

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

Southeast Asia has become an increasingly important focus of global geopolitics. The tensions that have built up in the South China Sea in the past two years have recently found outlets in acts of aggression and assertion, casting into doubt some countries' longstanding policies of appeasement and engagement. China's development of its maritime military capacity and clear indications of its determination to safeguard its economic interests seem to contrast with statements of its intent to "firmly stick to the path of peaceful development". China's decision to site oil rig HD 981 in waters claimed by Vietnam as part of its Exclusive Economic Zone may reflect policy disagreements in Beijing, but it also highlights the difference between China's long-term or historical perspective of the situation in the South China Sea and the more rules-based approach taken by the members of the Association of Southeast Asian Nations (ASEAN), which are engaged in negotiations with China on a Code of Conduct in the South China Sea. The United States' interest in seeing early agreement on the code does not coincide with China's view of the future of the South China Sea. ASEAN states are thus presented with the dilemma of living the reality of US "strategic balancing" in Asia, of traditional economic power Japan now restating its relevance to the region, and of China's assertiveness as a rising power. ASEAN's use of stronger language to express concern over tensions in the South China Sea, in a stand-alone statement issued by the foreign ministers at the 24th ASEAN Summit at Naypyitaw in May, is a precursor to a firmer collective stand at the key ASEAN meetings to follow later this year.

Strong American, European and Australian criticism of the Thai military's seizure of power has coincided with rapidly developing intimacy between the new junta in Bangkok and Beijing. Manoeuvring in the wake of the 22 May Thai coup will bear watching in the months ahead.

Key points: ASEAN is seeking means to take a firmer stand on the South China Sea. Thailand's recent coup may have geopolitical implications.

The Region: Economic Overview

The advanced G3 economies - the US, Japan and the EU - are showing clear though tentative signs of spurring a global economic recovery. In the US, business and consumer confidence is improving, even though the economy shrank by one percent in the first quarter of 2014. The Eurozone is also expected to maintain weak growth amidst low inflation and investment, even as high unemployment and debt

weigh its recovery down. A temporary slump may come in Japan's stimulus-driven recovery, due to cuts in consumer spending following a sales tax rise in April, though the government has introduced measures to soften its impact. The weak but continuing recovery in the G3 economies would boost demand for Southeast Asian exports and thus augur well for the economies of the region.

The slowing US\$13 trillion Chinese economy continues to influence world demand, and to affect Southeast Asia in particular. Chinese Purchasing Managers Index (PMI) figures indicate that, while manufacturing continues to contract, it declined at a much slower pace in May than in April, indicating some recovery. China's services-sector PMI also touched a six-month high in May. The government has introduced mini-stimulus measures to protect its 7.5 per cent growth target. These include accelerated spending on railways, tax breaks for small business and social housing. In India, a new Narendra Modi-led Bharatiya Janata Party government has come to power on a pro-growth plank, and the new prime minister, known for his administrative prowess and business-friendly style, is expected to resolve policy deadlocks and revive the country's ailing economy. Growth in the Indian economy is expected to pick up during the later quarters of the year, and it may thus be some time before the region starts feeling its positive effects.

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

	2011	2012	2013	2014 (forecast)	2015 (forecast)
Brunei Darussalam	3.4	0.9	-1.24	5.38	3.0
Cambodia	7.1	7.3	7.0	7.2	7.3
Indonesia	6.5	6.3	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	5.1	1.9	4.1	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
ASEAN-10 Average	5.1	5.3	5.4	5.4	5.6
China	9.3	7.7	7.7	7.5	7.3
India	6.6	4.7	4.3	5.4	6.3
United States	1.8	2.8	1.9	2.8	2.9
Japan	-0.6	1.4	1.5	1.3	1.0
European Union	1.7	-0.3	0.2	1.6	1.8
World Average	3.9	3.2	3.0	3.6	3.9

