

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

Two months into the year, Southeast Asia hopes to feel the ripple effects of *détente*, as China and Taiwan conclude their first formal talks on a positive note. The “new chapter” in China-Taiwan interactions is a rare bright spot amidst indications that tensions over political hotspots in Asia may escalate as the year progresses. The long simmering territorial dispute over the Senkaku/Diaoyu islands has led to increasingly nationalistic and aggressive stances in both China and Japan. While the situation may not escalate into open conflict, tensions may spill over into and be played out in the two countries’ engagement with third countries in Southeast Asia, where economic and strategic interests converge. The United States’ continued preoccupation with the Middle East and its own internal challenges will feed perceptions of a power vacuum in the Southeast Asian region that both China and Japan will seek to fill. Bilateral tensions between Singapore and Indonesia; the Philippines’ unilateral move to international arbitration of its territorial dispute with China in the South China Sea; political polarisation in Thailand; and the challenges of negotiating peace between Myanmar’s ethnic groups and government will all threaten the delicate process of consensus-making in ASEAN.

What can be realistically expected before the first ASEAN summit of the year, scheduled for May in Naypyitaw? The date of 30 March 2014 bears watching, as the Philippines will then formally present its submission for international arbitration on China’s “nine-dash-line” claim in the South China Sea. Although China has dissociated itself from the arbitration process, the decision on the Philippines’ submission will affect the progress or lack thereof of discussions on a Code of Conduct (COC) for the South China Sea.

Tensions among the East Asian countries, especially in the East China Sea, will boost ASEAN’s position of centrality on matters of regional security. Still, ASEAN will not be able to push for an early conclusion of COC talks on Myanmar’s watch. Further, the issue of the South China Sea will bring the strategic partnership between Myanmar and China under heightened scrutiny.

Both China and Japan will seek to use ASEAN’s prioritization of regional security and economic integration to further entrench their interests. The US will continue to play a delicate role in regional geopolitics, as it has consistently emphasised freedom of navigation and maritime security in the South China Sea and is a treaty partner of Japan and the Philippines.

**Key Points:** The ASEAN states will enjoy no respite from the broader geopolitical tensions in East Asia. A series of domestic and bilateral issues will also present challenges to those states in the third and fourth months of Myanmar’s chairmanship of the Association.

## The Region: Economic Overview

The latest estimates of real GDP growth in Southeast Asia during the fourth quarter of 2013 project a rate of around 5.2 per cent. The world's largest economy, the United States, is expected to have grown by 1.6 per cent in 2013, with growth picking up even further in 2014. Growth will also show an upward trend for the EU in 2014, with recession giving way to recovery. Growth in the US, the euro zone and Japan will all be in positive territory in 2014, and this will boost demand and bode well for Southeast Asia.

### 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	1.4	6.2	7.4
Cambodia	7.1	7.3	7.0	7.2	7.3
Indonesia	6.5	6.2	5.3	5.5	6.0
Lao P.D.R.	8.0	7.9	8.3	7.8	7.6
Malaysia	5.1	5.6	4.7	4.9	5.2
Myanmar	5.9	6.4	6.8	6.9	6.9
Philippines	3.6	6.8	6.8	6.0	5.5
Singapore	5.1	1.3	3.5	3.4	3.6
Thailand	0.1	6.5	3.1	5.2	5.0
Vietnam	6.2	5.2	5.3	5.4	5.4
<b>ASEAN-10 Average</b>	<b>5.1</b>	<b>5.4</b>	<b>5.2</b>	<b>5.8</b>	<b>6.0</b>
China	9.3	7.7	7.6	7.3	7.0
India	6.3	3.2	3.8	5.1	6.3
United States	1.8	2.8	1.6	2.6	3.3
Japan	-0.6	2.0	1.9	1.2	1.1
European Union	1.7	-0.3	0.0	1.3	1.6
<b>World Average</b>	<b>3.9</b>	<b>3.1</b>	<b>2.9</b>	<b>3.6</b>	<b>4.0</b>

Source: IMF, World Economic Outlook Database, October 2013.

