

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 editors would like to dedicate this first issue to our outgoing Director, Ambassador K. Kesavapany. We wish him health and happiness in his future endeavours.

The Region: Geopolitical Overview

The South China Sea issue remains critical because its development can affect peace and security in the region. Nevertheless, going beyond the arguments put forth by claimant states, as well as China's map of the South China Sea, few observers expect a major military confrontation. It is in no party's interest to spill blood over the issue. Accordingly, the status quo will continue for the foreseeable future. But this means that we are likely to see a continuation of a worrying pattern of belligerent incidents at sea involving warships, fishery protection vessels, trawlers and oil survey ships. The almost complete absence of conflict prevention mechanisms between and among the claimants raises the risk that one of these skirmishes can escalate into a more serious diplomatic and military crisis, either by accident or design.

The run-up to the US presidential election in November 2012 and the election result itself will be closely watched. The Obama administration's strong overtures to Asia have immense significance for the balance of power in the region. Southeast Asia is seeing subtly changing alignments as countries concerned about China's assertiveness seek closer security ties with the US, or try to achieve a more balanced posture between the US and China.

Key points: *Will the absence of adequate conflict prevention mechanisms in the South China Sea*

result in a diplomatic or military crisis? How will the US's relationship with Asia change if it has a new President, and how will China react to an increased US presence in the region?

The Region: Economic Overview

Southeast Asia's main economic concerns this year are the financial market's vulnerability and the economic slowdown that can result from the debt crisis in Europe. With downgraded credit ratings, many advanced economies have limited capacity to rescue their troubled financial institutions. Facing unsustainable debt and many years of severe austerity measures, Greece could opt out of the Euro. Thus, even a break-up of the Euro zone is not being ruled out. Should this happen, the impact on Southeast Asia can be far worse than the 2008 recession.

Generally, Southeast Asian countries are well positioned to withstand the global slowdown for a year or two. Their banks have high capital adequacy ratios, low levels of non-performing loans, significant reserves and downside flexibility in interest rates. Their economies have room to manoeuvre fiscally, and they can count on strong regional demand. Many ASEAN countries enjoy a healthy current account balance and are relatively less dependent on external borrowing. However, a sustained and more serious deterioration of conditions in high-income countries and an accompanying

decline in global trade can seriously affect the region, particularly those countries that are exceptionally open to world trade. Vietnam, Cambodia and Laos, with limited reserves, are less well positioned to address such a challenge, should it arise.

Despite strong regional demand, several ASEAN countries remain vulnerable to slowing imports by OECD countries. For instance, nearly 40% of Philippine exports go to two markets: Europe (20%) and the US (18%). Apart from disrupting trade, a new global crisis may destabilise the region's financial system as highly leveraged banks reduce lending and risk-averse investors react to tighter credit conditions by pulling their capital from the region.

Key points: *Southeast Asia needs to prepare for risks by maintaining domestic demand at a sustainable and non-inflationary pace. Can countries in the region subject their domestic banks to further stress-testing to avoid a domestic banking crisis?*

Cambodia

Cambodia's recent Senate election, though almost meaningless in terms of legislative power, nevertheless saw an important realignment of the country's opposition politics. While few Cambodians were entitled to vote for the rubber stamp upper house of parliament, the outcome will have a bearing on the 3 June commune elections, which return local leaders nation-wide. In the 29 January poll, Prime Minister Hun Sen's Cambodian People's Party picked up one extra

Senate seat, taking its representation to 46, maintaining tight control. The Sam Rainsy Party increased its tally from 2 to 11 while Funcinpec was wiped out, losing all 10 seats. It is probably the end of the line for Funcinpec, with most of the anti-government vote in future likely to go to SRP, which campaigned on land confiscations and border issues with Vietnam. The party made its gains despite being under political and financial pressure, having limited access to the media and with leader Sam Rainsy in exile abroad.

