

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

As 2013 progresses, deep divisions over the possibility of a US-led move to attack Syria after the Assad regime's "breach of international norms" in using chemical weapons against its own citizens highlight conflicting international stances toward the Syrian crisis. Proponents of foreign military intervention are under domestic pressure to win the widest support possible before taking action. Any such intervention in Syria risks provoking fundamentalist sentiments in the Muslim world, and may lead simmering religious tensions to flare into violence in countries like Myanmar, where recent religious animosities pose a threat to ongoing reforms.

The US and Russia have come some way towards narrowing their differences on Syria by starting what look like negotiations on a thoroughgoing political settlement. The East Asia Summit (EAS), to be held in October under Brunei's chairmanship, may offer important indications both of progress on Syria and of regional views on the crisis.

The EAS will also see the new Chinese leadership's debut on the region's political stage. The high-profile trial of Bo Xilai gives a glimpse of the enormity of the internal restructuring and reforms that the Xi-Li administration faces as it seeks to consolidate power. The need to show a strong hand will also give rise to Chinese inflexibility regarding disputes in both the South and East China Seas.

ASEAN members pin their hopes on China's agreement to start talks on a Code of Conduct (CoC) governing behaviour in the South China Sea. However, after years of stalling on CoC talks, and in light of tensions with the Philippines over disputed reefs, China's recent acquiescence to talks may be just another delaying tactic.

Washington's reiteration of its strategic commitment to Southeast Asia has not allayed ASEAN's concerns over regional security. The US pivot to Asia is now being questioned, as the Middle East again dominates US foreign policy. In the meanwhile, Japan has renewed efforts to engage Southeast Asia, with Prime Minister Abe's assertive economic and security agenda indicating its intention to fill the power vacuum in the region. ASEAN will again prove the arena in which big powers engage in the delicate dance for dominance.

Key points: Even as it distracts the United States from Asia, the Syrian crisis may have implications for Southeast Asia. Chinese commitment to finding viable solutions on the South China Sea remains in doubt. Japan will continue its efforts to re-assume a leading role in Southeast Asia.

The Region: Economic Overview

Recent developments point to an economic downturn in Southeast Asia. While the region was upbeat in the first half of 2013 despite the unsteady recovery in the West, China's readjustment and India's slowdown, signs of weakening fundamentals have emerged in major Southeast Asian economies. For instance, Indonesia's current account deficit in August hit US\$9.8 billion – the largest figure ever, and one amounting to 4.4 percent of Indonesia's GDP. Thailand, technically speaking, has fallen into a recession, as GDP contracted 0.3 percent in the second quarter, in part because of persistent declines in exports. Massive reversals in capital flows in the run-up to the end of the US Federal Reserve's quantitative easing policy have hit Southeast Asian stock markets and brought sharp depreciation in currencies.

Table: Projections of Global Economic Growth.

	Year on Year				Q4 to Q4		
	Latest Projections		Difference from Last Projections		Estimates	Latest Projections	
	2013	2014	2013	2014		2012	2013
United States	1.7	2.7	- 0.2	- 0.2	1.7	2.0	3.1
Euro Zone	- 0.6	0.9	- 0.2	- 0.1	- 1.0	0.3	1.1
Japan	2.0	1.2	0.5	- 0.3	0.4	3.5	0.2
China	7.8	7.7	- 0.3	- 0.6	7.9	7.9	7.6
India	5.6	6.3	- 0.2	- 0.1	3.0	6.0	6.6
ASEAN-5	5.6	5.7	- 0.3	0.2	9.1	5.5	5.1
Developing Asia	6.9	7.0	- 0.3	- 0.3	6.9	7.0	7.0
Advanced Economies	1.2	2.1	- 0.1	- 0.2	0.7	1.8	2.2
World	3.1	3.8	- 0.2	- 0.2	2.6	3.5	3.7

Source: *World Economic Outlook*, International Monetary Fund (IMF).

