

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

On 8 August, the Association of Southeast Asian Nations (ASEAN) commemorated its forty-seventh anniversary at Naypyitaw, Myanmar. The annual meeting of ASEAN foreign ministers opened there on the same day. With the issuance of a fifty-five-page joint communiqué, current ASEAN chair Myanmar laid to rest speculation about the influence of its significant bilateral relations with China on ASEAN discussions of the South China Sea. Those discussions offered reason for optimism regarding the conclusion of a regional code of conduct (COC) over competing claims there. November will bring meetings among the ASEAN heads of government, and between them and their counterparts from ASEAN dialogue-partner countries.

Four additional developments merit watching in the months ahead.

First, US Secretary of State John Kerry's presence at the ASEAN meetings in Naypyitaw and the American decision to weigh in on proposals to ease tensions in the South China Sea indicate that Washington's rebalancing toward Asia may be gaining new momentum. This is despite the demands of events in the Middle East on policy-makers' time and energy. Kerry's meetings with President Thein Sein, at which he affirmed support for Myanmar's reforms, and with opposition leader Daw Aung San Suu Kyi signal that Myanmar will continue to be an important focus of the rebalancing.

Second, the rise of strong leaders in Asia will shape Washington's next steps toward re-defining its role in the region. Xi Jinping of China and newly elected Prime Minister Narendra Modi of India will bring a new dynamic to their countries' bilateral relationship, and to their interactions with the rest of the region. Asia is also sending out mixed messages on democracy, accountability and responsibility, as military leaders in Thailand go about implementing their road map to reform the country's political system, and a disgruntled Prabowo Subianto challenged, if unsuccessfully, Joko Widodo's victory in the recent presidential election in Indonesia.

Third, China's willingness to consider an early conclusion of the COC on the South China Sea should be considered alongside its dismissal of the Philippines' Triple Action Plan proposal. ASEAN's principle of decision-making by consensus may prove a stumbling block, as each step in negotiations on the COC will require agreement among member-states. And, despite the widespread view that ASEAN should define its success in areas beyond that of managing South China Sea tensions, the November summit will bring continued focus on that issue.

Fourth, the rapid success of the Islamic State in Iraq and Syria will raise concern among regional governments over the possibility that their citizens travelling to those countries to participate in the “jihad” will return to initiate similar activities at home. This concern will sow fear and discord in a region where some countries already face the threat of ethno-nationalism framed in religious terms.

**Key points:** Progress toward a code of conduct on the South China Sea; renewed momentum in Washington’s rebalancing toward Asia; the role of new leaders in China, India and Indonesia; and regional concern over the activities of returnees from Syria and Iraq all merit attention in the months ahead.

## The Region: Economic Overview

In July, the International Monetary Fund revised projected 2014 global growth rates for 2014 downwards by 0.3 per cent, to 3.4 per cent. Leading indicators, however, point to the global economy having regained some strength in the second quarter of the year. The US recorded a second-quarter growth rate of 4.0 per cent. Consumer confidence in the US also rose in July to the highest level in almost seven years, not least because of the strengthening labour market. The US manufacturing sector again expanded in July, but the pace of growth slipped below that for June; the level of the output sub-index was 59.7, down from 61.0. Recovery in the EU remains weak. Japan’s growth looks promising, reflecting the positive effects of Abenomics and recovering domestic demand. The country nevertheless continues to face the challenge of stimulating exports, reducing public debt and, possibly for the first time in many years, managing the return of inflation. Globally, there is also the risk of an oil-price spike due to recent developments in the Middle East and the Ukraine.

The performance of the Chinese and Indian economies will influence Southeast Asia’s economic prospects. The HSBC/Markit Chinese purchasing managers’ index (PMI) climbed to an eighteenth-month high of 51.7 in July. China’s second-quarter GDP growth edged back to 7.5 per cent after Beijing introduced a raft of measures to support the economy and to create jobs earlier in the year. In India, growth has bottomed out, and economic activity is expected to pick up gradually in the wake of the national elections that brought Narendra Modi to the premiership.

