

**SOUTHEAST
ASIAN
AFFAIRS 2005**

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SOUTHEAST ASIAN AFFAIRS 2005

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Foreword

The year 2004 was on the whole a good one for Southeast Asia, though marred towards the end by the tsunami tragedy. There was healthy economic growth, as the region recovered from SARS and benefited from the growth of the American economy as well as strong growth in China. The outcomes of the democratic elections in Indonesia, Malaysia, and the Philippines were positive for regional stability. In Indonesia they ushered in a new political leadership while in Malaysia they provided a resounding vote of confidence in Prime Minister Abdullah Badawi who had succeeded Dr Mahathir Mohamed in late 2003. The tsunami of 26 December 2004 was a terrible tragedy in human terms but is not expected to cause any significant dent in overall economic terms.

Southeast Asian Affairs has established for itself the reputation of being a valuable repository of information on developments in the year under review. ISEAS will continue to bring out this publication in a timely manner.

K Kesavapany

Director

Institute of Southeast Asian Studies

April 2005

Introduction

The year 2004 was a relatively good one for Southeast Asia on both economic and political fronts. The region experienced robust growth of 6.3 per cent, driven by economic rebounds in the United States, Japan, and the European Union and the rapid economic expansion of China. It was also a year in which elections and political transitions took place in a number of countries. They were on the whole positive for the region and in most cases generated hopes for a better future.

Nevertheless, the region continued to have security concerns. Its external security environment was marked by greater uncertainty, in view of concerns that Iraq might become an expanding base for jihad with implications for other regions; as well as concerns relating to the Korean peninsula, the Taiwan Straits and the downturn in Sino-Japanese relations. Within Southeast Asia some countries faced threats from terrorism associated with radical Islamic groups, especially Indonesia and the Philippines. These two countries also had to deal with separatist rebellions and, in the case of the Philippines, a continuing communist insurgency. A troubling new development was the outbreak of violence in the Muslim provinces of South Thailand.

The region was drawing increased attention from the major powers, with signs of keener competition for influence between the United States and China. America's security relations with allies and friends intensified but Southeast Asians felt that America's attention was too narrowly focused on the war on terrorism and that its "soft power" had declined. There were signs towards the end of the year of the United States adopting a broader-based and politically more nuanced policy to the region, in part to meet the competition from China which, through sophisticated diplomacy (some would call, a charm offensive predicated on its message of "peaceful rise of China") and economic leverage (e.g. signing of important agreements on trade and dispute settlement with the Association of Southeast Asian Nations (ASEAN) at the November 2004 summit and targeting an ASEAN-China FTA by 2010), had sought to address Southeast Asian governments' reservations about its emerging role as a major power. Still, these countries were not simply acquiescing in China's rise, but were continuing to hedge their bets, by accepting the need for a continuing US underpinning role in regional security. The interests of Australia, Japan and India in Southeast Asia have provided additional hedging options.

Meanwhile ASEAN seemed unlikely in the near term to develop into a truly coherent vehicle to help members manage more effectively the diverse security problems they faced. Security networking of most Southeast Asian states has largely been bilateral, especially with extra-regional powers. The continuing strong US security interest in the region has enabled Southeast Asian states to view China's rising power with relative equanimity.

ASEAN continued to face formidable challenges. Security cooperation under its auspices remained largely potential rather than actual. On the economic plane, the implementation of the ASEAN Free Trade Area (AFTA) was making good progress, but movement towards fuller economic integration remained essentially slow. The potential building blocks for an ASEAN Economic Community (AEC) based on integration in areas like services and investments were in place, but the will to move forward vigorously to attain it seemed to be lacking. The motivation behind the AEC has been to make the region a more attractive production base for foreign and domestic companies, especially in view of the competition for investments from China and India. Concerns have been voiced that the AEC might be sidetracked or subsumed under ASEAN's trade pacts with China, India and others and the economic agenda of the proposed East Asia Summit. Nevertheless in its dialogue relationships, ASEAN continued to be courted at the highest level by a growing circle of external suitors. ASEAN's 2004 post-summit dialogues (with China, Japan, Korea and India) held in Vientiane in November saw the inclusion of Australia and New Zealand for the first time since 1977 leading to expectations of a regularized ASEAN-ANZ relationship at summit level and an eventual broad economic partnership agreement.