Mounting current account deficits and deteriorating export performances in the region are likely to continue at least through the fourth quarter of 2013. There are two main reasons for this expectation. First, the International Monetary Fund has revised growth estimates in Southeast Asia's export markets downwards. Output growth in the United States is expected to reach only 1.7 percent in 2013, down from 1.9 percent in earlier projections. Contraction in the Euro zone is anticipated to be 0.6 percent in 2013, higher than the 0.4 percent figure of earlier projections. China and India, likewise, seem set to experience a sharper slowdown than previously thought. Second, unprecedented growth in private credit and debt-driven consumption, thanks to an influx of liquidity into the region in the first half of 2013, will continue to put downward pressure on foreign reserves and exacerbate current account problems.

Southeast Asia's looming economic troubles are not, however, likely to precipitate a crisis. Rather, they are part of market corrections and are in all probability transitory. With flexible exchange rate regimes and well-functioning financial systems in most Southeast Asian countries, currency depreciation due to capital flight will ultimately revive current accounts and put in place a shield against both external shocks and, more importantly, destabilizing speculation.

Key points: The last quarter of 2013 will see an economic downturn in the region, due to weaknesses in its export markets and pressure on current accounts. This downturn is far more likely, however, to prove a market correction than the harbinger of more serious difficulties.

Cambodia

The expected political deadlock has materialized in Cambodia, following the fifth, historic general election on 28 July 2013, in which only two political parties took parliamentary seats. The ruling Cambodian People's Party (CPP) won 68 seats, down from 90 in the previous parliament, and the merged opposition, in the form of the Cambodia National Rescue Party, took the remaining 55. Over the next few months, political negotiation between the two parties to end the standoff will dominate Cambodian politics. A new parliament and a new government, if formed during the period, will be unlikely to run smoothly. This will be particularly true of the parliament, since the opposition's 55 seats will allow it to block such major and critical measures as constitutional amendments.

Nevertheless, unexpected political offers from the CPP to the opposition may lead the latter not to stymie every major move made by the CPP. Also, the coming political impasse will—while raising some worry among Cambodians—nevertheless allow normal daily activities to continue.

The political impasse will in all likelihood cause the Cambodian economy to miss some opportunities. For instance, both hard and anecdotal evidence already indicates that a number of major investors in the country (in such fields as garments and cement) are concerned over the negative consequences for their business operations of political disruptions. These investors have begun to consider moving or have already moved their investments to the emerging Myanmar and the more stable Vietnam.

Key points: Within the next few months, a new parliament and a new government led by the CPP may take office, but the process is likely to be slow and shaky. Political uncertainty has already driven some investors to divert investment to Cambodia's more stable neighbours.

Indonesia

Over the next few months, Indonesia's political scene will be dominated by speculation over the candidates who will represent the major political parties in next July's presidential elections. Those who have thrown their hats into the ring early are Aburizal Bakrie and Prabowo Subianto from Golkar and the Great Indonesia Movement Party, respectively. Polls have favoured the popular Jakarta governor, Joko Widodo, from the Indonesian Democratic Party – Struggle. But it will be party chairwoman Megawati Soekarnoputri who will determine the identity of that party's presidential candidate, likely to be announced in December 2013 or January 2014. Another party, the Democratic Party of outgoing president Susilo Bambang Yudhoyono, recently held a convention to shortlist candidates, which included state ministers, governors, academics and a diplomat. Among the front-runners for its nomination are current trade minister Gita Wirjawan and former army chief of staff Pramono Edhie Wibowo.

Even as parties strive to improve their chances by seeking out popular figures as prospective candidates, they will also be concerned with cleaning up their public image to prepare for the parliamentary elections slated for April 2014. High-profile corruption cases will continue to draw negative attention. The scandal that resulted in the recent arrest of Rudi Rubiandini, former head of the Oil and Gas Regulatory Special Task Force (SKK Migas), may, for example, implicate the Democratic Party.