Incoming Indonesian President Joko Widodo faces the daunting task of reducing fuel subsidies in the months ahead. Indonesia also posted a US\$305 million trade deficit in June, after a slim surplus in May. Indonesia’s second-quarter growth rate also fell to its lowest level since 2009, 5.1 per cent. On a positive note, a lower rate of inflation was reported in July: 4.5 per cent, compared to the June rate of 6.7 per cent in June. The PMI for Singapore rose to 51.5 in July, beating private-sector economists’ estimate of 50.7. Second-quarter job growth slowed to the lowest level in four years, although the seasonally adjusted unemployment rate remained at 2.0 per cent. The latest forecast has put Singapore’s growth rate for 2014 at between 2.5 and 3.5 per cent. In Thailand, the consumer confidence index hit an eleven-month high in July, suggesting that domestic demand may finally be improving after months of political uncertainty. The new junta plans to build 1,400 kilometres of high-speed rail track, in a project certain to boost levels of investment in the country.

## Real GDP Growth in Southeast Asia and Selected Asian and Developed Economies (year-on-year percentage changes)

	2011	2012	2013	2014	2015
Brunei Darussalam	3.4	0.9	-1.23	5.4	3.0
Cambodia	7.0	7.2	7.0	7.2	7.3
Indonesia	6.5	6.2	5.8	5.4	5.8
Lao P.D.R.	8.0	7.9	8.2	7.5	7.8
Malaysia	5.1	5.6	4.7	5.2	5.0
Myanmar	5.9	7.3	7.5	7.8	7.8
Philippines	3.6	6.8	7.2	6.5	6.5
Singapore	6.0	1.9	4.0	3.6	3.6
Thailand	0.1	6.5	2.9	2.5	3.8
Vietnam	6.2	5.2	5.4	5.6	5.7
<b>ASEAN-10 Average</b>	<b>5.2</b>	<b>5.6</b>	<b>5.1</b>	<b>5.7</b>	<b>5.6</b>
China	9.3	7.7	7.7	7.5	7.2
India	6.6	4.7	4.3	5.4	6.3
United States	1.8	2.8	1.9	2.8	2.9
Japan	-0.5	1.4	1.5	1.4	1.0
European Union	1.7	-0.3	0.2	1.6	1.8
World Average	3.9	3.2	3.0	3.6	4.0

Source: IMF, World Economic Outlook Database, April 2014.

**Key points:** Despite the downward revision of global growth rates, growth prospects for Southeast Asian economies in the second half of the year are promising. This is due to the improvement in the US and Chinese economies, with their close trade and business links to the region.

### Cambodia

Three developments will merit watching in Cambodia during the two months ahead.

First, while the recent political settlement between the opposition Cambodia National Rescue Party and the ruling Cambodian People's Party has far-reaching implications for the country, it will in the short term trigger intensive behind-the-scenes political activity. Each of the two parties will seek to take the measure of the other's power, to reshape to its own advantage the political boundaries that divide their supporters from their opponents, to learn how to work with the other party on a new political landscape, and strategize on ways to prevail in the country's next national and local elections.

Second, as Cambodia's political deadlock was resolved, its economy began to bounce back. Investors have gradually regained confidence, and land prices in some areas are climbing. This improvement in the economic climate is a turn of events whose significance should not be underestimated.

Third, the street politics of the recent past has not come to an end. Protests over land issues, some supported by opposition MPs, continue. Members of the Khmer Krom community continue to protest over a Vietnamese diplomat's comment that the Kampuchea Krom lands now in southern Vietnam belonged to Vietnam even before the French annexed them to the latter's territory in 1949. They demand that Hanoi acknowledge the historical truth about Kampuchea Krom. This issue, not least in its international dimension, will attract media attention in the weeks and perhaps months ahead. At the same time, various Cambodian labour unions will continue to stage marches to call for improved treatment of workers. Each of these waves of protest will be raucous, and each will be an unmistakable feature of the political landscape.

