

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

The geopolitics of Eastern Europe has captured the world's attention far more than that of Asia—let alone Southeast Asia—in recent weeks. But events in Kiev, the cities of the eastern Ukraine and the Crimea and the sputtering efforts of outside actors to influence them have clear relevance to the region. They underline the importance of Southeast Asia's longstanding determination to build a system of cooperation that allows the region's states to remain the masters of their own fates. This project takes into account outside powers' legitimate interests in Southeast Asia, and the months ahead will bring pressure on Southeast Asian states to manage those interests. With both Russo-Ukrainian and Sino-Japanese tensions in mind, the region's largest country, Indonesia, can be expected to articulate a more coherent and focused policy toward Chinese claims in the South China Sea. The late April visits of Barack Obama to Malaysia and the Philippines should give new energy to the slow-motion US pivot to the region. And Japan's search for "*de facto* alliances" in Southeast Asia will continue.

Observers of the region will thus need to weigh the ascendancy of regional institutions over the patchwork of bilateral agreements that have been the effective basis for the regional architecture in Southeast Asia. Can institutions like ASEAN balance external geopolitical influences in the region? The answer to this question is not clear. For, with Myanmar in ASEAN's chair, it is becoming increasingly evident that the Association's focus in 2014 will be on the functional—on, that is, the "low politics" of regional integration. ASEAN stalwarts and constructivists will in any case argue that China may consciously choose not to go the way of Russia. They will credit ASEAN above all the processes of engagement that continue to advance at the regional level despite bilateral tensions. While both Naypyitaw and Beijing will, for example, continue to pursue bilateral and regional engagement, it will also be worth monitoring the way that each uses ASEAN norms of consensus to its respective advantage. Myanmar will seek to use those norms to balance its nascent good relations with the US and to address the restless state of affairs in Rakhine state, and China will use them to ensure that negotiations on a Code of Conduct in the South China Sea proceed at a pace that it is comfortable with.

Key Points: The interests and activities of external powers will continue to place new demands on Southeast Asian regionalism.

The Region: Economic Overview

Growth in Southeast Asian economies will be sustained during the next two months by the economic recovery in the United States and the EU. In the US, manufacturing growth continued to accelerate for a second straight month in March, although recovery has been slower than expected. The EU also shows signs of increased economic activity.

Closer to the region, Japanese business confidence has been improving since last year, but the country will be bracing itself for a slowdown due to an increase in the sales tax from 5 to 8 per cent in April. Southeast Asia's prospects will also be affected by the underperforming Chinese and Indian economies. The momentum of growth in China, a significant trading and business partner for Southeast Asia, has continued to weaken. The Markit/HSBC Purchasing Managers' Index (PMI) fell to 48.1 in March from 48.5 in February, its lowest level in eight months. First quarter GDP growth in China is expected to fall below 7.5 per cent. The Chinese government has introduced measures to boost the economy and to create jobs, above all via tax cuts, and investments in railway infrastructure. The IMF does not expect a hard landing for the Chinese economy. In positive news from India, the consumer price index eased for the third straight month in February, while factory output rose unexpectedly in January. Overall, India's growth is expected to be around 4.9 per cent for the fiscal year ending April, greater than the 4.5 per cent achieved last year.

Real GDP Growth in Southeast Asia and in 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	7.2	7.3
Indonesia	6.5	6.2	5.3	5.5	6
Lao P.D.R.	8	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	5.5
Singapore	5.1	1.3	3.5	3.4	3.6
Thailand	0.1	6.5	3.1	5.2	5
Vietnam	6.2	5.2	5.3	5.4	5.4
ASEAN-10 Average	5.1	5.4	5.2	5.8	6
China	9.3	7.7	7.6	7.3	7
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	1.9	1.2	1.1
European Union	1.7	-0.3	0	1.3	1.6
World Average	3.9	3.1	2.9	3.6	4

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

Indonesian policy-makers are optimistic that the country's current account deficit can be reduced to as little as 2.5 per cent of GDP. That outcome will augur well for the rupiah's stability. On the other hand, the inflation rate in Malaysia rose 3.5 per cent in the year to February because of higher electricity tariffs and fuel price hikes. Its government must continue paying close attention to price pressures. The Singapore PMI dipped slightly from 50.9 in February to 50.8 in March 2014, below the 51.1 level that economists were generally expecting. Nevertheless, any level above 50 indicates growth. Political deadlock in Thailand has delayed investment, as investors wait for a clearer picture of the outcome before moving. Vietnam could post a trade surplus of some US\$ 1 billion for the first quarter of 2014.

