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ISEAS MONITOR

A QUARTERLY SURVEY OF SOUTHEAST ASIA

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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

North Korea's third nuclear test earlier in 2013 set a tense tone for newly elected South Korean President Park Guen-hye's administration. It also reinforced nationalist rhetoric in Japan as Shinzo Abe took office as prime minister. Still, the issue opened a window for the United States and China to consult closely on security concerns, despite Washington's protests over Beijing's disregard for cyber-security. Prime Minister Abe's "lost" policy statement on five principles for Japanese diplomacy, highlighting rule of law in the region's sea lanes, drew some sharp comments from Beijing, already exasperated with Tokyo's refusal to acknowledge the Senkaku/Diaoyu dispute.

Tensions among the Northeast Asian countries mirror similar concerns among ASEAN states over claims in the South China Sea. Beijing's reiteration of sovereignty and territorial integrity indicates that China's new leadership will maintain past practice. This approach will continue to test ASEAN's emphasis on its centrality in regional affairs. While there is little doubt that current ASEAN Chair Brunei will be able to steer regional discussions clear of rocky shoals during the remainder of 2013, in the months ahead all eyes will be on Myanmar's preparations to serve as ASEAN Chair for 2014. Myanmar is also under pressure to settle simmering internal conflicts and tensions even as international enthusiasm for its reforms continues.

Southeast Asia was the first destination for high-level visits by top leaders from Japan and China. Meanwhile, Secretary of State John Kerry has underscored US commitment to its "pivot" to the region, especially in strengthening partnerships with ASEAN countries. The political dimensions of this rebalancing will be influenced by the parallel tracks of US- and ASEAN-led initiatives for economic integration. Will ASEAN be able to exercise its centrality to bridge differences between the Trans-Pacific Partnership and the Regional Comprehensive Economic Partnership?

Key points: Across mid-2013, Southeast Asia's position as the focus and locus of attention and rivalry from its Northeast Asian neighbours and the United States will continue to define the region's geopolitics. ASEAN should leverage its centrality to work out clear "codes of conduct" that will help manage and assuage any tensions that may arise in either the political or the economic sphere.

The Region: Economic Overview

The latest estimates of GDP growth in the third quarter of 2013 reveal an upbeat economic outlook for Southeast Asia. Overall, the region is firmly on track to achieve projected growth of 5.5 percent in 2013. Indonesia, Malaysia, the Philippines, and Vietnam in particular are expected to attain output growth in the third quarter of 2013 at the same level as the full-year estimates.

The region's buoyant growth is attributable to various factors, both external and internal. The global economic crises have been unwound as the risks of the euro zone sovereign debt crisis and the United States' fiscal cliff have been reduced. Receding risks have boosted demand for exports and prompted capital inflows. Domestic conditions in the region are equally healthy. Unemployment appears to be softening and will remain at current levels, and inflation has been under control. Many major Southeast Asian economies—particularly Indonesia, Malaysia, the Philippines, and Thailand—have leveraged on accommodative fiscal and monetary stances, while smaller economies like Cambodia and Lao PDR have seen rapid credit growth.

However, the rosy outlook does not come without reason for caution. Two major Southeast Asian economies – Singapore and Thailand – exhibit some signs of lagging, as the projected GDP growth in the third quarter of 2013 slips from the full-year targets. Various factors explain such economic frailty. China and India are projected to grow at the rate of 7.7 and 4.5 percent, respectively, in the third quarter of 2013; these figures are lower than the full-year estimates. Additionally, a sharp surge in capital inflows into the region has fuelled financial imbalances, particularly because of accumulating asset bubbles, and heightened the risk of sudden reversals. Lastly, looming economic uncertainties like a backpedalling of quantitative easing in the United States and escalating sovereign risks in Japan remain a threat to economic fundamentals in the region.

Real GDP Growth in Southeast Asia (year-on-year percentage changes).