The rupiah has weakened considerably against the US dollar amidst concerns over a growing trade deficit and the imminent tapering off of the US monetary stimulus. The economic outlook for the next few

months will depend on external factors, such as concern over the economic performance of the BRICs and the impact of conflicts in the Middle East on global oil prices. Also to be monitored are domestic factors such as the inflation rate, forecast to reach nine percent this year, and the efficacy of the stimulus package introduced by the government to address Indonesia's current account deficit.

Key points: Parties' selection of candidates for next year's presidential elections and their efforts to improve their public image will dominate Indonesia politics in the quarter ahead. The country's short-term economic prospects remain subject to a range of adverse external developments.

Malaysia

Barisan Nasional's worst-ever general election performance in May has undermined Prime Minister Najib Razak's promise to reform the United Malays National Organization (UMNO) after he took over its leadership in 2009. Outside UMNO, liberal reforms are stridently opposed and resisted by extremist Malay-Muslim groups such as PERKASA and by UMNO-owned media, especially the *Utusan Malaysia* newspaper. Within UMNO, political momentum favours former Prime Minister Mahathir and his conservative allies, who support preserving the *ketuanan Melayu* ("Malay ownership") status quo.

Recognizing that UMNO needs to be further strengthened after its failure to win a convincing majority of the Malay vote, many senior party leaders and veterans will not want the president and deputy president posts, held by Najib and Deputy Prime Minister Muhyiddin Yassin, respectively, to be contested during the upcoming October party elections. However, the party's three vice-presidential posts are likely to be hotly fought over by the incumbents Ahmad Zahid Hamidi, Shafie Apdal and Hishammuddin Hussein and by three challengers, namely Mohd Ali Rustam, Isa Samad and, potentially, Mukhriz Mahathir.

Recent developments have further pressured Najib to follow through with his general-election pledge to tackle corruption and crime. The 2013 Global Corruption Barometer report confirms the perception that the level of corruption in Malaysia has increased despite the government's claims to the contrary. Public confidence in the corruption-tainted police force received another huge blow from the recent spike in violent crimes, including more than 30 murder attempts in the past five months.

Because of the country's deteriorating public finances, a global ratings agency has downgraded Malaysia's sovereign credit rating outlook from stable to negative. The Malaysian ringgit slid to three-year lows against the US dollar and to 15-year lows against the Singapore dollar; these slides may generate inflationary pressures. The government announced 10.5 percent and 11 percent hikes respectively in the prices of subsidized 95 RON gasoline and diesel on 3 September, and it is likely that further measures to strengthen the country's fiscal position will be introduced.

Key points: The status quo will persist, with conservatives gaining control of the UMNO supreme council. Budget 2014 will see the introduction of a GST and the scaling back and rescheduling of publicly funded projects.

Myanmar

Economic and political reforms continue to take hold in the country, some with more success than others. In particular, the 2012 land reform law is being criticised for the complicated procedures that it specifies. Consequently, land seizures and protests from villagers and farmers have persisted, despite the creation of a high-profile commission to look into land confiscation. The competing interests of big corporations, land owners and brokers make land reform a crucial issue for the country. Tensions over land will only intensify as more foreign investment enters the country.

Land seizures have a direct impact on the livelihoods of people, particularly farmers, a fact that the government needs to consider in relation to its wish to regain Myanmar's prominent position in the global rice export market. This consideration also applies to other cash crops, such as beans and pulses, grown by farmers with small landholdings.

The farm sector faces the same challenges that the country's traders face: little access to credit, insufficient energy and electricity, low technology, an inability to properly regulate water, a lack of clear regulations in general, insufficient transport and logistics infrastructure and the poor quality of grains and beans and of the products in which traders traffic.

The US\$100 million anti-poverty loan that Myanmar has obtained from China will help to alleviate these concerns through cooperative programs and micro-credit schemes. There is some scepticism, though, regarding the effectiveness of these schemes, in light of poor policy, structural issues and the prevalence of corruption.

Myanmar has been able to acquire another loan for infrastructure projects from the World Bank Group. The US\$261.5 million loan will be used to alleviate logistical and infrastructural problems faced by farmers and traders.