Key points: Economic growth in Southeast Asia will be sustained by recovery in the United States and EU. However, the underperforming Chinese economy will affect Southeast Asian trade and export prospects in the next quarter.

Cambodia

By mid-year, Cambodia's political stalemate and the attendant street marches could end. The last several rounds of confrontation between the opposition Cambodia National Rescue Party (CNRP) and the ruling Cambodian People's Party (CPP) have damaged the interests of each of them and of the country. The two parties may now seek compromise by means of mutual political concessions. Negotiations between them are likely to trigger three fundamental developments. First, the 55 opposition members of parliament may end their boycott of the body. Second, reform of the National Election Committee in a manner acceptable to the opposition is probable. Third, early commune and national elections in 2017 may be agreed upon.

The opposition's power still appears inferior to that of the ruling party, with its long record of supremacy in Cambodia. However, the CPP must get down to restoring its legitimacy in preparation for the next round of elections. It is expected to cement further its power over military, political and bureaucratic elites. A number of middle-ranking civilian officials loyal to the party have recently received promotions.

The CNRP understands for its part that popular protests alone will not serve as viable strategic means in defeating the CPP. Nevertheless, the outcome of Cambodian garment workers' mass demonstrations to demand a minimum wage of US\$160 per month remains to be seen. The demonstrations of the past sixth months have owed some of their dramatic effect to the opposition's strategic decisions and orchestration. Once a compromise between the CNRP and the CPP is reached, however, the former will have distanced itself from the demand for a US\$160 minimum wage as a concession to the CPP.

Key Points: Cambodia's political stalemate may end in the next two months. Opposition MPs may take their seats in the parliament. Early elections and reform of the National Election Committee may be agreed upon.

Indonesia

The 14 March nomination of the most popular candidate for Indonesia's presidency, Joko Widodo (Jokowi) of the Indonesian Democratic Party-Struggle (PDIP), reshaped the campaign for the legislative elections on 9 April. Jokowi's *blusukan* style—his habit of going through crowds, narrow alleys or other places difficult to pass through—was adopted by many candidates, as parties tried to ensure an effective level of familiarity between voters and their candidates. This approach demonstrated that electability and popularity played a central role in this year's Indonesian elections.

Despite the hype, early counts suggested that the PDIP failed to meet its target of 25 per cent of votes cast and may have to form a coalition with another or several other parties. Indonesia is thus bracing for one more term of transactional politics, in which parties bargain over the allocation of power and over policy decisions within an environment of corrupt politics and politicians. Jokowi is still the frontrunner for the presidential election due on 9 July, but the campaign and the legislative elections have shown that nothing is certain. Rivalry among presidential candidates will intensify during the next two months, with a specific early focus on who will be paired with Jokowi as vice-presidential candidate.

As its coalition with the Nasdem Party seems firm, the PDIP has apparently narrowed its search for Jokowi's running mate down to two names. Speculation is rife that one of them is former Vice President Jusuf Kalla. The efforts of Prabowo Subianto's Gerindra Party to forge alliances have included talks with the Democratic Party and the possibility of establishing a Koalisi Indonesia Raya (Great Indonesia Coalition) made up of nationalist and Islamic parties. With the 9 July presidential election still two months away, it is hard to rule out any combination among these parties, particularly as platforms and programmes tend to take a back seat to the negotiation of deals among party leaders.