The strongest pressure faced by the Cambodian government comes not from the domestic opposition but the UN. As the Khmer Rouge trials continue in Phnom Penh, the real drama is shaping up outside the courtroom. Determined to block further trials, beyond the first two cases, the government is locked in an increasingly bitter dispute over the appointment of a Swiss judge, Laurent Kasper-Ansermet. He was nominated by UN Secretary-General Ban Ki-moon to replace a German judge who resigned, but Cambodia's Supreme Council of Magistracy rejected him. Kasper-Ansermet is determined to investigate two additional cases, a course adamantly opposed by Hun Sen and other senior officials. The UN says Cambodia's approval is not required, though whether he will be able to do his job without government cooperation is unclear. Analysts speculate that the UN may withdraw from the tribunal, which has jailed prison chief Duch for life on appeal, and is continuing to hear charges against Noun Chea, Leng Sary and Khieu Samphan, who held senior positions in the Khmer Rouge regime when up to two million people died.

Abroad, Cambodia is struggling to come up with a foreign policy that serves the country's interests while enhancing its reputation as this year's chairman of ASEAN. The government's main goals are clear: It is lobbying for a non-permanent seat on the UN Security Council, while ensuring other countries are kept abreast of developments on the Cambodian-Thai border, where the two countries clashed last year. The major challenge for Phnom Penh, however, is to demonstrate leadership of ASEAN. Extremely close to China, Cambodia must walk an especially fine line on the South China Sea issue. While it does not want to be seen to be doing Beijing's bidding, it must also not offend the four ASEAN countries with South China Sea claims. Hun Sen has said Cambodia intends to be neutral in the dispute, but that may not be good enough for Vietnam and the Philippines, which want the issue on the agenda of ASEAN-led organizations.

Key points: *Although Hun Sen's grip on Cambodia is stronger than ever, the Senate elections indicate he has probably reached the limits of his parliamentary power, given that the system still allows for some opposition activity. If Cambodia can negotiate the pitfalls as Chairman of ASEAN, it will emerge with its international reputation significantly enhanced.*

Indonesia

Indonesia is in a period defined simultaneously by political stasis and political stability. It has yet to move into the next phase of its democratic

consolidation, and it is unlikely to do so in 2012.

In fact, several indicators suggest an overall deterioration in earlier democratic achievements. First, the country's judiciary and police are — and most likely will remain — notoriously unpredictable in upholding the rule of law. Second, large sections of the bureaucracy are in disarray; they will continue to perform poorly for the foreseeable future. Third, Indonesia's main political parties have fallen increasingly into internal turmoil over positions of influence and finances. Those problems and frictions are bound to persist in several important parties in the coming months.

Externally, Indonesia is expected to continue playing a fairly minor role despite being the dominant power in Southeast Asia. This is largely because of the strong emphasis on purely domestic political issues. As the next general election and the presidential election approach in 2014, all of Indonesia's political parties will become increasingly preoccupied with preparations for the polls and the selection of candidates. It must be remembered that an anti-porn bill was introduced in 2008, just before the general election the following year. The coming months will tell if there is to be a similar populist legislative measure to win conservative votes this time. Overall, it is unlikely that Indonesia's status as a stable yet static democracy will change substantially during 2012.

Key points: *The current consumer boom in Indonesia will continue to mask its problems with corruption. And though Indonesia is less likely to be adversely affected by a global economic slowdown*

than other regional countries, will global risk aversion stem the investment inflows it has enjoyed in recent years?

Malaysia

Opposition leader Anwar Ibrahim's recent acquittal on sodomy charges has dominated the media, and will be a significant factor in Malaysia's forthcoming 13th general election. Barring unforeseen developments, Prime Minister Najib Razak will dissolve parliament and call the election no later than June. Both the Barisan Nasional (BN) government and opposition Pakatan Rakyat (PR) will accelerate preparations for the much anticipated poll.