Growth in China, a significant trading and business partner of most Southeast Asian countries, rebounded strongly in the second half of 2013 after minor fiscal stimulus measures, including tax breaks for small businesses and accelerated construction spending. However, policies aimed at slowing Chinese credit growth and raising the cost of capital will continue to rein in growth in China. For India, stronger policies to supporting investment and favourable export growth will boost real GDP above 5 per cent in 2014.

Indonesia posted its third straight monthly surplus in December, amounting to US \$1.52 billion, although growth in 2013 was the slowest in four years. Its growth prospects will be further tempered as nationalist measures increasingly characterize its industrial policies, thus discouraging foreign investment from flowing in. Recent positive manufacturing data suggests that the ongoing political turbulence in Thailand has caused a shift in factory orders for electronics to Singapore. Singapore is continuing to face higher labour costs, but measures to increase productivity are expected to stave off future declines in growth rates. The ongoing crisis in Thailand is likely to affect future investment prospects, although growth will pick up once the political turmoil eases.

Myanmar's sustained drive to open up has continued to attract foreign interest and investment. The Philippines' track record of narrowing its fiscal deficits and reducing its debt burden is working in its favour. For the rest of Southeast Asia, growth in the months ahead is expected to be led by domestic demand and investment, as well as external demand generated by a stronger global economy. However, growth in the region will be tempered by the United States Federal Reserve's tapering of its expansive quantitative easing policy. A crisis is, however, unlikely.

**Key Points:** The likelihood of faster growth for most Southeast Asian economies in 2014 will continue to be reinforced as the first quarter of the year ends and the second begins. This is despite persistent uncertainties in some economies and the worrisome effect of the Fed's monetary policies.

## Cambodia

Over the next two months, opposition demonstrations appear unlikely to grow into the sort of massive and dramatic rallies that occurred in January. Calming of political tensions will require more time, but for a series of reasons it will be difficult for mass street demonstrations to gain momentum. First, for fear of the situation spinning out of control, the Cambodian People's Party (CPP) government will continue violently to disperse opposition gatherings despite the further loss of legitimacy that this brings. Second, the opposition Cambodia National Rescue Party (CNRP) is beginning to face a political backlash for the instability and economic losses that its protests have caused. Third, having decided to participate in the elections for the councils at municipal, provincial, town, district and *khan* levels set for 18 June, the CNRP will be less focused on the demonstrations. Nevertheless, sporadic protests are to be expected.

The ferocity of the government's recent actions against demonstrators has met with critical reactions from both China and the United States. The former, despite being the strongest ally of the CPP government, has expressed concern over the use of violence against civilians, while American President Barack Obama has signed a bill that would suspend certain funding to Cambodia. Though only a relatively small amount of aid may be cut, the measure is a symbolically powerful reflection of the CPP government's loss of hard-earned legitimacy.

While both sides of the conflict are thus constrained, political compromise will remain out of reach in the months ahead. The opposition has created unrealistic expectations—of, for example a US \$160 minimum monthly wage and mid-term elections—and the CNRP's sudden abandonment of its stated goals has cost it legitimacy and support among the protestors. And the CPP remains determined to continue portraying itself as the political and cultural hegemon.

**Key points:** No massive and dramatic protests are to be expected, but resolution of political tensions is unlikely.

## Indonesia

Indonesian voters will go to the polls in legislative elections on 9 April. The run-up to those polls has been increasingly focused on image management. Recent surveys have shown that voters are more affected by negative publicity concerning political parties than by those parties' campaign efforts. This reality presents challenges to parties such as Golkar, several of whose officials are currently the subject of high-profile corruption investigations.