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

Among the ASEAN-5 economies, Q1 growth numbers indicate that Malaysia overtook the Philippines as the fastest growing Southeast Asian economy. Even though the Philippines' growth rate slipped below six per cent in the first quarter of 2014 under the impact of the super cyclone, continuing strong demand and high investment potential mean that prospects remain positive. The other ASEAN-5 economies, with the exception of Thailand, expanded at a moderate pace, backed by recovering exports and domestic demand. The Thai economy contracted by 0.6 per cent during the first quarter. Its domestic political situation may mean that growth continues to be sluggish. Political uncertainty in Thailand is likely to bring benefit to neighbouring Vietnam in the form of investor inflows, even as the latter country risks a backlash from investors in the aftermath of the recent anti-China riots. This violence caused disruptions to Vietnam's manufacturing activity. Downside risks to the region due to increased financial-market and capital-flow volatility resulting from quantitative easing (QE) in the US remain, though Japanese stimulus measures and resultant increases in Japanese investment in the region may diminish QE's impact.

Key points: Growth in Southeast Asian economies will continue as the global recovery strengthens, though downside risks are still significant and new geopolitical vulnerabilities may surface.

Cambodia

Over the coming months, it is likely that the deadlock between the opposition Cambodia National Rescue Party and ruling Cambodian People's Party will ease.

The recent confrontation between China and Vietnam over the South China Sea and the internal conflict in Thailand have put substantial pressure on the two parties to resolve the stalemate.

Movements on two fronts ought to be anticipated.

Internationally, Japan has initiated indirect intervention to resolve the stalemate, though its officially stated goal is to assist in reforming the electoral system. Japan - as a major donor to Cambodia (second after the European Union), as a country with a rather neutral diplomatic posture and one with experiences in solving similar Cambodian problems and as an ally of the United States and other Western democracies - can be a particularly effective mediator. Japan and its allies have strategic reasons for preventing Cambodia from sliding entirely into China's sphere of influence. This is especially true at a time of heightened Sino-Vietnamese tensions and of turmoil in Thailand. Although Thailand is a US treaty ally, its political breakdown may offer China an opening to balance US power in the country. Such developments constitute imperatives for the intervention, spearheaded by Japan, to resolve the Cambodian stalemate. Neither the ruling party nor the opposition has any serious grounds for objecting to this initiative.

On the domestic front, the Cambodian parties may foresee the benefits of having balanced relationships with all the major global players and not being overwhelmed by China. Apparently senior officials from both parties have adopted fresh negotiating positions.

Other significant issues to track in the months ahead include Cambodia's controversial agreement to take refugees from Australia, and its border dispute with Thailand, which has flared up slightly since the Thai military took power in Bangkok.

Key points: Cambodia's political deadlock may ease, and Japan may come to play the key role in the process.

Indonesia

Two candidates will contest the 9 July Indonesian presidential election. The first is Jakarta Governor and Indonesian Democratic Party-Struggle candidate Joko Widodo, universally known as "Jokowi". His vice presidential candidate is former Indonesian Vice President and former Golkar Party general chairman Jusuf Kalla. The second candidate for Indonesia's presidency is retired Lieutenant General Prabowo Subianto from the Gerindra Party. His running mate is former Coordinating Minister for Social Affairs and current general chairman of the National Mandate Party, Hatta Rajasa. Both sides have formed coalitions with other parties. The deal-making of transactional politics could thus be underway, although the Jokowi coalition adamantly claims otherwise.

Campaigning has started, and the winner is hard to predict. Although most surveys have put Jokowi-Kalla ahead by some ten percentage points, there is still time for voting preferences to change. If the April legislative election results were any indication, polls can be misleading in Indonesia. Both camps are working hard to attract the support of local government officials, eminent persons, and religious leaders. Both camps are also expected to offer populist campaign promises and to employ vote-buying tactics, as many voters are still undecided. In addition, smear campaigns have been quite widely used by both sides, prompting calls for a cleaner campaign. The next Indonesian president will have the challenge of cleaning up the bureaucracy and working with a parliament divided among multiple parties while appeasing the demands of various interest groups.

The presidential election, combined with Idul Fitri festivities, will bring buoyancy to the economy. These effects will help offset the decline in central government spending in some areas which was triggered by a rapid increase in energy subsidies. Although the latest figures indicate an increase in the trade deficit, a quick rebound is expected since demand for Indonesia's exports remains strong. Trade in non-oil-and-gas products is growing, and inflation is expected to rise because of both the "Ramadan effect" and the increase in electricity tariffs due in July. There is still downward pressure on the rupiah against major currencies, and the central bank is likely to keep interest rates steady in order to maintain economic stability.