Financial markets reacted negatively to the results of the legislative election, and they are expected to adopt a wait-and-see attitude toward the possibility that a coalition government can introduce favourable economic policies. Private and government spending during the legislative election campaign and in the run-up to the presidential election will raise the rate of economic growth. The Ministry of Finance plans to revise its budgetary assumptions, especially those relating to the exchange rate and to oil production. This revision will keep Indonesia's budgetary posture realistic and allow it to control its budget deficit. External risks such as declining commodity prices, the rebalancing of China's economy and tapering on the part of the US Federal Reserve merit monitoring, though they are not expected to dent Indonesia's growth.

Key Points: Surprise results from the legislative elections have left much room for parties to manoeuvre before the presidential elections in July. In the next two months, the focus will remain on the pairing of presidential and vice-presidential candidates.

Malaysia

The Malaysian government's poor management of the demise of Malaysia Airlines flight MH370 flying from Kuala Lumpur to Beijing may temporarily hurt economic relations with China. Chinese tourism, which accounts for 12 per cent of Malaysia's tourist arrivals, is likely to suffer sharp drops for the rest of the year, with Penang and the Klang Valley taking the biggest hit. A reduction in Chinese investment in the Malaysian property market, which had been sizable in recent years, may exacerbate the market slowdown already triggered by the government's cooling measures.

Increasing attacks and threats against opposition politicians, minority Christians and civil society groups by UMNO-allied extremist groups PERKASA and ISMA will persist, as UMNO resorts to such means to shore up its support among Malay-Muslims. Manipulation of the courts, as in the recent sentencing of Anwar Ibrahim and Karpal Singh, and the creation of a police Cyber Investigation Response Center to curb and detect alleged misuse of the Internet are signs that authoritarian measures may be pursued to silence the opposition and other critics of the government.

In March, a Malaysian court overturned an earlier acquittal and sentenced Anwar to five years in jail on sodomy charges. While he remains free on bail pending his appeal, he had to withdraw from the 23 March Kajang state by-election, which was convincingly won by his wife Wan Azizah. Whether Wan Azizah takes over the Selangor Menteri Besar position will probably depend on incumbent Menteri Besar Khalid Ibrahim's performance in the six-cornered fight for the post of deputy president of the Parti Keadilan Rakyat (PKR) in the party's annual elections.

The untimely death of Karpal Singh in a night traffic accident on 17 April has deprived the Democratic Action Party of one of its most prominent leaders and Malaysia of one of its staunchest human rights advocates. Karpal had been most outspoken against the "Islamization" of Malaysia and the erosion of the country's secular foundations. He will be sorely missed if in the coming legislative session the Kelantan Menteri Besar tables a private member's bill seeking a declaration that the Kelantan Syariah Criminal Court Enactment II, or hudud, be implemented in the state.

Key Points: The Najib administration will increasingly adopt coercive and divide-and-rule measures to destabilize the opposition coalition. The opposition coalition may experience conflicts arising from PKR's fractious intra-party politics and the Parti Islam Se-Malaysia's attempt to re-introduce hudud in Kelantan.

Myanmar

Myanmar will hold a second round of by-elections in late 2014 to fill 30 seats left vacant by legislators who have resigned or died since the general elections of 2010. Observers view these polls as a rehearsal for the 2015 elections, as they will reveal the strength of the contending parties. There is no indication whether Myanmar's constitution will have been amended by the time of the polls or indeed whether any amendment will influence the by-elections.

The country has undertaken its first census since 1983, a task fraught with contention and plagued by resistance. The government's last-minute decision not to allow people to be enumerated as Rohingya drew flak from the United Nations and other international observers. To make matters worse, there have been reports that census-takers have not included those who identify themselves as Rohingya in their counts. Both the manner in which the census was administered and its results may further inflame violence in Rakhine State, which has recently included the harassment of aid workers. Unsurprisingly, the census is viewed by certain ethnic organisations as another way through which Myanmar's government imposes its ideas of ethnic identity and legitimises religious and other forms of discrimination.

Singapore emerged as the top investor in Myanmar for the month of January, with investments in the garment, manufacturing, beverage distribution and communication sectors. However, Myanmar's business climate has kept many potential investors tentative. Despite Moody's Investors Service reporting that the country has strong growth prospects, the World Bank's "Doing Business" report ranked it at 182 out of the 189 countries surveyed for ease of doing business. It joined other countries at the bottom of the table in its ranking for ease of starting a business, enforcing contracts and protecting investors.