For other parties, the competition for votes in April is really about the popularity of their candidates in July's presidential election. Some parties may resort to unexpected, and maybe desperate, moves in an effort to catch up with the immensely popular Jakarta Governor Joko Widodo (Jokowi), the likely candidate of the Indonesian Democratic Party–Struggle (PDIP). Trade minister Gita Wirjawan has, for example, resigned from his post to focus on his bid for the Democratic Party's endorsement. Meanwhile, Islamist parties such as the Prosperous Justice Party and the National Awakening Party have also been scrambling to attract votes by each floating three possible presidential candidates. In the case of the former, these are party chairman Anis Matta, former People's Consultative Assembly Chairman Hidayat Nurwahid and West Java Governor Ahmad Heryawan. The latter has declared former Vice President Jusuf Kalla, former constitutional court chairman Mahfud MD and the popular singer Rhoma Irama possible candidates. At the same time, speculation about various inter-party pairings of presidential and vice-presidential candidates continues.

The PDIP will soon need to announce whether Jokowi is in fact to be its candidate, or whether it will field party chairwoman and former Indonesian President Megawati Sukarnoputri instead. There is still time before 9 April for other parties and candidates to develop their electoral strategies further.

Government spending in the first quarter is usually small, but it is likely to increase in 2014 because of disbursements of campaign funds. The resultant domestic demand will increase economic growth slightly. On the other hand, the rupiah is expected to weaken, while inflation may grow worse. The Central Bank may therefore tighten monetary policy, not least by raising interest rates. Tight monetary policy may negatively affect domestic investment. The rapid growth in domestic energy demand as well as the poor export performance will continue, and Indonesia will continue to suffer from a current account deficit. On a positive note, a smooth and peaceful election in April will result in higher spending from the private sector.

**Key Points:** Legislative elections in April will set the stage for the presidential election due in July. Focus remains on the Indonesian Democratic Party–Struggle, of Megawati Sukarnoputri and Joko Widodo. Islamist parties need to overcome uncertainty surrounding their candidates in the presidential election.

## Malaysia

Prime Minister Najib Razak's administration has come under unprecedented criticism from within and outside UMNO. Public frustration has further intensified over rises in the cost of living triggered by the removal of various subsidies, an increase in electricity tariffs and other price hikes, alleged recurrent government waste and corruption and the apparently extravagant and free-spending lifestyle of Najib and his wife. To assuage public anger, the administration retracted its decision to raise road-toll rates, but this turn-around will entail compensating toll-road operators with up to RM400 million from public coffers. It will thus increase concern over the level of Najib's resolve to reduce the fiscal deficit and over the possibility that his failure to address that deficit will lead to a further downgrading of the country's debt rating. The PM's silence on contentious issues, along with his refusal to take a firm stand on the intense disputes over the use of the word "Allah" by non-Muslims, has contributed to the public perception that he is weak and indecisive.

Within Najib's UMNO party, grievances and frustrations are escalating over his seeming mishandling of the economy, his inability to galvanize the ruling coalition and his failure to face up satisfactorily to the opposition parties. His Bumiputra Economic Empowerment Plan (BEEP) has yet to benefit many UMNO members and supporters. His leadership has thus come under criticism from pro-UMNO bloggers, with some—such as the veteran journalist Kadir Jasin—calling for him to step down. There is also great concern among veteran UMNO members—including former Prime Minister Mahathir Mohamad, Daim Zainuddin and Zainuddin Maidin—that in the absence of firm action the ruling coalition may fare even worse in the next general election than in 2013. Attacks against Najib will persist, and will include moves to unseat him. But his opponents within UMNO remain divided. They lack a consensus leader for their effort to depose him. Nevertheless, there is fear that the intense pressure on Najib within and outside of UMNO to adopt authoritarian measures to neutralize the opposition might force him to pursue undemocratic means.

Najib's leadership will be further tested in the coming months by the recent the resignation of Abdul Taib Mahmud, Sarawak's fourth and longest-serving chief minister; the resignation of Deputy Minister P. Waytha Moorthy from his cabinet; and Anwar Ibrahim's decision to contest the 23 March by-election for the seat for Kajang in Selangor's legislative assembly and the latter's likely eventual appointment as that state's *menteri besar*.