Key points: As the presidential campaign intensifies, candidates are doing all that they can to garner support. The winner will have quickly to immerse himself in running the government and to work on, among other things, stabilising the economy.

Malaysia

Prime Minister Najib Razak is expected to reshuffle his cabinet in the coming months in order to include at least two new Chinese ministers. Malaysian Chinese Association president Liow Tiong Lai is most likely to take over the Transport Ministry from current Acting Minister Hishammuddin Hussein. Gerakan president Mah Siew Keong, who won the recent Teluk Intan by-election, is expected to be made a full minister; Najib had promised him this promotion, in the event that he won the by-election.

Voting results for the Bukit Gelugor and Teluk Intan parliamentary and Kajang state by-elections showed that the Barisan Nasional not only failed to regain its support among Chinese voters but it also lost more Malay support to the opposition Pakatan Rakyat (PR). These results will further undermine Najib's "1Malaysia" policy of building an inclusive and multicultural Malaysian society, as his United Malays National Organization (UMNO) resorts to reinforcing support from the Malay community through escalating racial and religious rhetoric.

A series of provocative acts had inflamed racial and religious sentiments before the Bukit Gelugor and Teluk Intan polls. The Selangor Islamic Council and the University Technology MARA (UiTM) organized a controversial and blatantly anti-Christian seminar, where the leader of the Malaysian Muslim Solidarity branded all Chinese migrants to Malaya "trespassers" and questioned their loyalty to the country. In another show of anti-Chinese sentiments, a rowdy group from Federal Territory UMNO Youth protested in front of the headquarters of the Democratic Action Party (DAP) in Kuala Lumpur and threatened to burn it down. UMNO is most likely to persist in fanning racial and religious issues to keep Malay support and to create confusion and discord within the opposition coalition, the PR, especially between Parti Islam Se-Malaysia (PAS) and the DAP.

With a politically weak UMNO, Malay royalty in the various states may seize the opportunity to strengthen its power, as was the case in the recent failed attempt by the Sultan of Johor to amend the state constitution to gain executive power over state land matters. In East Malaysia, Najib may give in to the Sarawak and Sabah state governments' demand to raise their share of oil royalties.

Key points: Najib's credibility will continue to plunge as his administration remains unable or unwilling to restrain UMNO hardliners and their allies in civil society from inciting racial and religious issues. Growing dissatisfaction over the mounting cost of living will intensify calls on the government to provide more public assistance and to shelve the planned GST.

Myanmar

The National League for Democracy (NLD) and the 88 Generation Peace and Open Society organization continue their efforts to bring about constitutional change in Myanmar. Their campaign centres on Article 436 of the 2008 constitution. Amendment of this article is considered the keystone of political change in Myanmar, as the article currently requires the votes of more than 75 per cent of the parliament to pass amendments to crucial constitutional provisions. This effectively gives the military a veto over such reforms. The effort to change this article has resulted in some controversy. Human Rights Watch has accused the Union Electoral Commission (UEC) of intimidating the NLD. The UEC claimed that Aung San Suu Kyi had made illegal and unconstitutional comments at a rally in Mandalay, which could

jeopardize NLD's re-registration ahead of bi-elections at the end of the year and national elections at the end of 2015.

The August deadline for signing the third draft of the nationwide ceasefire agreement looms. However, there is no sign that the Kachin Independence Organisation will become involved in negotiations on that draft anytime soon.

The Thai coup does not appear to have negatively affected formal trade at the border between Myanmar and Thailand. However, informal trade, which makes up the bulk of this border trade, has fallen because of restrictions on trading imposed by the new Thai junta. This is significant: according to official figures, exports to Thailand make up a large proportion of Myanmar's trade—40.6 per cent in 2012. The impact of the coup therefore bears watching.

