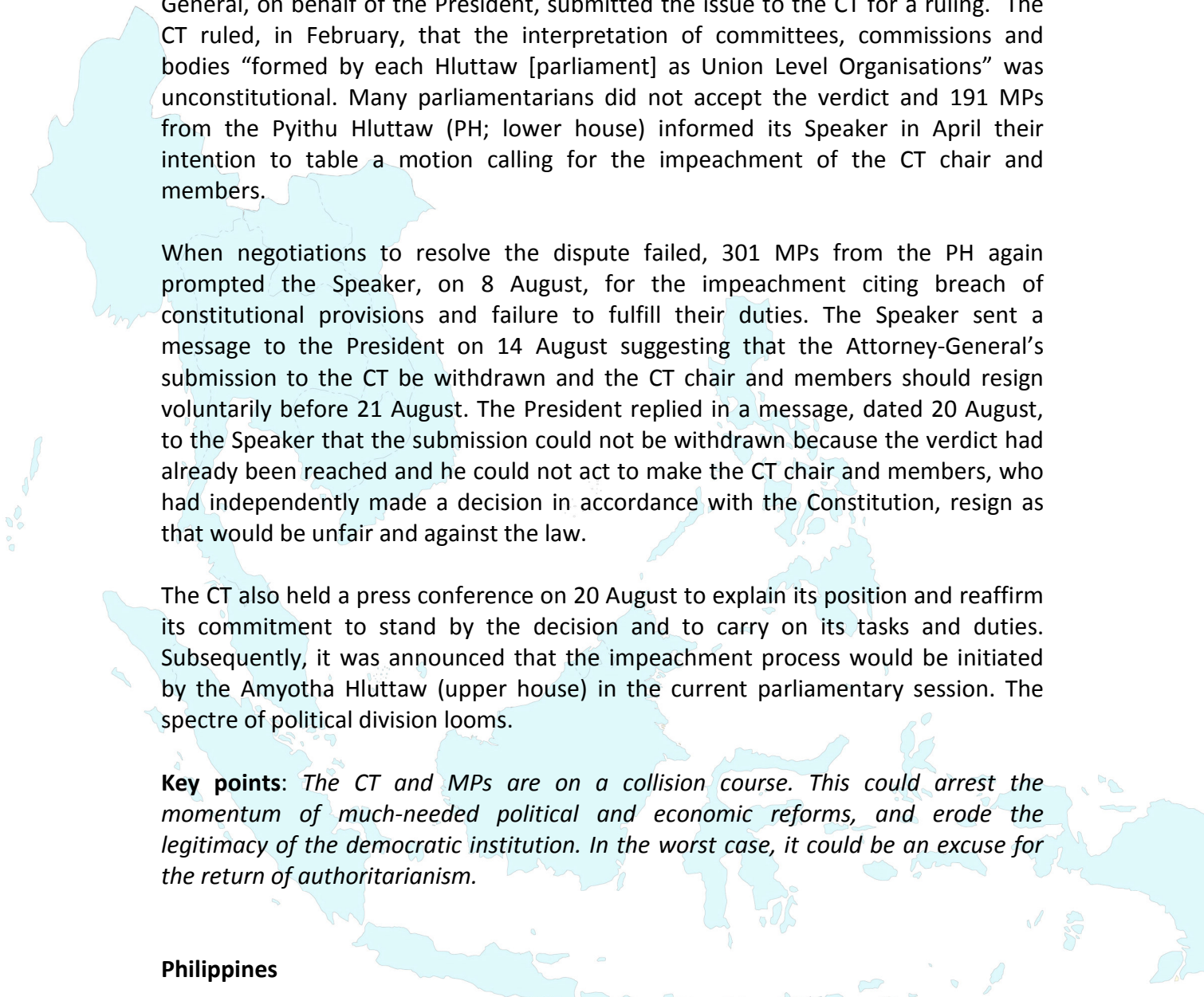
Politically, the government has not much time left as the 13th General Election must be held within the next six months. Najib's efforts to project a moderate image have been undermined by UMNO politicians and PERKASA extremists, as well as the UMNO-owned newspaper *Utusan Malaysia* harping on racial and religious issues. It appears that Najib is borrowing a leaf from Mahathir's manipulative use of scare tactics and intimidation that helped the latter to win the 1999 election. A cocktail of explosive and recurrent issues – May 13, hudud, Malay rights, and religion – will be highlighted and exploited by UMNO-BN in the run up to the election.