Taib Mahmud had been Sarawak's chief minister for 33 years, but in recent years he and his family have been plagued by allegations of corruption. Pressure on him to stand down had been growing since Najib became prime minister in 2009. After relinquishing the post of chief minister, Taib Mahmud will probably be appointed the state's next Yang diPertua Negeri. The Parti Pesaka Bumiputera Bersatu (PBB), the largest component in Sarawak of Malaysia's ruling Barisan Nasional (BN) coalition, will almost certainly retain the Muslim-bumiputera majority Balingian seat vacated by Taib Mahmud. It is not clear to what extent his successor, the 70-year-old Adenan Satem, will be able hold the competing forces within the PBB and among the BN's member-parties in Sarawak together. Adenan will have to convince the large Sarawakian Christian-bumiputera community and its leaders to continue to rally behind the BN in spite of the disputes between Muslims and Christians over a range of issues. Should a serious crack appear in the Sarawakian BN, the federally dominant UMNO, which had been kept out of the state by Taib Mahmud, may see its chance to establish itself in the state, just as it did in Sabah in 1990 in order to galvanize its allies and shore up support for the BN. This turn of events is especially likely if the Sarawak state elections are held earlier than April 2016, when the current state assembly's term expires.

Opposition leader Anwar Ibrahim's decision to contest the by-election for Kajang state assembly seat in Selangor is due to the fractious internal dispute in the Parti Keadilan Rakyat, growing criticism of

incumbent Selangor Menteri Besar Khalid Ibrahim for his ineffective handling of the “Allah” issue and his “depoliticized” governance style, and fear in the Pakatan Rakyat (PR) that UMNO has plans to seize control in Selangor, as it did in Perak in 2009. If Anwar wins in the Kajang by-election, he will doubtless become the *menteri besar* of Selangor. This turn of events would help to stem his party’s internal disputes while also providing the state-level PR with the firm leadership necessary to face an UMNO attempt to usurp power in the state. With Selangor and its resources at his disposal, Anwar Ibrahim would be well placed to enhance his political career nationally.

The resignation of Waytha Moorthy, who is also the leader of the Hindu Rights Action Front (HINDRAF), made shortly before the Kajang by-election may have a negative impact on Indian support for the BN. The BN must win a majority of the nearly ten percent Indian vote in the mixed Kajang constituency in order to have even a slim chance of winning the by-election.

**Key Points:** Pressure on Najib to act more undemocratically in dealing with the opposition and with his critics within UMNO will persist. The PR should retain the Kajang state seat in Selangor, and the PBB the Balingian state seat in Sarawak.

## Myanmar

Myanmar has taken up the ASEAN chair for 2014 and will continue to put its best foot forward politically and economically. While this role will engage Myanmar above all with regional and international affairs, its own domestic issues will also come into play. In the two months ahead, for example, sectarian violence between the country’s Buddhists and Muslims—including the Rohingya in Rakhine State—will remain a risk, and the process of constitutional amendment will continue. Myanmar will have to carefully balance its position on such issues with the attention it pays to the regional concerns of ASEAN member states.

The repeatedly postponed meeting to finalise the compact on a nationwide ceasefire between armed groups and the government will, at the earliest, take place in March; ethnic groups have claimed that they need more time for preparation. Nevertheless, a draft nationwide ceasefire framework was agreed upon by representatives from all ethnic armed groups (17 in number) except the Shan State Army South in January. It is likely that, among other factors, the possibility of changes to the constitution and questions about the wisdom of finalising a deal with the government now, when there is no guarantee that it will be upheld after the 2015 elections, also explain the delay. Further, confusion over the outcome of the process of constitutional amendment has hardly left these groups more confident of their position.

At the macro-economic level, the International Monetary Fund stated at the end of January that, while Myanmar’s economy was likely to grow between seven and eight per cent annually during the coming three years, the current six percent inflation rate was also likely to persist. Factors fuelling inflation include a projected increase in government spending and a drop in the value of the kyat. Inflation and the ways in which Myanmar’s government will try to tamp it down—with increased taxes and higher interest rates—have serious implications for businesses and the general population.