Speculation on the impact of the Thai coup on Myanmar's oil and gas sector is rife. On one hand, analysts claim that it will trigger renewed efforts by the Thais to restart energy projects stalled by recent political upheaval. On the other hand, a set of reform proposals made by the Thai energy ministry is expected to recommend the reduction of debt resulting from oil and gas imports and new investment in domestic exploration. As 80 per cent of the natural gas produced in Myanmar is exported to Thailand, this policy would have a direct impact on Myanmar's foreign earnings and trade gap.

Concerns about the trade gap have galvanised the government into establishing MyanTrade, an agency to promote Myanmar abroad, the aim of which is to reduce the growing import-export imbalance. The country's main exports are natural gas, agricultural produce and, until recently, timber. Given such a narrow export range, any upheaval in these sectors will have a significant impact on the balance of trade.

Key points: The campaign for constitutional change remains sensitive, and a backlash from the government is possible. While the government and the armed ethnic groups appear to be getting closer to a ceasefire agreement, it is possible that the August deadline will be moved back. Political changes in Thailand may herald a reduction in Myanmar's gas and oil exports.

The Philippines

A spreading political corruption scandal – known as the Napolist scandal – will dominate Philippine politics for the next few months and colour the build-up to the 2016 elections. Already, it is dominating local media coverage and side-tracking the senate in particular, and the political system more generally, from legislative priorities.

“Napolist” refers to the list of names of politicians and government officials who allegedly participated in sustained and fraudulent misappropriation of Priority Development Assistance Fund (PDAF) allocations over the past decade. The PDAF provided funds directly to senators and representatives to support development programmes of their choice. On 19 November 2013, the Philippine Supreme Court ruled the PDAF unconstitutional and dismantled this “pork barrel” mechanism. Janet Napoles, a self-proclaimed participant in the PDAF misallocation under investigation, recently released the names of 20 serving and former senators and 100 serving and former representatives of whose improper receipt of PDAF funds she claims to have direct knowledge. The Philippine Senate has 24 sitting members and the House

of Representatives up to 292 members. Napoles also claims that Florencio “Butch” Abad, President Aquino’s budget secretary, schooled her in corruption.

The next step in the legal process is for the Napolist accusations to be forwarded to the Office of the Ombudsman for further investigation. This process is likely to take time. While accused politicians continue to attack the credibility of Janet Napoles, targeted opposition politicians accuse the administration of a “witch hunt” and the media look for any signs of the Aquino administration protecting its own.

If no politician ends up facing charges or is successfully prosecuted, Filipinos’ already much battered belief in their political system will suffer further. If only opposition figures are targeted, the result will be similar. The Napolist scandal has yet a long time to play out, and will continue to buffet the Philippine political system and delay the Aquino administration’s reform plans for the foreseeable future.

Key Points: If a senior administration or opposition figure is arrested, the Napolist scandal will escalate politically.

Singapore

Recent events have shown that the Internet is a sphere with which Singapore’s government must engage on a deeper level in its effort to manage public opinion. Blogger Roy Ngerng accused the Prime Minister Lee Hsien Loong of misusing Central Provident Fund (CPF) monies and called for more transparency in the investment of CPF funds. The prime minister pressed defamation charges, a move that politicians in Singapore have had a history of undertaking to deter slander. What is unique about this case is the sympathy that Ngerng stirred among Singaporeans, manifested in an unprecedented flow of donations in response to his crowd-funding appeal for defence funds. It is not clear if the funds came from specific segments of the population or from all levels of society. Neither does this swell of support necessarily indicate agreement with Ngerng’s allegations. Online commentators have pointed out his error in levelling such an accusation against the prime minister. But his call for more government transparency in the management of public funds seems to have struck a chord with the public. As the Internet continues to make real-time access to opinions more accessible, the coming months will see the government having to engage and re-engage the public more thoroughly.

The Roy Ngerng case has ignited debate over the CPF’s role in securing retirement income for citizens. The Ministry of Manpower has been using blog posts and other Internet platforms to educate and reassure the public on the rationale and advantages of current CPF schemes. However, as the online questioning rages on, further review and attention to this question are likely. This debate comes at a time when the overall direction in government policy is towards addressing the needs and demands of Singaporeans at the grass-roots. For example, for the third year running, the National Wages Council has recommended an increase in the minimum pay for low-wage workers.