With regard to ethnic reconciliation, the government's promise to hold a Panglong-like conference in March 2014 has been met with reticence on the part of ethnic leaders, stemming from their mistrust of the government and the continued fighting between the Kachin Independence Army and the Myanmar military despite a ceasefire agreement. Ethnic leaders believe that a change in the current constitution is more likely to bring about a political resolution than such a conference would. Parliamentarians are currently considering recommendations for a range of changes to the constitution; they will present their ideas in December.

Key points: Issues relating to land remain central to Myanmar's reform process. More broadly, the farm and commercial sectors continue to face a number of constraints. Whether recent loans to Myanmar will begin to ease these constraints bears watching. Ethnic reconciliation may be advanced through a series of changes to the country's 2008 constitution, now in their conceptualization stage.

The Philippines

Momentum toward addressing the long-standing problem of pork-barrel politics is building. In August, a number of senators and representatives, including some from President Aquino's Liberal Party, were implicated in a scheme to divert 10 billion pesos through a network of shady NGOs. The money concerned came from Priority Development Assistance Funds, allocations given directly to congressmen

that have long been criticized for the lack of transparency in their disbursement. Aquino pledged to scrap this so-called pork-barrel funding system, and some 70,000 people demonstrated in Manila to call for the funds' abolition. Given his anti-corruption platform, the President cannot avoid addressing this issue. However, the weakness of the country's political parties means that allowing these allocations is one of his few means of enlisting the support of congressmen.

On the economic front, the Philippines looks set to ride out the current turmoil besetting emerging markets. Unlike larger economies such as India and Indonesia, it has maintained tight monetary control, and has relatively low levels of government debt and inflation. Furthermore, the economy's growth is largely domestic-driven and less dependent on demand from China than that of other Southeast Asian economies. The Philippines continues to climb in global competitiveness rankings and looks set to gain investment-grade status from Moody's in the near future. A looming debate concerns whether or not to remove investment safeguards in order to allow greater foreign participation in sectors such as the media, education, mining and utilities.

The Philippines is playing an increasingly complicated game to protect its interests in the South China Sea. After considerable acrimony over the death of a Taiwanese fisherman at the hands of the Philippine Coast Guard, the nine Guardsmen implicated have been inculpated for homicide. However, arrests of Taiwanese fishermen in disputed waters continue. Relations with China remain frosty, as the Philippines stands by its decision to seek international arbitration over claims in the South China Sea. On the other hand, relations with the US and Japan look set to deepen, though close engagement with US armed forces will require the country to amend the Constitution.

Key points: Will the pork-barrel scandal weaken Aquino's political capital with the public or Congress? How will the Philippines respond to recently discovered concrete structures on Scarborough Shoal, where Chinese ships have been stationed since April 2012?

Singapore

The National Day Rally Speech in August offered the clearest indication to date of how the People's Action Party will try to win back the ground that it lost in the 2011 general elections. With tweaks to the national health insurance scheme, to housing subsidies for the middle class and to primary school admissions and national examinations, the ruling party has opted to recalibrate social and welfare policies to address middle-class concerns instead of relaxing its stance on civil liberties or freedom of expression. Having chosen this path, it may not be inappropriate to expect more populist policy shifts, designed to appeal to the middle ground, in the run-up to the 2016 elections.

These policy tweaks were, in part, the result of public feedback gleaned from the year-long nationwide public clinics collectively known as Our Singapore Conversation. While understandably touted by government leaders and the local media as a sign of more consultative politics, the litmus test will be whether such conversations are a one-off event and whether divergent public desires and government interests can ever be reconciled.

With a promising GDP forecast for this year, the economy will take a back seat to emerging socio-political issues. One such issue is the struggle between gay rights activists and moral conservatives. This tension has existed for some time, but a recent request from pastors for an audience with the law minister after the latter met with a gay rights group suggests that the push-back from moral

conservatives will grow stronger. Another emerging issue is the increasingly political nature of heritage conservation in the city-state. With heritage issues now fronted more and more by the young and well educated, the key question is whether heritage will become a vote winner for the youth demographic. Finally, civil society's response in the aftermath of the November 2012 bus strike by several Chinese drivers suggests that the championing of social justice for vulnerable migrant workers – the likes of which Singapore has not seen since the 1980s – is now re-emerging as a pertinent issue.