**Key Points:** The process of constitutional reform and sectarian violence may lead to episodes of political turbulence as Myanmar tries to bring a steady hand to its leadership of ASEAN.

## The Philippines

After an indifferent start, post-Typhoon Haiyan rebuilding efforts are now properly under way in the Philippines. The government has allocated some US\$ 3.3 billion for reconstruction and disaster preparedness in 2014. This is almost three times the reconstruction budget tabled in 2010 following floods in Metro Manila and Central Luzon.

If handled correctly, the reconstruction effort will help President Aquino recover some of the political capital lost in the wake of the typhoon. While ratings remain positive, recent surveys have registered a significant dip in his popularity. The Social Weather Station poll of December 2013 gave Aquino an overall score of 51, down from 66 in June 2012. Beyond its effectiveness, it is important that the reconstruction effort be perceived as unimpeded by corruption. While Aquino has made fighting corruption a central theme of his administration, recent surveys have revealed increasing dissatisfaction with progress thus far.

In late January, Philippine armed forces engaged with a small off-shoot of the Moro Islamic Liberation Front (MILF), the Bangsamoro Islamic Freedom Fighters (BIFF) in the southern province of Maguindanao. Unlike its parent organization, the BIFF is opposed to the peace negotiations between the government and the MILF, which are slated to conclude by the end of the first quarter of the year. Operations concluded quickly, with some 50 deaths among rebels and few military casualties. However, the BIFF's leader, Ameril Umbra Kato, was not among those killed or captured. Investigations are underway to determine whether the BIFF is collaborating with the Moro National Liberation Front, the oldest pro-independence movement in Mindanao, whose negotiations with the government have been suspended for the last two years.

Relations with China have reached a new low. In January, the Chinese province of Hainan declared that vessels seeking to enter the South China Sea must first request permission. As the Chinese claim there substantially overlaps with the Philippines' Exclusive Economic Zone, Manila has stated that it will not comply. The Aquino administration has purchased radar installations from Israel and begun talks with Canada to deepen defense collaboration. In early February, Aquino compared China's South China Sea policy to Hitler's annexation of Czechoslovakia's Sudetenland prior to the Second World War. At time of writing, the Chinese government had yet to respond, but commentaries released by Xinhua, the state-run news agency, criticized Aquino's statements as "amateurish".

**Key points:** How will China react to Aquino's declaration on the South China Sea? Will the post-typhoon reconstruction effort gain momentum? Will other splinter groups left out of the Mindanao peace process attempt to derail it?

## Singapore

Singapore's efforts to navigate the challenges of being a multi-ethnic society playing host to a large number of foreign workers will bear watching in the months ahead.

The *hijab* has recently become a matter of discussion in the country. It has been asked why women in uniformed organisations and front-line jobs in the public sector, such as nurses, have not been allowed to wear it. In January, Prime Minister Lee Hsien Loong met with Malay-Muslim community and religious leaders to discuss the issue. Their conclusion was that change to this policy is possible but that it must

take place organically and without disrupting community harmony. It is not yet clear how and when this evolution will come about. Significantly, the hijab issue reflects reactions to global trends that have seen the adoption of a more conservative Islamic way of life on the part of much of the country's Malay-Muslim population.

Another issue that will merit attention in the months ahead grows out of what is commonly referred to as the "Race Course Road Riot" of 8 December last year. Part of Singapore's Little India neighbourhood, where the incident took place, has been proclaimed a "special zone" under the Public Order (Preservation) Act. Measures taken include restriction of the sale of alcohol and enhanced police powers. Officers will have the authority to search and interview suspects within the riot area without a warrant. Some online commentators have contended that such stringent control over a small area dominated by a specific migrant group might inadvertently exacerbate the racial profiling of South Asian migrant workers in Singapore. This looks set to be a recurring issue since foreign workers tend to act according to cultural norms from their home countries while living and working in Singapore, which in some cases can lead to controversies. The bigger question of what exactly sparked the December violence, given that alcohol and migrant workers have long mixed in that area without such disturbances, remains open pending the findings of a commission of inquiry due to report in May.