**Key points:** The period immediately following the end of Cambodia's political deadlock is likely to be marked by the two major parties' quiet preparations to achieve their longer-term political objectives. The economy has perked up, and numerous street protests will occupy the headlines.

## Indonesia

Announced on 22 July, the official results of Indonesia's presidential election gave victory to Joko Widodo or "Jokowi" over Prabowo Subianto by a margin of 53.15 to 46.85 per cent. The latter contested the electoral commission's handling of the polls and accused the Jokowi camp of mass fraud. In the hearing on this complaint, the evidence that the Prabowo camp presented to the Constitutional Court offered little proof of such irregularities, above all on a massive enough scale to explain Jokowi's eight-million-vote margin of victory. Jokowi's assumption of Indonesia's presidency on 20 October thus seems assured.

In the meantime, world leaders have welcomed the president-elect's victory. He has prepared a transition process and invited citizens' suggestions on cabinet formation. These are important first steps toward a more inclusive government, one committed to keeping Jokowi's promises not only of social justice and economic development but also of a growth target of 7.0 per cent, a more efficient bureaucracy, modernisation of infrastructure and an intensified battle against corruption. While he has indicated that he will entrust key ministries such as those of energy and agriculture to professionals untainted by corruption, Jokowi will also have to accommodate the parties that supported him during the campaign as well as those that supported his rival camp. On paper at least, Indonesia's parliament is dominated by parties that declared their support for Prabowo. A dose of pragmatism will thus be necessary, as Prabowo and the entrenched oligarchic interests behind him are likely to use their power to oppose Jokowi. Indeed, colossal economic interests lie behind the transfer of political power brought about by these elections.

Export earnings on unprocessed minerals are set to grow after the government revised the export tax on them downward from 20.0-25.0 to 7.5 per cent. This development will increase the momentum of growth driven to date mostly by domestic consumption and investment. The president-elect will have to reconcile his economic programmes with the budget for 2015 submitted by outgoing President Susilo Bambang Yudhoyono in mid-August to ensure that there is fiscal space to implement new programmes. While inflation can be managed and the exchange rate has started to appreciate, there is room for the Central Bank to reduce the interest rate.



**Key points:** The president-elect's most urgent task will be to form a cabinet of professionals, while carefully rewarding the political parties that supported him. He will also have to garner the support of parties still in his rival's camp, in order to have the influence in parliament and the political support necessary to implement his programme of reforms.

## Malaysia

In the 2008 and 2013 Malaysian general elections, the opposition Pakatan Rakyat (PR) coalition defeated the Barisan Nasional (BN) in a majority of the country's ethnically mixed constituencies by overcoming the barrier of ethnic block voting and gaining the upper hand in "ethnic vote pooling". Recently, however, a move on the part of PR member Parti Keadilan Rakyat (PKR) to replace its Selangor Menteri Besar (MB), Khalid Ibrahim, has tested the PR's cohesion. It has exposed deep-seated differences and struggles for power and position not only within PKR and Parti Agama Islam Se-Malaysia (PAS), but also between PR coalition partners.

In early 2014, PKR resolved to hold a by-election in the Kajang state assembly seat to enable Anwar Ibrahim, PKR's *de facto* leader, to assume the post of Selangor MB. But an appeals court's decision to overturn Anwar's earlier acquittal on sodomy charges, and to sentence him to five years in prison, scuttled the "Kajang move." Anwar's wife Wan Azizah Wan Ismail became his replacement to contest the Kajang by-election, which she won with a comfortable margin in March.