Divisions and differences between and within the Anwar-led Pakatan coalition parties will be fully exploited by UMNO-BN. Selected opposition politicians will be enticed to be 'political frogs'. At least two key PAS leaders are being courted by UMNO. Growing electoral discontent in Sarawak and especially Sabah (over illegal immigrants, oil royalties, the 20-point Agreement, and Christianity) will get more attention from the Najib administration.

Key points: *Negative coverage of opposition local governments, parties, and politicians will gain more space and air time in the mainstream media. How such coverage will play out amongst the electorate remains to be seen.*

Myanmar

Myanmar is being confronted with a serious challenge to the rule of law and the integrity of the constitutional arrangement by a controversy over the ruling by the Constitutional Tribunal (CT) regarding the status of parliamentary bodies. It began when parliamentarians insisted that committees, commissions and bodies formed by parliament be accorded the status of "Union" (central) level organisations in order to fulfill their 'check and balance' function.



A request to clarify the issue was sent to the President early this year. The Attorney-General, on behalf of the President, submitted the issue to the CT for a ruling. The CT ruled, in February, that the interpretation of committees, commissions and bodies “formed by each Hluttaw [parliament] as Union Level Organisations” was unconstitutional. Many parliamentarians did not accept the verdict and 191 MPs from the Pyithu Hluttaw (PH; lower house) informed its Speaker in April their intention to table a motion calling for the impeachment of the CT chair and members.

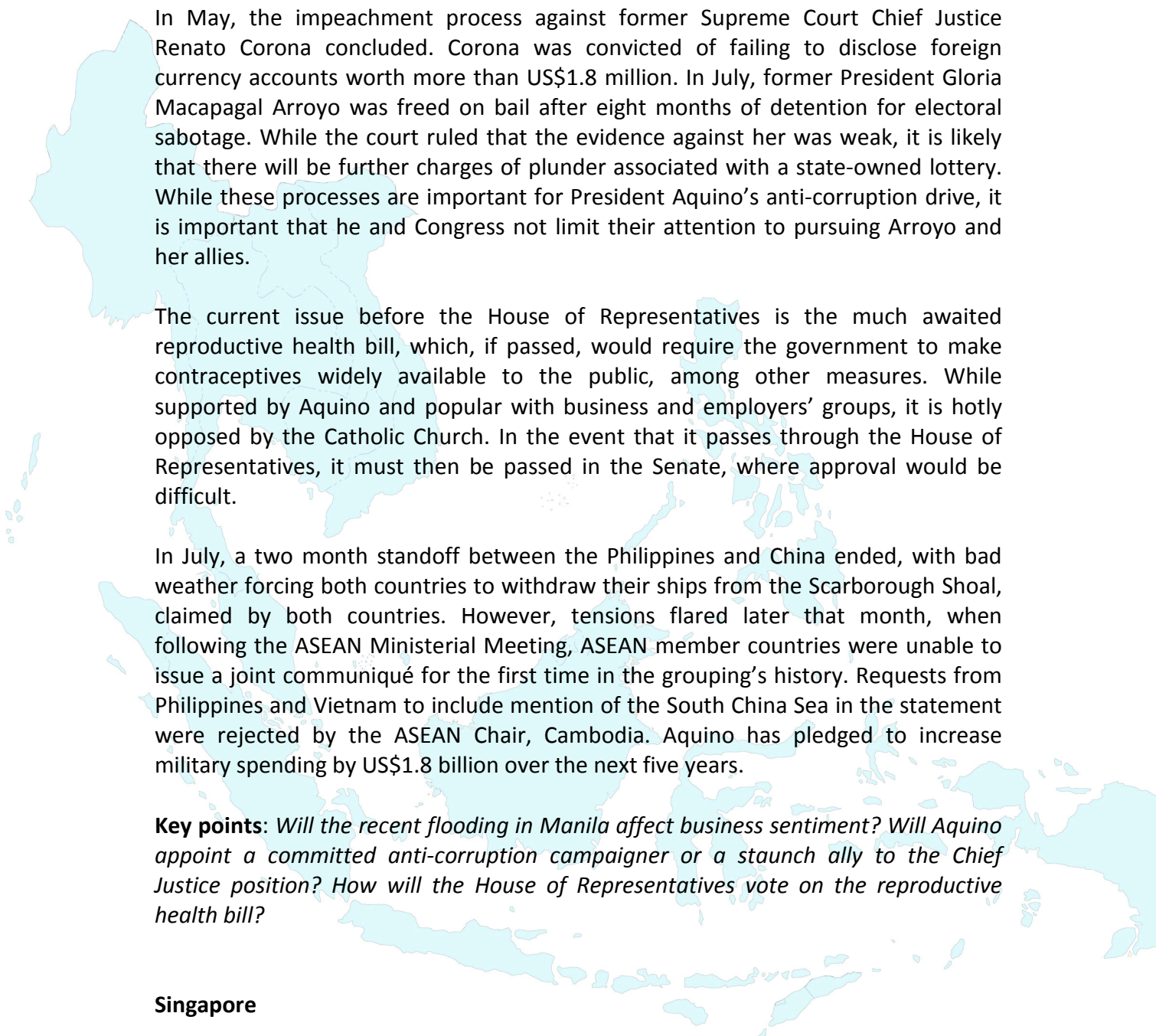
When negotiations to resolve the dispute failed, 301 MPs from the PH again prompted the Speaker, on 8 August, for the impeachment citing breach of constitutional provisions and failure to fulfill their duties. The Speaker sent a message to the President on 14 August suggesting that the Attorney-General’s submission to the CT be withdrawn and the CT chair and members should resign voluntarily before 21 August. The President replied in a message, dated 20 August, to the Speaker that the submission could not be withdrawn because the verdict had already been reached and he could not act to make the CT chair and members, who had independently made a decision in accordance with the Constitution, resign as that would be unfair and against the law.