**Key Points:** Singapore's government appears receptive to demands for Muslim front-line personnel in the public sector and uniformed officers to wear the *hijab*; in response to an organic increase in support for the change. Increased police powers over the designated "special zone" in Little India, even though temporary, call attention to fault lines between Singaporeans and South Asian migrant workers.

## Thailand

Polls for the Thai senate are due on 30 March. In the third and fourth weeks of April, Thais are to vote in constituencies in which the anti-government People's Committee to Change Thailand into an Absolute Democracy with the King as Head of State (PCAD) blocked voting in the 2 February general elections. At time of writing, it remains unclear when voting in the 28 southern constituencies in which the PCAD blocked candidate registration for those polls will occur.

It also remains unclear if any of the elections due in March and April will happen. The PCAD, its backers in the business community and among Thai royalists, and their allies on Thailand's constitutional court and anti-corruption commission will continue their effort to depose the caretaker government of Prime Minister Yingluck Chinnawat through a multitude of small measures. The prime minister faces investigation over alleged corruption in her government's scheme to support rice farmers, as do members of parliament from her Phuea Thai Party (PTP) who supported an attempt last year to amend the constitution. Additional legal manoeuvres to undermine the PTP government are to be expected.

Efforts to advance "political reform" in Thailand will increase tensions, as widely differing agendas for reform are put forward. Whether these tensions or moves to undermine the Yingluck government provoke a Red Shirt backlash will bear watching.

During the next two months, the Bangkok government will be unable to undertake new initiatives on the economy. Its ability to execute existing policies, let alone reform them, will remain in jeopardy. Plans for much-needed investment in infrastructure will remain in limbo. Work towards enhancement of the



country's international economic relations will stall, while investor wariness will signal the unavoidable effect that the country's political problems will have on its economic growth.

**Key Points:** Any dramatic development to end Thailand's debilitating political stalemate will represent a *de facto* putsch on the part of anti-government forces. Such a development may provoke further violence and the damage that the crisis does to the Thai economy should become more obvious during March and April.

## Vietnam

Predictions that 2014 would see the Hanoi government tamp down the discussions of political reform that animated 2013 appear to have been off the mark. After Prime Minister Nguyen Tan Dung's forthright New Year's message, Vietnamese will now watch for indications of action on Dung's call for institutional reforms aimed at increasing government transparency and accountability and at reinvigorating the economy.

Activists will pressure the government to clarify Dung's declaration that electoral democracy at all levels must be enhanced. Dung's statements may prove a restorative for legislators disheartened by the denouement of the constitutional amendment process. When the National Assembly meets—and during the deliberations of the standing committee which will predate its session—there will be opportunities to realize Dung's vision of a state bounded by a robust legal framework. Proposed laws on the organization of the government, the Supreme Court, and the National Assembly are expected to be on the legislative docket.

In the economic sphere, indications should appear of whether the pace of "equitization" of large state enterprises will accelerate as the government has pledged. Vietnam Airlines and PetroVietnam are among the SOEs shares in which Hanoi seeks to sell during 2014. In the banking sector, another area in which restructuring is stalled, the upcoming trial of Asia Commercial Bank founder Nguyen Duc Kien on fraud charges will be watched for signs of the government's willingness to punish bank owners. In particular, how Kien's fellow directors are treated will be revealing. Meanwhile, insiders and the public alike await indications of how public security vice minister Pham Quy Ngo—the first sitting member of the party central committee to be accused in open court of accepting bribes—will be handled.

**Key Points:** Prime Minister Dung has created expectations for substantial political reform. The months ahead will offer early indications of whether those expectations are to be fulfilled. They will also bring indications of Hanoi's determination to bring more competitiveness and transparency to the economy.

---

**Contributors:** ISEAS's Indonesia Studies Programme, Francis Hutchinson, Lee Hock Guan, Lee Poh Onn, Michael Montesano (editor), Moe Thuzar, Veena Nair, Oh Su-Ann, Ooi Kee Beng (editor) and analysts in Massachusetts and Ontario.