Country	2010	2011	2012	2013	Q3:2013 (projected)
Brunei Darussalam	2.6	2.2	1.3	1.2	---
Cambodia	6.1	7.1	6.5	6.7	---
Indonesia	6.2	6.5	6.2	6.3	6.2
Lao PDR	8.1	8.0	8.3	8.0	---
Malaysia	7.2	5.1	5.6	5.1	5.2
Myanmar	5.3	5.5	6.3	6.5	---
Philippines	7.6	3.9	6.6	6.0	7.1
Singapore	14.8	5.2	1.3	2.0	0.3
Thailand	7.8	0.1	6.4	5.9	3.0
Vietnam	6.8	5.9	5.0	5.2	5.4
ASEAN-10 Average	**7.6**	**4.6**	**5.7**	**5.5**	**---**
China	**10.4**	**9.3**	**7.8**	**8.0**	**7.7**
India	**11.2**	**7.7**	**4.0**	**5.7**	**4.5**
Emerging Asia Average	**10.1**	**8.2**	**6.7**	**7.2**	**---**

Source: *Regional Economic Outlook: Asia and the Pacific*, International Monetary Fund (IMF), April 2013.

Note: GDP forecasts for the third quarter (July-September) of 2013 are compiled from various sources. Emerging Asia includes China, India, Indonesia, Malaysia, the Philippines, Thailand, and Vietnam.

Key points: Global economic conditions make the regional outlook for the quarter ahead positive, with output growth and employment-market stability characterizing most economies. The performances of Singapore and Thailand may, however, lag those of their neighbors.

Cambodia

On 28 July 2013, Cambodia will hold its fifth parliamentary election since 1993. The current ruling party, the Cambodian People's Party (CPP), is expected to win another victory, though it remains unclear if the party will again win a majority of more than two thirds of the seats, as it did in 2008.

Anticipated electoral uncertainty and a number of challenges that might cost the CPP votes led Prime Minister Hun Sen to launch a land distribution project in June of last year. The project aims to give new land titles to almost half a million families; it was half-way to that goal as of January 2013. Hun Sen also threatened voters with civil war and the cancellation of development projects if the CPP lost the election. He moved to weaken the recently merged opposition, the Cambodia National Rescue Party (CNRP), its top leaders and its lawmakers, and his government obstructed their activities.

During the month-long campaign leading to 28 July and following the election, several significant developments are anticipated. First, traditional donors like the United States will probably not pressure the government to pave the way for the return of the opposition leader Sam Rainsy before the election. These donors' posture will reflect the greater legitimacy and strength of Cambodia's government, its geopolitical significance, and the assumption of a more balanced approach toward the country among donors who have in the past imposed conditions relating to governance on the country. The goal of this new approach is to avoid the country's complete absorption into China's orbit. Second, the opposition, immensely damaged by the ruling party's recent actions, may boycott the election. Third, the international community is likely to accept the outcome of the forthcoming election and to continue to collaborate with the next CPP government.

Key points: The CPP has badly weakened the opposition in order to guarantee its victory in the July election. Very probably, the CPP will win the election, giving Hun Sen the opportunity to rule Cambodia for another five years.

Indonesia

As Indonesia's 2014 parliamentary and presidential elections loom, political parties and democracy in general are facing serious tests. Corruption cases involving high-profile politicians will continue to dominate the media in the next three months. In particular, the graft case against Luthfi Hasan Ishaaq, former president of the Prosperous Justice Party (PKS), which used to campaign as a "clean and caring" party, will tarnish the credibility and moral standing of the party. At the same time, a corruption case in connection with the project to build an Rp 2.5 trillion (US$260 million) sports center in Hambalang, Bogor district, has implicated top politicians from the Democratic Party (PD) of President Susilo Bambang Yudhoyono (SBY), including former party chairman Anas Urbaningrum and former Sports Minister Andi Mallarangeng. These scandals will affect voters' support for these parties. The independence, or otherwise, of the Corruption Eradication Commission (KPK) in resolving these cases will also reflect Indonesia's continuing commitment to reform and the rule of law.