Key points: The demand for greater political pluralism will continue to grow. The question is how different interests can be managed or, indeed, if they require state intervention at all.

Thailand

The culmination of the final quarter of every year in Thailand's political calendar has long been the king's birthday-eve speech on 4 December. This year, with the king living outside Siriraj Hospital for the first time in four years, whether he delivers that address, indicators of his physical condition as he delivers it, the presence or absence of the queen and the contents and implications of the king's address will all attract close scrutiny.

In the months leading up to 4 December, developments to watch include the Yinglax government's progress towards enacting constitutional amendments and the passage of so called political "reconciliation" bills, judicial road-blocks to that progress, measures taken to pull the Thai economy out of the technical recession into which it had fallen by mid-2013, the political fall-out of any continued economic stress on Thai urbanites, and signs that the government is laying the political ground-work to rationalise—and make less expensive—its rice price-support policy. The government's difficulty in defending that policy during the third quarter was politically costly, but the opportunity to develop a common approach to supporting farmers not only of rice but also of other crops may give the Yinglax government an important political opening. Success in taking advantage of that opening will give the government's economic policies a considerably sounder foundation.

In the months ahead, the government seems set effectively to abandon its confused effort to enter into dialogue with insurgents in Thailand's far south, with the likely result of continued warfare in the region. Whether it will make progress in its effort to bring Thaksin Shinawatra back to Thailand during the quarter remains to be seen.

Aphisit Wetchachiwa's increasingly erratic leadership of the Democrat Party, along with a growing sense that the party needs to find a new approach to mounting effective opposition to the Thaksinite Phuea Thai government in the short run and to achieving electoral viability in the long run, means that his hold on the party's top spot merits watching.

Key points: Economic difficulties translate very quickly into political crisis in Thailand. Stress on Thai consumers and borrowers and resultant changes in political sentiment bear close scrutiny in the quarter ahead.

Vietnam

During the fourth quarter, Vietnam's political elite will debate the pace and scope of economic reform at meetings of the Communist Party's Central Committee and of the National Assembly.

The Central Committee is expected to focus on a review of the *Doi moi* era, which is in effect an assessment of economic restructuring and personnel matters. In an implicit acknowledgement of the performance-based nature of its legitimacy, the Party will highlight post-1986 achievements. Of greater import is the fate of the three-pronged restructuring campaign focused on banking, public investment and state-owned enterprises (SOEs). To date, bold statements have not translated into meaningful policy changes. Coming to grips with non-performing loans in the banking sector—which, the State Bank of Vietnam recently conceded, are larger than previously acknowledged—will be essential to resuscitating the private sector. Genuine progress on this front will, however, require that the government commit real money towards retiring bad debt. Insiders doubt that it will do so. Provincial leaders, whose influence in the party is strong, will oppose measures to improve public investment and SOE efficiency. Government Office boss Vu Duc Dam, popular with reformists, is viewed as the front-runner to fill the deputy prime ministerial post vacated by new Fatherland Front chief Nguyen Thien Nhan.

The National Assembly will seek to end the constitutional reform debate that has animated political discourse for more than a year. How it addresses unresolved questions, including the constitution's position on the state's role in the economy, may be indicative of the fate of the restructuring program. Conservatives will surely argue for a continuation of the commanding-heights strategy.

In the international arena, investors and domestic reformers alike will look for progress in Vietnam's bid to join the Trans-Pacific Partnership, with the latter viewing accession to the pact as a potential external catalyst for economic change at home.

Key points: Over the next three months, Vietnam's political elite will remain consumed by internal debate about how aggressively to implement the state goal of economic structuring. Because the party-state views its stewardship of the economy as central to its ability to govern, the political stakes are high, but meaningful progress is unlikely.

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