Although Najib's administration is saddled with several thorny problems and the election does not have to be held before mid-2013, he may feel the need to go early for two reasons. First, Najib has to consolidate his position within his United Malays National Organization before UMNO's own elections are held in the second half of 2012. The second reason is that a weakening global economy in 2012 can adversely affect largely export-dependent Malaysia. With inflation already hurting ordinary Malaysians, a slowing domestic economy will cost votes for the BN. The budget deficit is estimated at 5.4% of GDP in 2011, limiting the government's ability to provide further stimulus spending in 2012. The government's hand will be further constrained by the next round of reduction and rationalisation of subsidies, expected soon.

Since 2009, millions of dollars have been spent on public relations efforts to burnish the image of BN and of Najib in particular. The government has awarded bonuses and salary increments to the 1.4 million-strong civil service, and more handouts can be expected in the coming months. In January 2012, Najib toured Perak, Selangor, Penang, Perlis and Perak, as well as the Federal Territory of Kuala Lumpur, to rally support. He is scheduled to visit Terengganu and Johor in February. UMNO, through the mainstream media, especially the party-owned *Utusan Malaysia*, and its NGO proxies, spearheaded by PERKASA, can be expected to ratchet up race and religion themes. The mainstream media predictably will publish more reports that detail or generate conflicts within the PR component parties.

For their part, the opposition parties will use the alternative and social media to highlight the government's corrupt and crony practices. It will promise clean and transparent governance, using the example of members of the Executive Council of the Democratic Action Party-led Penang state government declaring their assets. It will also offer to revise the lucrative terms granted to highway toll operators and independent power plant companies, and pledge to retain if not expand subsidies to ease the plight of Malaysians in anticipation of the economic slowdown.

Key points: *What impact will freshly acquitted Anwar have on the elections, especially in view of the prosecution's decision to appeal? How are the election results likely to affect Singapore/Malaysia relations?*

Myanmar

The by-elections of 1 April 2012 will be a significant landmark for opposition politics. Opposition icon Daw Aung San Suu Kyi (DASSK) and her party – the newly registered National League for Democracy (NLD) – are expected to win big in what is most likely to be a free and fair exercise. Even if the NLD wins all the 48 contested seats, however, the balance of votes in both the upper and lower houses will not shift significantly to threaten the more than two-thirds majority held by the military-backed Union Solidarity and Development Party (USDP).

Nevertheless, a new dynamism is likely to emerge in the national parliament, especially in the Pyithu Hluttaw or Lower House. The engagement between the central and provincial parliaments and the executive and judicial branches of the state's power structure will also become more pronounced and interactive. The presence of DASSK and NLD in parliament may enliven the proceedings and add more flavour to the multitude of house committees currently dominated by USDP members of parliament. We may see more motions and bills that reflect the public's concerns and wishes being tabled by the NLD and other parties not allied to the USDP. On the other hand, the freedom of manoeuvre and political space exercised by DASSK and the NLD may be somewhat constrained by parliamentary procedures, rules and regulations.

Internationally, the US is likely to maintain sanctions on financial transactions and investment in the period leading to the presidential

election in November 2012. However, it is possible that visa restrictions on Myanmar officials and businessmen will be rescinded in the near term, while the two countries may exchange ambassadors – posts left vacant for many years – within a year. On the other hand, sanctions imposed by Australia, the EU and Canada are likely to be withdrawn after the April by-elections if they are deemed free and fair. Japan will resume Official Development Assistance soon. Finally, the moratorium on assistance extended by international financial institutions may be eased considerably in the near future.

Key points: *The so-called “88 generation student leaders”, recently released from prison, may become a social movement. If so, how will the U Thein Sein government handle it? Will Thailand use the ceasefire agreement with the Karen National Union as an opportunity to repatriate refugees?*

Philippines

Despite the weakness of its armed forces, the Philippines has assumed the role as the most outspoken of four Southeast Asian claimants against China's assertiveness in the South China Sea. President Benigno Aquino has taken the lead in trying to rally ASEAN behind a common policy on the South China Sea, mainly to present a united front in negotiations with Beijing over a code of conduct. Defying threats from official Chinese media, Manila has encouraged the US to increase its military presence in the Philippines and supply the country with additional resources to patrol its waters. Aquino

has been encouraged by the absence of serious domestic opposition to closer defense ties with Washington. Left-wing Filipinos, who led the campaign to close American military bases two decades ago, were in short supply at a protest outside the US embassy in Manila in response to the latest news. Satisfied there is no suggestion of the Americans re-establishing bases in the Philippines, nationalists are now focused on the Philippine claim in the Spratlys. If Chinese Communist Party newspapers persist with calls for Beijing to punish Manila with economic sanctions, they are unlikely to intimidate the Philippine press, public or government.