Meanwhile, choosing their presidential candidates will be high on the agenda for political parties. The Indonesian Democratic Party-Struggle (PDI-P) looks set to benefit from Jakarta governor Joko Widodo's popularity as a potential presidential candidate. SBY's Democratic Party (PD) will start registration of potential presidential candidates this September, as the president cannot serve beyond a second term. He will be struggling to resolve internal conflicts and restore his party's electability, which has been seriously dented by corruption cases.

The appointment of Chatib Basri as the new finance minister 16 months before SBY's term runs out is unlikely to lead to changes in economic policy. Current policies—such as cutting oil subsidies and giving priority to domestic firms in the natural-resources and banking sectors—will continue to be implemented firmly. Preparations for the elections will be gearing up towards the end of 2013, and this will boost domestic spending.

Key points: The three months ahead will see serious corruption cases in Indonesia begin to play out. This development will coincide with Indonesian political parties' efforts to select candidates for the 2014 presidential elections and the continuation of mildly nationalist policies concerning the operation of foreign firms in certain sectors.

Malaysia

In holding general elections as late in the mandate period as he could, Prime Minister Najib Razak put the country through an extended period of politicking and d*e facto* campaigning. In the polls that were finally held on 5 May, his coalition managed to retain power, but with a reduced majority. Most significantly, it lost the national popular vote, and now relies more than ever on support from East Malaysia to stay in power.

How the federal government balances power among parties in the ruling coalition will now be a major challenge. The badly battered Malaysian Chinese Association, traditionally the second most important party in the Barisan Nasional after the United Malays National Organisation (UMNO), has decided to decline offers of ministerial seats, making it all the more difficult for the prime minister to configure racial representation in his new government. Also, some members of parliament from East Malaysia have publicly expressed dissatisfaction with how cabinet positions have been distributed.

Najib's loss of support in urban centres will make serious compromises a requirement for the success of his policies and his reforms. The reduction in parliamentary support also puts enormous pressure on the prime minister to withstand challenges from within his own party, UMNO. The party is due to hold elections soon, and the country's politics in coming months will be strongly influenced by heavy behind-the-scenes campaigning. Najib's predecessor, Abdullah Badawi, was edged out in the first party elections following the coalition's bad showing in the 2008 general elections. That precedent now haunts the present administration.

The prolonged campaigning for the 2013 general elections was extremely costly for the country, and putting national finances into order will be a major concern for the government. The means to that end are however highly controversial ones. Introducing a goods-and-services tax regime is an unpopular move that will precipitate a new series of public demonstrations, as will crucial attempts to lower the hugely expensive subsidies on basic items.

Key points: UMNO's weak showing in the May elections leaves Prime Minister Najib under considerable political pressure, both within his own party and coalition and in parliament. His ability to move to address the country's finances and to advance other policies is constrained.

Myanmar

Moving into its third year of political and economic reforms, Myanmar hosted the World Economic Forum for East Asia for the first time in early June, using it as an opportunity to showcase its achievements and to woo investors. The participants – top business leaders, ministers, young leaders from around the world – took the opportunity to launch a programme for children's nutrition, to predict a ten percent growth rate for the economy and to release a report on the energy architecture of the country. Aung San Suu Kyi announced her bid for the presidency in the 2015 elections.

Foreign investment in the country appears to be gaining ground. Unilever announced its intention to enter the country, on the heels of Ford and Coca Cola. While the decisions of such multinationals are important indicators of confidence in Myanmar, the Myanmar government, independent commentators and Western governments have also sent many positive signals.

A McKinsey Global Institute report on Myanmar, released a week before the World Economic Forum, offered ambitious economic forecasts for Myanmar, particularly in energy and mining, agriculture, manufacturing and infrastructure. This, combined with the lifting of the last of the EU sanctions, and moves to let US sanctions on investment and banking lapse will boost Myanmar's profile in the eyes of potential investors.

Nevertheless, numerous economic bottlenecks and political realities continue to pose challenges: low labour productivity and education levels, low incomes and the lack of the rule of law and of an independent judiciary. More broadly, the political will and capacity of the government to deal with the tensions over the acquisition and use of land and resources is of concern to various stakeholders.