The CT also held a press conference on 20 August to explain its position and reaffirm its commitment to stand by the decision and to carry on its tasks and duties. Subsequently, it was announced that the impeachment process would be initiated by the Amyotha Hluttaw (upper house) in the current parliamentary session. The spectre of political division looms.

Key points: *The CT and MPs are on a collision course. This could arrest the momentum of much-needed political and economic reforms, and erode the legitimacy of the democratic institution. In the worst case, it could be an excuse for the return of authoritarianism.*

Philippines

Continuing a positive trend, the Philippine economy grew between 6.5-7 per cent during the second quarter, making it the fastest growing in Asia, after China. This was driven by a boost in business process outsourcing and manufacturing; a recovery in export-oriented sectors; and government spending on infrastructure. Interest rates have been kept the same, and inflation is down, with the government on course to meet its fiscal deficit target of 2.6 per cent of GDP for 2012. The country’s good economic performance and prudent fiscal policy have led to the Philippines receiving a BB+ rating by two international agencies, one step below investment grade.



In May, the impeachment process against former Supreme Court Chief Justice Renato Corona concluded. Corona was convicted of failing to disclose foreign currency accounts worth more than US\$1.8 million. In July, former President Gloria Macapagal Arroyo was freed on bail after eight months of detention for electoral sabotage. While the court ruled that the evidence against her was weak, it is likely that there will be further charges of plunder associated with a state-owned lottery. While these processes are important for President Aquino's anti-corruption drive, it is important that he and Congress not limit their attention to pursuing Arroyo and her allies.


The current issue before the House of Representatives is the much awaited reproductive health bill, which, if passed, would require the government to make contraceptives widely available to the public, among other measures. While supported by Aquino and popular with business and employers' groups, it is hotly opposed by the Catholic Church. In the event that it passes through the House of Representatives, it must then be passed in the Senate, where approval would be difficult.

In July, a two month standoff between the Philippines and China ended, with bad weather forcing both countries to withdraw their ships from the Scarborough Shoal, claimed by both countries. However, tensions flared later that month, when following the ASEAN Ministerial Meeting, ASEAN member countries were unable to issue a joint communiqué for the first time in the grouping's history. Requests from Philippines and Vietnam to include mention of the South China Sea in the statement were rejected by the ASEAN Chair, Cambodia. Aquino has pledged to increase military spending by US\$1.8 billion over the next five years.

Key points: *Will the recent flooding in Manila affect business sentiment? Will Aquino appoint a committed anti-corruption campaigner or a staunch ally to the Chief Justice position? How will the House of Representatives vote on the reproductive health bill?*

Singapore

Very few countries are as self-conscious as Singapore. This is true for image as well as policymaking. The education minister and former economist, Heng Swee Kiat, has been tasked by the Prime Minister to lead a committee of younger ministers to review policies across the board, ostensibly to better prepare the country for the next 20 years. The challenge would be to enthuse the general public who may have come accustomed to such 're-thinking committees' which have, over the years, included the Economic Review Committee (2001) and the Remaking Singapore Committee (2002).