Following the by-election, PKR—with the support of its PR partner, the Democratic Action Party (DAP)—nominated Wan Azizah to replace Khalid, but the latter doggedly refused to step down. The Selangor MB crisis further deteriorated when PAS president Abdul Hadi Awang and the party's conservative, ulama-dominated Shura Council, an unelected advisory body, backed Khalid. However, on 17 August, the reformist-dominated PAS executive body voted to go along with its coalition partners' decision to replace Khalid as the MB. Nevertheless, in a gesture of compromise with the conservative ulama of faction of the party, that body nominated two candidates instead of one to replace Khalid, Wan Azizah and PKR deputy president Azmin Ali.

**Key Points:** Pakatan Rakyat and PAS have managed to avoid a break-up, but the process has exposed the coalition's weaknesses and may cost it voter support in the short run. Khalid Ibrahim will step down as Selangor MB to make way for Wan Azizah, but he may instead advise the Selangor Sultan to dissolve the state government and call a snap election.

## Myanmar

President Thein Sein's cabinet has undergone several changes since June. One minister was fired, four ministers and ten deputy ministers were reshuffled, and two deputy ministers resigned voluntarily. The reasons for these changes – concern over ministerial performance, preparation for by-elections, consolidation of power – have been the subject of much speculation. However, neither the president nor his representatives have been forthcoming with reasons for the changes.

Preparation for the general elections due next year continues. After the upper house of parliament voted in favour of adopting a proportional representation (PR) system, late July saw the formation of a 24-member parliamentary commission to study the possibility of changing the country's electoral system. Proponents of PR argue that this will foster multi-party democracy and reduce personality-driven politics.

Critics of the proposal – including the National League for Democracy (NLD) and ethnic parties – argue that, besides being a politically motivated move, the adoption of PR will allow the Union Solidarity and Development Party (USDP) to win seats in the parliament in proportion to the total number of votes that it receives rather than in proportion to the number of constituencies in which its candidates are first past the post. Ethnic minority parties in particular have opposed the adoption of PR on the grounds that bigger parties such as the USDP and NLD will eat into their vote share. Protestors are taking to the streets to oppose the proposal.

According to the Directorate of Investment and Company Administration, China is the largest investor in Myanmar, with more than US\$14 billion of cumulative investment as of the end of June. Thailand comes second. However, Myanmar is diversifying its sources of investment. The lion's share of new investments is coming from companies in Hong Kong, Japan, Malaysia, South Korea and Singapore. These firms have so far focused on ten main sectors: oil and gas, manufacturing, mining, hotels and tourism, transport and logistics, real estate, livestock and fisheries, agriculture, construction and services. Among these sectors, the oil and gas sector has received the highest level of investment, and construction the lowest.

**Key points:** More changes in the regulations and machinery governing elections and in the cast of probable participants will come before the 2015 general elections in Myanmar. Mild political agitation in the form of protests, political sniping and low-level threats to political stability are likely to occur. The bulk of foreign investment into certain sectors of the economy will continue to come from Asian companies.

## The Philippines

In March, the Philippine government and the Moro Islamic Liberation Front (MILF), the country's largest and most lethal insurgent group, signed the Comprehensive Agreement on the Bangsamoro after eighteen years of talks. This pact promises the Moro people of Mindanao an effectively autonomous regional government. It offers the best chance for a peaceful solution to an insurgency that has displaced millions of Filipinos and killed over 120,000 since 1972. It is the result of President Benigno Aquino's success in reinvigorating negotiations with the MILF, which had stalled under his predecessor. In a reflection of his commitment to this nation-building endeavour, Aquino has set out an ambitious timeline for the codification of the Comprehensive Agreement into the Bangsamoro Basic Law and the passage of this law, culminating in the first Bangsamoro elections in mid-2016. Aquino's single presidential term ends in May 2016.