Domestically, the Aquino administration is pressing ahead with efforts to prove that its predecessor, headed by former president Gloria Macapagal-Arroyo, was thoroughly corrupt. With Arroyo herself charged with electoral sabotage, a non-bailable offence, the Senate will remain preoccupied with the impeachment of Chief Justice Renato Corona. He was impeached in December on eight “articles”, including alleged betrayal of public trust, culpable violation of the Constitution, and graft and corruption. Conviction on just one article is enough to remove him from office. His impeachment is closely connected to Arroyo’s performance as president. She appointing him just days before she retired last year and he allegedly made decisions that favoured her government. Some of the 23 senators hearing the case are obviously grandstanding to attract publicity ahead of the 2013 Senate election. While Arroyo’s trial may last a couple of years, Corona may get to know his fate before mid-2012.

Key points: *Will the Philippine government maintain its hard line over the South China Sea, or prove as susceptible to China’s entreaties as some of its predecessors? Will President Aquino let go of the past and concentrate on building his own record of domestic achievement?*

Singapore

News broke in late January that the chiefs of the Central Narcotics Bureau (CNB) and the Singapore Civil Defence Force (SCDF) had been hauled up by the Corrupt Practices Investigation Bureau for “serious personal misconduct”. The ensuing public chatter over the CNB-SCDF scandal revolved primarily around two issues. First, it could not be explained away as a rare event. It comes hot on the heels of officers from the Singapore Land Authority and Ministry of Home Affairs being jailed for fraud in November 2011 and January 2012, respectively. Second, the scandal seemed to undermine one of the government’s longstanding arguments for high ministerial and bureaucratic salaries – to keep corruption at bay.

In addition to the corruption scandal, the coming months will see the conclusions of the Commission of Inquiry into the major breakdown of the country’s train system in December. The outcome of these two investigations will affect public perception of government competency. Already the recent assessment by international experts that Singapore’s drainage-design standards still lag behind those in other places, explaining the regular flooding on the island put relevant state agencies in a poor light.

Another significant event will be the budget unveiled in Parliament on 17 February. It is likely to address the concerns of the elderly as well as small and medium enterprises. The recent reduction in the intake of foreign workers – numbers were a major issue in the last general election -- most likely will be complemented by a reduction in the foreign levy employers pay on imported labour.

Key points: *As last year's budget assisted the manufacturing sector, we can expect the service sector to enjoy more perks this year, with greater emphasis on increasing productivity.*

Timor-Leste

With its capital booming and a presidential election scheduled, Timor-Leste appears to be fulfilling hopes for a democratic and prosperous future expressed at its independence ten years ago. But beyond the traffic jams and fancy restaurants in Dili is an impoverished and troubled country close to becoming a willing victim of the so-called "resource curse". With the aim of turning the half island into an upper-middle income country by 2030, the government is ramping up the spending of oil income, almost its only source of revenue. The 2012 budget, at US\$1.7 billion, is up 35 per cent from 2011 and more than five times larger than it was in 2008. Most of the money is being pumped into physical infrastructure. Little is going to agriculture or other domestic production that might reduce chronic unemployment and dependence on imported items that could be produced locally, including fish, vegetables and

chickens. Soaring inflation -- 14 per cent currently and likely to keep climbing -- is hitting the poor hardest and will be one more deterrent to foreign investment.