The prospects for peace at the borders have grown, thanks to a ceasefire agreement, announced at the end of May, between the Kachin Independence Organisation and the Myanmar government. Still, the Myanmar experience has taught us that ceasefires do not necessarily lead to peace. Social stability continues to be elusive; the government's attempts to deal with sectarian violence between Muslims and Buddhists have proved blundering and ill-conceived.

Key points: Foreign investment in Myanmar will finally begin to gather momentum in the coming months. But the Naypyitaw government's ability to succeed in building on its ceasefire agreement with Kachin rebels to bring peace to the north of the country and to address anti-Muslim violence across Myanmar remains uncertain.

The Philippines

This May, some 52 million Filipino voters went to the urns to fill 18,000 elective positions at the national, provincial, and local levels. President Aquino and his allies emerged strengthened from the polls in what was seen as a referendum on his administration. With three years left in his tenure, Aquino and his allies now enjoy a majority in both the Senate and the House of Representatives.

This political capital will enable the president to push ahead with combatting corruption, improving infrastructure, and expanding the tax base to fund more social services. In addition, his Senate majority should allow him to conclude a peace deal with the Moro Islamic Liberation Front, operating in Mindanao.

However, the election results also strengthened the hold of elite families on elected positions in the Philippines. According to the Asian Institute of Management, 80 percent of senators and 70 percent of the members of the House Representatives are part of political dynasties – taken to mean having other relatives in elective office. In addition, figures associated with corruption such as Imelda Marcos and former Presidents Joseph Estrada and Gloria Macapagal-Arroyo won in their constituencies.

Beyond his personal appeal and policy platform, Aquino's support is bolstered by the Philippines' strong economic growth. GDP grew at 6.6% percent in 2012, further accelerating to 7.8% in the first quarter of 2013. Domestic demand is up, and remittances and the business process outsourcing sector are solid. Tourism will get a boost from four planned casino resorts. This performance, coupled with reduced debt and substantial foreign reserves, has seen the country's debt receive investment-grade ratings from two agencies, Fitch and Standard & Poor's. The third, Moody's, is expected to follow suit shortly.

This positive news has been tempered by conflict with Taiwan, following the shooting of a Taiwanese fisherman by the Philippine Coast Guard in waters claimed by both countries. Taiwan has frozen applications for work permits, economic cooperation, and military exercises. This raises difficulties for the Philippines, as 90,000 Filipinos work in Taiwan, which is also a source of investment and tourism revenue. Investigations are underway to shed light on how the shooting occurred.

Key Points: Will Aquino's renewed mandate boost additional efforts to combat corruption and improve the business climate? Will the Philippines' credit ratings translate into additional inflows of capital and/or an appreciation of the Peso? How will China react to the dispute between the Philippines and Taiwan?

Singapore

If there is a single event that hints at the way the political landscape is shaping up it is the public's reaction to the new licensing regulations announced by the Media Development Authority (MDA) in late May. These regulations require online news sites to put up a "performance bond" of S$50,000 and to take down any content deemed objectionable within 24 hours. MDA asserts that these new regulations only serve to bring "parity" between online news sites and print news media, while exempting blogs and non-news sites. Critics, however, wonder what these new regulations cover that existing laws already do not. They also note that, of the ten news sites affected, only Yahoo News is not in the Singapore Press Holdings or Mediacorp stable. Perhaps more pertinently, if these regulations are meant to prevent racially or religiously motivated hate speech, as argued by MDA, then *bona fide* news sites are the wrong targets since these have no history of carrying inflammatory content. Finally, questions are raised about why the broadly worded regulations were announced so abruptly and implemented with little consultation with the public or stakeholders. In response to the MDA's announcement of these regulations, local bloggers blacked out their websites for 24 hours and held a protest at Hong Lim Park.

This incident captures a broader dilemma facing the government. While seeking to draw a line under the 2011 general elections and build its image as a consultative government that is in sync with younger citizens in an era of greater pluralism, it continues to regulate and manage online and print media. An attempt to regulate foreign news sites that carry Singapore news is already on the cards.