However, the codification process has hit serious delays, which throw the president's whole timeline into disarray. Worse, chief MILF negotiator Mohagher Iqbal claims that consensus has not been reached on the codification of 70 per cent of the Comprehensive Agreement. He has requested an

emergency meeting between the president and MILF head Murad Ebrahim to save the process. The Philippine Supreme Court had ruled unconstitutional a 2008 agreement on Bangsamoro, triggering a return to war. It is thus clear why the government side is anxious for a bullet-proof Basic Law this time around. Yet, the longer the delays in its codification, the more Moro suspicions that the government is backtracking on the commitments that it made in the Comprehensive Agreement will grow; the stronger disaffected MILF splinter groups opposing the agreement may become; and the more the MILF's own commitment may erode. The next two months may well determine whether the Comprehensive Agreement on the Bangsamoro brings a peaceful new dawn for Muslim Mindanao or proves another of many false ones before the return to war. They may also make clear the fate of the most promising potential legacy of President Aquino's term as Philippine president.

**Key point:** President Aquino's increasingly lame-duck status reduces his ability to see the Comprehensive Agreement on the Bangsamoro through to completion.

## Singapore

Recognition of *lesbian, gay, bisexual and transgender* (LGBT) rights in Singapore has been growing, as the unprecedented 26,000 supporters who turned up in late June for the country's annual Pink Dot Rally in support of LGBT "freedom to love" made clear. Religious activists have also become more outspoken in their opposition to alternative lifestyles. Leaders from conservative Christian and Muslim communities encouraged followers to "Wear White" in protest against acceptance of those lifestyles. The government has called for toleration of different views amid concerns over potential escalation into a culture war between clashing liberal and conservative viewpoints.

This issue was exacerbated in the public sphere when the National Library Board (NLB) withdrew from circulation two children's books with LGBT themes after complaints that they were not "pro-family". This action sparked a wave of protests against the NLB's censorship of knowledge on moral grounds. It also provoked calls for more transparency in the process by which the NLB reviews and acquires books. Online protests, petitions and sit-ins were among the measures that protestors on each side of the issue employed. Ministerial intervention led to the reintroduction of the books into circulation, though in the adult section of the NLB's collection. The growing diversity of views in Singapore makes it likely that the government will be required to step in and mediate more often and that public institutions will consider adoption of a more consultative approach to the accommodation of this diversity.

In an effort to deter practices in surrounding countries that cause haze pollution in Singapore, parliament has passed a Transboundary Haze Pollution Act. The new law allows fines against entities, both local and international, for activities that produce the acrid smoke that is often blown across borders to cause air pollution. It remains to be seen how these measures will work in practice and to what extent they will be effective in curbing the recurring haze problem.

Fears of Singapore's Muslim community being negatively influenced by religious extremism in Syria and Iraq has led the Islamic Religious Council of Singapore (Muis) to issue statements of guidance on the conflict. The government is expected to be monitoring carefully the crisis in the Middle East to guard against the spread of fundamentalism.

**Key points:** Advocacy of LGBT rights has opened up discussion of diverse viewpoints in Singapore amid government concerns over a potential culture war between liberals and conservatives. It is hoped that the new Transboundary Haze Pollution Act will be a deterrent to entities whose practices have led to haze pollution in Singapore. The government is expected to be vigilant against fundamentalism in the face of deepening crisis in Syria and Iraq.

## Thailand

With the accession of National Council for Peace and Order (NCPO) leader General Prayut Chanocha to the premiership and the appointment of his cabinet, Thailand has entered the second phase of the military junta's "road map". This is despite few signs of the reconciliation to which the first phase was ostensibly dedicated.

This new phase of the road map will bring the creation of a National Reform Council (NRC) charged with addressing areas ranging from politics, public administration and the judicial system to education, public health and the mass media. The NCPO will name the NRC's members, 20 of whom will join 16 others on a constitution-drafting committee, from candidates chosen by screening bodies. Criticism that the screening process has not been inclusive threatens to discredit the NRC even before it is appointed. As the junta-selected National Legislative Assembly approved Thailand's 2015 budget and chose Gen Prayut as prime minister by votes of 183-0 and 191-0 respectively, the bodies created by the NCPO to move Thailand toward a new political order face problems of credibility.