Theoretically, the election, announced in January, may entice into the public arena candidates with competing visions, or at least alternative policy options. But that seems unlikely, judging by early comments amid manoeuvring by political parties. Although official campaigning does not begin until early March, none of those challenging President Ramos-Horta's re-election bid appears to hold significantly different views. The poll takes place on 17 March. If necessary, a second round of voting will be held in late April.

Key points: *Timor-Leste's government is full of confidence and thinking big, but the strong growth rate likely to be achieved this year should not mislead anyone. Unless the country gives priority to developing its human capital, which means investing more in health and education, Timor-Leste will find it hard to be accepted as the eleventh member of ASEAN.*

Thailand

There are several issues in Thailand to watch in the coming months. The first is the lèse-majesté law. Since the military coup in 2006, increasing numbers of people have been charged with lèse-majesté, believed to be politically motivated. In other words, the lèse-majesté law has been used as an instrument to undermine political opponents. Thammasat University's academics have recently pushed for the reform of the law through the

parliamentary process, but they face resistance from royalists as well as the University's Rector, Somkid Lertpaitoon, who has intimate ties with the military. In the end, the law may not be amended for reasons linked to the second issue, former prime minister Thaksin Shinawatra's possible homecoming.

Thaksin has been sentenced in absentia to two years imprisonment for conflict of interest, a charge he has always denied. Since assuming power in July last year, Prime Minister Yingluck Shinawatra, Thaksin's sister, has tested the waters by deliberately raising the issue of amnesty or royal pardon, as well as returning Thaksin his passport, in order to gauge the public's response. It is believed that the Pheu Thai-led government's declared position not to reform the *lèse-majesté* law may be tied to the speculated deal between Thaksin and his detractors in the Bangkok establishment: no *lèse-majesté* reform in return for a royal pardon. The months ahead will see how such a deal, if there is any such deal, will shape the contours of Thai politics and how it will affect the so-called red-shirts, who may feel let down by the Pheu Thai Party's stand on the *lèse-majesté* law.

The final issue concerns the health of King Bhumibol Adulyadej. The King has been hospitalised since September 2009 and while he appeared on national TV recently on two occasions — his birthday on 5 December and later in the month on New Year's eve — his health is reportedly deteriorating. The continued politicisation of the monarchy, not least the controversy over the *lèse-majesté* law, leaves aspects of the succession unclear.

Key points: *Will Thaksin's return further divide Thailand? The preparedness of Thailand for monarchical succession will also be under scrutiny.*

Vietnam

The most critical macroeconomic issue for Vietnam in 2012 is when and how it will regain its economic balance and forward momentum. Fiscal and monetary expansion since 2006 has driven the inflation rate up and the value of the Vietnamese dong down. A weaker dong is good for exports, particularly since the Vietnamese economy is not on the high end of the value chain. But an inflation rate of over 20% annually has made it difficult for the government to ensure that monetary policies meant to address inflation have an impact.

In terms of domestic political reform, the elephant in the room is the Vietnamese Communist Party (VCP) and its control of both the state and government. Party secretaries exercise great power and influence, with all other officials having to seek guidance from them. This has become a major source of corrupt and incompetent governance. The VCP knows this, but what it does about it is another matter.

Reforms therefore will come in the form of small steps rather than one major decision, but the small moves may well add up to nothing. Specifically, there are plans at lower levels, from the districts, to merge the posts of Party secretary and chairman of people's committees. But Party secretaries are still mainly selected by upper levels.

Although protests over abuse by local authorities are not uncommon, few have reached the heights of the Tien Lang District case. Here a family took up arms to kill local police and officials intending to violate their land leases. The Tien Lang case will not break the regime, but the huge public sympathy won by victims revealed a large reservoir of discontent towards local authorities. We can expect more violent resistance from victims of local authorities in the coming years, given that Tien Lang showed this was the only effective way for victims to gain nationwide attention and quick redress.

Key points: *With Vietnam on a charm offensive with great powers, including China, and with Hanoi becoming a popular stop for regional powers, Vietnam is fast emerging as a key regional player. How will the growing importance of Vietnam affect its position on the South China Sea issue?*