Key Points: Myanmar's political parties will begin preparing their election campaigns, using the coming by-elections as a trial run. Meanwhile, the results of the census and the response of Myanmar's various social and ethnic groups to those results will bear watching. They may have an impact on communal violence and the peace process between the government and the armed ethnic groups.

The Philippines

In the coming months, the fate of the two important security agreements will be determined in the Philippine Congress and Supreme Court. If both are successfully transformed into law, Philippine internal and external security will be enhanced. If not, it will be compromised.

The Comprehensive Bangsamoro Agreement was signed by the Philippine government and the Moro Islamic Liberation Front on 27 March. This agreement provides the best chance for a political solution to the centuries-old conflict between the Moro community of Mindanao and Manila. President Aquino's goal of having the agreement translated into an organic law and passed by the two houses of Congress by the end of 2014 is extremely ambitious. Senate Majority Floor Leader Alan Peter Cayetano has said that he thinks it would be a miracle if this timetable were met.

The agreement involves a significant transfer of sovereign powers to a new Bangsamoro regional government. A number of petitions have already been filed with the Supreme Court by opponents of the deal in Mindanao and by strong supporters of the unitary Philippine state. If the Supreme Court hears one of these petitions, or the petitioning interests are able to gain traction in Congress, the fate of the Comprehensive Bangsamoro Agreement will be uncertain.

The Philippines is facing unprecedented Chinese coercion over disputed territorial claims in the South China Sea, and the weakness of the Philippine military leaves Manila with no effective unilateral response. It is very likely that Presidents Aquino and Obama will soon sign an extended security cooperation agreement providing for the regular rotation of US forces through the Philippines and for joint facilities on Philippine bases. The Aquino administration is likely to classify any agreement as an extension of the ratified 1999 Visiting Forces Agreement in order to sidestep the constitutional requirement

of Senate ratification. Widespread elite discomfort over an enhanced US military presence and Senate protection of its treaty prerogative mean that any agreement signed is likely to face a Supreme Court challenge despite the growing threat from China.

Key Points: President Aquino's single presidential term ends in mid-2016. His leadership and personal commitment have been crucial to both security agreements. The longer they remain unconsummated, the less influence President Aquino will have over them as his presidential power begins to wane.

Singapore

A furore followed the news in February that Indonesia would name a naval vessel the "KRI Usman-Harun", after two Indonesian marines who bombed a prominent Singapore office complex, MacDonald House, in 1965. The marines were acting on orders from then Indonesian President Sukarno, who opposed the formation of Malaysia through the merger of the Federation of Malaya, Singapore, Sarawak and Sabah. His opposition led to the Indonesian policy of *Konfrontasi*—military action in East Malaysia and several violent acts in Singapore. These acts included the MacDonald House bombing, which left three Singaporeans dead and 33 injured. The marines were found guilty of terrorist activities by a Singapore court and hanged in 1968, only to be given a heroes' burial in Indonesia.

Singaporean ministers expressed to their Indonesian counterparts shock over the naming of the naval ship. The incident reopened wounds that had been deemed closed after then Prime Minister Lee Kuan Yew scattered flowers on the graves of the two marines in 1973 in a bid to improve bilateral ties. Singapore banned the entry of the "KRI Usman-Harun" from its territorial waters and rescinded invitations to several Indonesian officials to the Singapore Airshow. Indonesia responded by claiming that it was exercising its sovereign rights in naming a ship after war heroes and that the move did not reflect ill will.

Observers noted that the fracas would blow over, as leaders on both sides are keen to avoid its escalation. Since the bombing occurred nearly half a century ago, it is not clear how much it resonates among younger Singaporeans used to a long period during which a relatively benign Indonesia has maintained good relations with Singapore. However, the interests of countries in the region as well as their methods of securing those interests could change with changes in leadership and in geopolitical circumstances. In the context of Total Defence, the KRI Usman-Harun episode may stimulate rare interest among young Singaporeans about the country's geopolitical situation.