Gen Prayut and his deputies on the NCPO will retire from military service at the end of September. The identities of the new commanders of the army and of other service branches will make clear whether the junta's dominant Queen's Guard faction feels a need to broaden its base of support in the armed forces.

Also important to watch will be whether the Crown Prince continues to stand in for his father at official events and whether the junta vigorously prosecutes cases in military courts against former education minister Chaturon Chaisaeng, legal scholar Worajet Pakeerat, and more than two dozen Red Shirt sympathizers accused of terrorism.

The new State Enterprise Policy Commission or "Superboard" will continue to balance performance-focused liberalization with Thailand's traditional orientation toward state participation in sectors affecting popular welfare. Its moves relating to the energy sector merit particular attention. The National Economic and Social Development Board forecasts economic growth of between 1.5 and 2.0 per cent this year, with exports growing at a mere 2.0 per cent and private investment contracting by 2.9 per cent.

**Key points:** In the areas of both political and economic reform, the months ahead will reveal much about the NCPO junta's long-term plans for Thailand.



## Vietnam

On 15 July, China unilaterally withdrew its controversial HS 981 oil rig from disputed waters in the South China Sea and brought the Sino-Vietnamese crisis that had for months dominated discussions of Vietnam's politics and economy to a conclusion. Nevertheless, China's official reasons for withdrawing the rig—that it had found enough hydrocarbons to declare its work “done”, and that a super-typhoon was imminent—appear designed only to justify its returning to those waters another day. Much concerning how Vietnam can and should respond to this crisis thus remains to be ascertained.

A measure of trust in relations between China and Vietnam has clearly been lost. Everywhere in Vietnam, one hears the phrase “thoát Trung”—escape from China's orbit. But exactly how the country can make that escape is far from clear. The prime minister, the National Assembly and the Central Committee of the Communist Party issued strong statements of condemnation against China, but reservations regarding a decisive shift in current state-to-state and especially party-to-party relations with China appear to persist at the highest levels of Vietnamese decision-making. Apparent overtures to the pursuit of international legal action against China remain more rhetorical than real. Hanoi's rhetoric may be part of a wider negotiation strategy in its bilateral discussions with Beijing. Some observers have also suggested that intra-Party factionalism has curbed more decisive action on Vietnam's part, but this reading of events is more speculative than verifiable.

In the meantime, Vietnam's government continues to ramp up its multilateral strategy to counter China, notably through its relations with the United States, Japan, India, the Philippines and ASEAN. A decisive shift in Sino-Vietnamese relations could give new impetus to Vietnam's negotiations to join the Trans-Pacific Partnership (TPP), which currently includes the United States, Japan, and Singapore, among others, but not China. Some economic reformers are even hopeful that the crisis might further spur changes to the state-owned enterprise and banking sectors, each of which is an issue in Vietnam's TPP discussions and an important source of drag on and instability for its economy.

The Sino-Vietnamese crisis has also increased domestic political pressures in Vietnam. While state authorities were able to suppress all forms of public demonstrations against China in the wake of the riots last May, widespread discontent and frustration continue beneath the surface. Recently, a prominent group of sixty-one Communist Party members issued a bold collective statement drawing attention to the state's mishandling of the Sino-Vietnamese relationship and calling for an end to the totalitarian politics of socialism in favour of “the people and democracy.”

**Key points:** The months ahead may bring signs of a more decisive shift in Sino-Vietnamese relations, in both the political and economic realms. Will the Central Committee take advantage of its August meeting to indicate changing alignments concerning relations with China, especially if speculation about inner-Party factionalism is accurate? Will Vietnam show more willingness to bend on issues of economic reforms and human rights in TPP negotiations? Will growing domestic pressure lead to significant changes in the internal political situation?

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