The result is the continued dissemination of mixed political signals to the population. Laudable efforts, such as Our Singapore Conversation, to appear more consultative will continue, but so too will manifestations of the government's impulse to regulate and pre-empt. It will be this simultaneous attempt to be more consultative and yet more regulatory that will set the tone for politics until the next general election, due by 2016.

Key points: Protests and demonstrations have been mainstreamed in Singapore. The speed and ease with which public demonstrations have been co-opted in the political vocabulary of Singaporeans suggests a momentum that cannot be reversed.

Thailand

Developments in Thailand are likely to justify observers' growing confidence in the Yinglak Shinawatra government. Major economic portfolios—notably Finance and Tranport—lie in the hands of ministers who enjoy the premier's trust and who have brought effectiveness to her administration. That administration is thus poised to build on its increasingly evident strengths during the quarter ahead.

Nevertheless, the Yinglak government continues to operate on a political landscape scarred by two bitter conflicts: between the "red" and "yellow" camps in national politics and between the Thai state and insurgents in the far south of the country. Developments in each of these conflicts bear watching.

First, at the level of national politics the government's effort to amend the 2007 Thai constitution will face continued obstruction on the part of the Democrat Party and other royalist interests. The Constitutional Court will closely monitor and regulate the amendment process, perhaps resorting to aggressive and creative readings of the charter. Government attempts to pass a "reconciliation" bill to pardon individuals involved in the political conflicts of recent years will also encounter resistance. Opposition to the government in these areas is rooted in a determination to prevent former Prime Minister Thaksin from returning to Thailand and to obstruct the current Thaksinite government in every way possible. This opposition is, however, not likely to destabilize Thailand significantly in the months ahead.

Second, Bangkok's attempts to hold talks with representatives of Malay-Muslim insurgents in far southern Thailand are likely to look more and more poorly conceived. Daily violence in the region will continue. Discussion of reforms needed to address the problems of Patani will remain politically and institutionally impossible.

Key points: The Yinglak government is likely to build on recent momentum, notwithstanding the obstructionism of its domestic enemies and the ineffectiveness of its efforts to negotiate progress toward peace in Patani.

Vietnam

When the 175 members of the Communist Party of Vietnam's Central Committee gathered for the Seventh Plenum on 2 May, marking the mid-way point in the country's quinquennial political cycle, most Vietnamese would no doubt have preferred that they set aside the infighting that has characterized the past two and a half years and focus on reviving the economy. The country's economy grew at a moribund rate of less than five percent during the first quarter of 2103. However, the Committee's first task was to elect up to three additional members of the Politburo, joining the fourteen who were selected during Eleventh Party Congress in 2011.

The outcome was reported on blogs days before it appeared in official media outlets (that, as is customary, dutifully waited until the close of the plenum). Ms Nguyen Thi Kim Ngan, National Assembly Vice Chairman, and Mr Nguyen Thien Nhan, Deputy Prime Minister, received enough votes to ascend to the Politburo. The Committee was apparently unconcerned with Mr Nhan's inability to undertake much-needed reforms during his tenure as minister of education. Ms Kim Ngan, who previously served in the Ministry of Finance and as party secretary of Hai Duong province, is only the third woman since 1945 to serve on the Politburo. Both will vie for top slots in 2016. Two candidates associated with the party's efforts to assert greater party control over government–Nguyen Ba Thanh, the outspoken Danang party chief recently selected to run the party's newly re-established Internal Affairs Commission, and Vuong Dinh Hue, the finance minister tapped to run the party's Economic Affairs Commission–failed to garner the votes needed to move up. Wags promptly predicted that a Politburo with an even number of members presaged a continuation of the stasis that has afflicted the political system. Meanwhile, the economy continues its slow downward spiral.

Key Points: Vietnam's political elite will continue during the second quarter of 2013 to fail to come to grips with the country's deep economic problems. There may be signs of early maneuvering for position in the leadership reshuffle due in 2016.

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