Singapore's budget for 2014 sees an emphasis on social spending: \$8 billion for a Pioneer Generation Fund to offset the healthcare bills of Singapore's silver generation and more money set aside for educational assistance and childcare relief. While the government is clearly willing to spend more on social support, it has emphasised that it will not adopt the state welfare system of some Western countries.

Key Points: Political will on both sides seems intent on a return to smooth Singapore-Indonesia ties. Nevertheless, the episode has led Singapore to consider the lack of awareness in the younger generation about the geopolitics of their country. Singapore's budget for 2014 seems to emphasize social spending, even as the government remains resistant to the creation of a welfare state.

Thailand

In the two months ahead, the ability of Red Shirts to resist a judicial coup against the government of Prime Minister Yinglak Chinnawat and the success of any post-coup government in meeting their anger should Yinglak fall, will be at the centre of Thai politics.

Pretexts for the ouster of Yinglak include charges that she acted improperly in replacing the secretary-general of Thailand's National Security Council in 2011 and that she failed to check corruption in the administration of her government's expensive rice price-support scheme.

A member of the prime minister's Phuea Thai Party may replace her, as part of a behind-the-scenes compromise. Otherwise, we can expect the installation of a figure with royalist and technocratic credentials and his or her mandate to act on the demand for "reform before elections" pressed by anti-government demonstrators during the past sixth months. The goal of political reform will be to dilute popular elections while ostensibly fighting corruption.

Red Shirts are unlikely to acquiesce passively to the removal of Yinglak and her government. What remains unclear is whether they will focus their protests in Bangkok, in the provinces surrounding Bangkok in an effort to isolate the capital, or in dispersed locations across northern and northeastern Thailand in an attempt to make those regions ungovernable. The levels of participation and violence that will characterize any resistance are also uncertain. Finally, the role of the Thai military in a post-Yinglak government and its willingness to resort to repressive measures remains an open question.

The poor performance of the stock exchange, nervousness among foreign investors, lagging tourist arrivals, low consumer confidence and weak automobile and real estate markets mean that the country may slip into recession in the second quarter. Drought is also likely to affect much of Thailand, with a potentially serious impact on conditions and sentiments in provinces dominated by Red Shirt voters. Economic difficulties will make Thailand's political conflict even more bitter.

Key Points: May and June will make clear whether and how Thai Red Shirts are willing actively to resist the ouster of the government that they elected in 2011.

Vietnam

The 11th Central Committee of the Vietnamese Communist Party will host its 9th Plenum this month. One of its main topics of discussion will be the progress on anti-corruption efforts, which at the previous plenum were described as "falling short." The government continues to bring a small number of high-profile corruption cases to court, and December of last year brought death sentences to two top executives of the state-owned Vinalines shipping company and jail terms of up to 22 years for eight others implicated in the embezzlement and malfeasance scandal at the same firm. However, the lack of a more rigorous and systematic approach to fighting corruption has led many observers to wonder whether those convicted in these cases are simply "fall guys" or even pawns in customary high-level infighting preceding the 12th National Party Congress in 2016.

Another important topic for discussion at the coming Central Committee Plenum will be the economy. Last quarter's figures give reason for cautious optimism; the growth rate of 4.96 per cent was the highest since 2011. However, major concerns linger over non-performing loans in the state banking sector, inefficiency in state-owned enterprises and levels of public debt amounting to nearly 60 per cent of GDP. Effective reform in these areas continues to remain elusive.

The 13th National Assembly will also convene for its summer session in May and June. Assessments of government progress on socio-economic policies, of the judiciary, and of the legislative process will all be features of the meeting. Notably missing from the meeting will be the "confidence" voting instituted just last year, which led to some tense moments and embarrassment for the prime minister. Authorities say only that the voting has been "temporarily suspended".

Key Points: Important meetings of both the Central Committee and the National Assembly will take place during the next two months. Both are likely to bring more of the same in both the political and economic spheres. The 9th Plenum of the Central Committee will, however, begin preparatory work on personnel planning for the next National Party Congress.

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