Key points: Parliamentary debates, resistance to time-tested governmental deterrence measures and the flow of information from the government to reassure citizens seem to point in the direction of more engagement between the government and the people in Singapore.

Thailand

According to the road map unveiled in late May by General Prayut Chanocha, the leader of Thailand's governing National Council for Peace and Order (NCPO), the junta will devote the period to the end of August to national reconciliation. Centres operating under the military's Internal Security Operations Command and reaching down to the village level will spearhead this effort. They are to hold meetings among rival Red Shirt and Yellow Shirt elements in Thai society with the goal of healing in a few months bitter divisions dating back almost a decade.

A number of additional developments will bear watching in the next two months. These include whether the NCPO makes good on its threat to try Thai civilians who oppose its rule or who are accused of *lèse-majesté* before military courts; the number of people it holds in long-term detention; whether or not it continues to cultivate an atmosphere of menace and insecurity in order to intimidate Thais opposed to military rule; and whether or not active resistance to that rule emerges and provokes repressive measures. Also worthy of attention are signs of divisions within the Thai army that could jeopardize the NCPO's hold on power and its ability to pursue its project to reshape Thailand's politics, as well as indications of the posture of the palace and of the heir to the throne.

The country will have no prime minister, no cabinet and no constitution during much or all of this period, as the NCPO has said that it will appoint a new government only in September or perhaps August at the earliest. In the meantime, an advisory council chaired by General Prawit Wongsuwan will advise the junta. While the NCPO has put junta member and air force commander Air Chief Marshal Dr Prachin Chantong in overall charge of economic affairs, its advisory council includes former Bank of Thailand governor and finance minister Pridiyathon Thewakun and former commerce minister Dr Narongchai Akrasani. As it seeks to reverse the effects of political turbulence on the economy, this team may benefit from the NCPO's decision to release to rice farmers payments owed to them by the Yinglakh government and to pursue large-scale infrastructure projects. The possibility of a crackdown on undocumented workers from neighbouring countries, on whom the Thai economy is so dependent, and the impact of military rule on tourism remain, however, sources of economic uncertainty.

Deepening Chinese engagement with the NCPO and mounting criticism of its rule on the part of Thais outside the country may also characterize the months ahead.

Key points: The NCPO's conduct during July and August will make its ultimate plans for Thailand clearer. Divisions within the Thai military and expressions of popular dissatisfaction with military rule, as well as the condition of the Thai economy, may present the junta with its greatest short-term challenges.

Vietnam

China's positioning of an oil rig in waters 120 nautical miles from the Vietnamese coastline at the beginning of May has dominated political discussions in Vietnam. This was the first time that China has drilled for oil in waters that another country claims within its own Exclusive Economic Zone. It thus constitutes an escalation of international disputes over the South China Sea. The oil rig has also been accompanied by as many as 130 protective vessels to help ensure that it can carry out its projected work until August. Vietnam's response to the incident has been one of shock and outrage. On 14 May these took the form of riotous protests that damaged more than 300 foreign factories, injured more than 100 persons and

resulted in the deaths of at least two Chinese nationals. This series of events has forced Vietnam to rethink its relations with Beijing while also handling a tense domestic political situation.

Since the oil rig incident, Vietnam has shown reinvigorated interest in closer diplomatic and possibly military cooperation with potential allies, such as the United States, Japan, the Philippines and ASEAN. Vietnam has also ramped up its own discussion of pursuing international legal action against China, following in the footsteps of the Philippines. These are signs that Vietnam may be reconsidering its usual bilateral dealings and especially party-to-party relations with China. At the same time, domestic pressure on the Vietnamese leadership to take more decisive action continues to mount. The riots have shown just how high tensions are currently running in Vietnam. However, domestic security forces responded forcefully to those riots, and all signs appear to indicate that they were an unusual one-off event.

Key points: Vietnam will continue to consider international legal action and other, more conventionally diplomatic, approaches to countering Chinese moves in the South China Sea. Its efforts have been mostly rhetorical so far, and any more concrete actions still lie ahead. International investors should feel reassured that Vietnamese authorities maintain a firm grip on the internal security situation, though continued provocations by China risk causing further domestic strife.

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