A potentially divisive issue brewing is the ruling by the Court of Appeal to allow a legal challenge to 377A of the penal code which criminalises sex between men. In 2010, Tan Eng Hoon was arrested and charged under Section 377A for engaging in oral sex in a shopping mall toilet. Tan, represented by human rights lawyer M Ravi, applied to the High Court to declare Section 377A unconstitutional because it violates Article 12 of the Constitution which guarantees equal protection and treatment under the law; an application the High Court subsequently turned down. The Court of Appeal has, however, overruled the High Court, and decided that there are sufficient grounds on which 377A may be legally challenged. The legality of homosexual acts is an emotive one given the significant Christian and Muslim communities. Observers may recall the highly, not to mention religiously, charged parliamentary debates over 377A five years ago and conclude that old wounds may soon be scratched open.

Finally, after years of campaigning from local activists, the government announced that the death penalty would no longer be mandatory for certain drug trafficking cases. If the courts are satisfied that the drug trafficker was not involved in drug distribution activities, cooperated substantially with the authorities or suffers from a mental disability, the judge may exercise discretion. This qualified concession, nevertheless, represents a small victory for activists who will be encouraged to further press for the abolishment of the death penalty. Their growing momentum may soon see signs of a conflict between progressive and conservative forces shaping up within the country.

Key points: *The country is becoming increasingly polarised over a vast variety of issues from politics to morality. Expect more frequent debate and confrontation, not necessarily always playing out in the mainstream media.*

Thailand

Extravagant efforts to avoid political tensions and bickering during the run-up to King Bhumibol Adulyadej's 85th birthday on 5 December should not distract analysts from the short-term challenges confronting Thailand. On the economic front, continued weakness in Europe and the US, and the prospect of a slowdown in China make it unlikely that exports will drive strong third quarter growth. Drought in many areas of the country will put downward pressure on incomes and upward pressure on prices. The attachment of the Yingluck Shinawatra government to the poorly designed policy of guaranteeing above-market prices for rice will undermine confidence in economic management.

The investigation on the part of the Justice Ministry's Department of Special Investigation into the violence of March-May 2010 may have figures in the former

Democrat Party government as its principal targets. But it has already provoked the ire of the military. As the investigation proceeds, that ire threatens to prove to be a source of serious political tension. The Democrats will continue to do all that they can to de-stabilise the government and to undermine confidence in it.

The Yinglax government is likely to go slow in its effort to effect former Prime Minister Thaksin's return to Thailand. But further tensions will nevertheless result from that government's continued hard-line in prosecuting Thais for alleged *lèse majesté* and from accelerating efforts among provincial Red Shirt leaders to organise their followers independently of the government. It remains to be seen if Prime Minister Yinglax's recent commitment to pay greater attention to the conflict in Thailand's Deep South will have any practical effect. The possibility of rapid deterioration in the health of the king, the queen, or both remains real, whether or not news of such deterioration is made public.

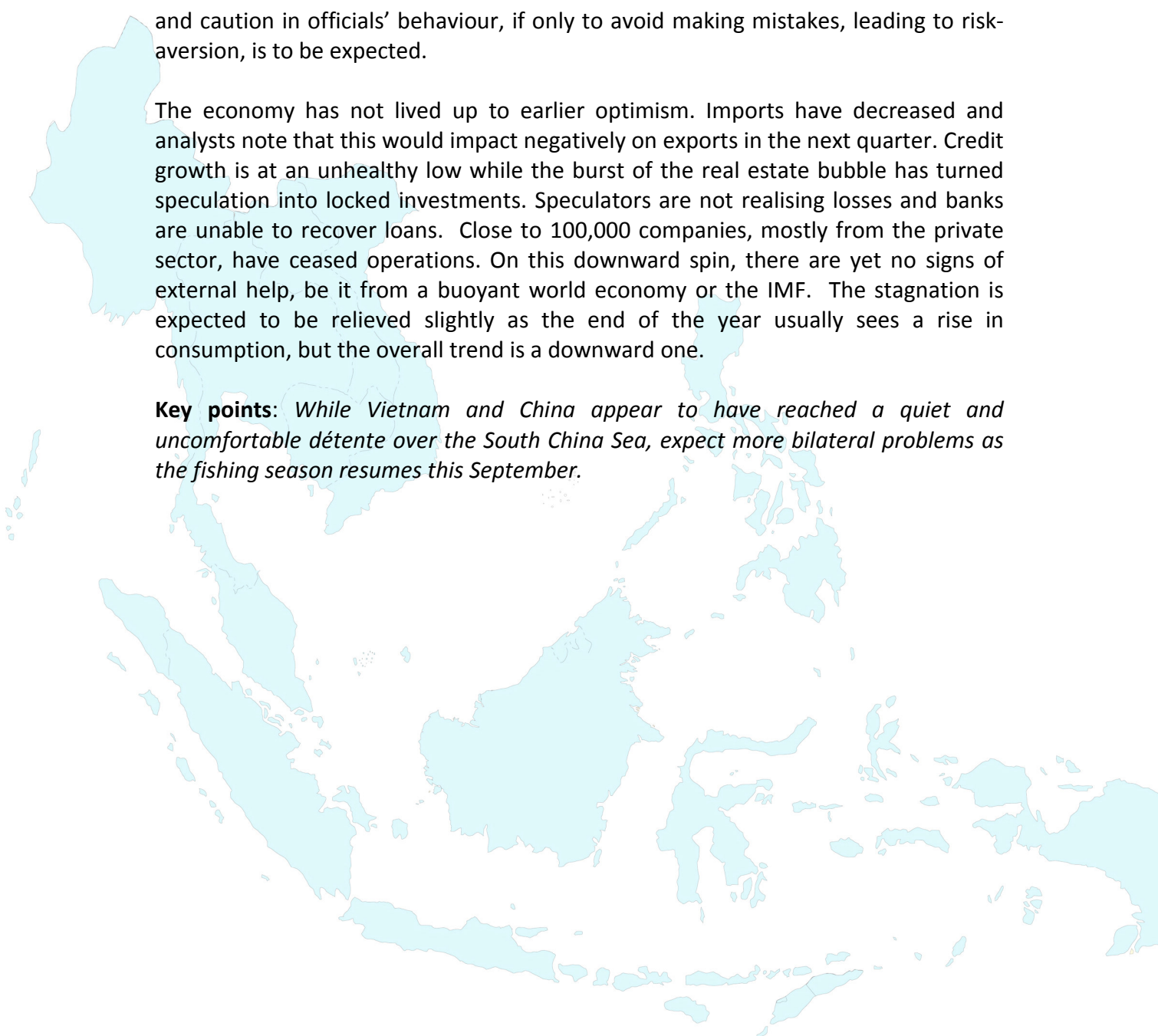
Key Points: *The economic outlook is a cause for concern. The establishment-Yinglax relationship requires constant attention. The health of the king and queen can only grow more fragile.*

Vietnam

"A toxic cocktail" – the words of economist Le Dang Doanh – aptly describe Vietnam's situation for the fourth quarter of 2012. The ingredients are economic stagnation, banking scandals, political insecurity caused by Party rectification and anti-corruption drives, and challenges to Vietnamese sovereignty in the South China Sea.

Party rectification aims to curb abuses of power and corruptive behaviour by government officials in cahoots with businesses to enrich both sides. Politician-banker, Nguyen Duc Kien, and the head of the Asia Commercial Bank, Ly Xuan Hai, have been arrested. Notably, while the rumour mill has for years linked Kien to Prime Minister Nguyen Tan Dung, the Chief of Police has declared that it was the Prime Minister himself who directed the arrests. Earlier reports gave credit to the Minister for Public Security but the order probably came from the Political Bureau.

The arrested pair of Kien and Ly could reveal the extent of illegal activities in the banking sector. Rumours are pointing to imprudent bank loans arranged by Kien, as well as his role in the merger/acquisition of another bank, an act perceived as political bullying. In the next two months there will be an intense struggle over how the official reports regarding Party rectification should be written. Individual leaders would want to avoid blame, and most important, retain their positions. Party rectification would also go down to provincial level and lower. Greater conservatism



and caution in officials' behaviour, if only to avoid making mistakes, leading to risk-aversion, is to be expected.

The economy has not lived up to earlier optimism. Imports have decreased and analysts note that this would impact negatively on exports in the next quarter. Credit growth is at an unhealthy low while the burst of the real estate bubble has turned speculation into locked investments. Speculators are not realising losses and banks are unable to recover loans. Close to 100,000 companies, mostly from the private sector, have ceased operations. On this downward spin, there are yet no signs of external help, be it from a buoyant world economy or the IMF. The stagnation is expected to be relieved slightly as the end of the year usually sees a rise in consumption, but the overall trend is a downward one.

Key points: *While Vietnam and China appear to have reached a quiet and uncomfortable détente over the South China Sea, expect more bilateral problems as the fishing season resumes this September.*