The domestic affairs of Southeast Asian states showed more continuity than change in 2004. The outcome of the democratic elections in Malaysia, Philippines and Indonesia, the expectation that Thai Prime Minister Thaksin Shinawatra's Thai Rak Thai party would be returned to power with an increased majority in general elections scheduled for early 2005, and leadership changes in Indonesia and Singapore were generally positive for regional stability and to outside observers. The elections also demonstrated that in the two largest Muslim majority countries of Southeast Asia, mainstream Muslims voted overwhelmingly for moderate secular parties.

On the whole it can be argued that they advanced the cause of democracy in Southeast Asia, notwithstanding some signs of regression in Thailand and the poor democratic consolidation in the Philippines, which raised questions about political legitimacy of the political leadership. Even tiny Brunei was stirring with the tentative steps in political development when Sultan Hassanal Bolkiah announced the convening of a nominated Legislative Council that would prepare for election to one-third of its seats that was expected before the end of 2005.

In Indonesia, the largest and most populous country of Southeast Asia, Susilo Bambang Yudhoyono, a retired general and a coordinating minister under former President Megawati, won the country's first direct presidential election. Popular at home and with the West, his victory raised such high expectations among the public that he has sought to dampen them because he cannot perform miracles. While he seemed to have his priorities right, the problems of Indonesia are complex and numerous, not amenable to quick or easy solutions. The new president was paying special attention to improving the investment climate and to dealing with the rebellions in Aceh and Papua. Terrorism is another challenge that he has to be seen to be dealing with firmly if he is to convince potential investors that he is serious about improving stability and law and order. By year's end, President Yudhoyono's Vice-President, Jusuf Kalla, was elected chairman of Golkar, the largest parliamentary party, thus providing the government a much-needed parliamentary power base and yet, as others would note, sowing the seeds for future political competition between them.

The general election in Malaysia in March gave the ruling Barisan Nasional (BN) coalition a massive victory that served as a resounding vote of confidence for Prime Minister Abdullah Badawi who had taken over the reins of government from Dr Mahathir Mohamed only in October 2003. The gains that the fundamentalist Islamic party, Parti Islam Se Malaysia (PAS), had made in the 1999 election were more than reversed in the Federal parliament and at the state level where PAS lost control of Terengganu and nearly lost Kelantan, its traditional stronghold.

Abdullah's appointment as Prime Minister and the signals he sent to tackle corruption, improve law and order, curtail mega-projects, improve corporate governance and pay more attention to the rural sector, had raised high expectations. However, by the end of 2004, after more than a year in office, there was some feeling of let down. While remaining personally popular, there was a sense that the problems he had taken on were perhaps too entrenched, some enmeshed with powerful interests, and that Abdullah, unlike his predecessor, did not by nature have the gumption to create too many waves by taking them head on. However, Abdullah's supporters still believed that he would deliver on the reforms but needed more time to do so. Among the fundamental challenges the country faced was how to make the economy more efficient and competitive to meet regional and international challenges while operating in a politically charged domestic context of an affirmative action programme in favour of the ethnic Malay community.

In Thailand, Prime Minister Thaksin Shinawatra was about to complete a full four year term, the first elected government in Thai history to do so, and all signs pointed to another term in office after the general elections scheduled for early 2005.

The economy was booming, with growth during the year expected to be only marginally below the 6.8 per cent achieved in 2003, despite higher oil prices, bird flu and the outbreak of violence in the south. Real output per person exceeded its pre-crisis level of 1996. However, recovery of private investment, both local and foreign direct investment, was slow — by 2003 it had risen to only 16.3 per cent of the GDP compared with over 30 per cent in the years preceding the crisis.

Thailand's recovery from the economic crisis was partly due to the Thaksin government's ability to restore economic confidence by making Thais feel that unlike its immediate predecessors, it was in control and capable of making clear decisions. There was no sign yet of an economic bubble as some critics had feared. However critics also drew attention to the diminished quality of Thai democracy under Thaksin. The main challenges the government will face in the second term include those on which it made little headway in 2004 or during its first term, namely the violence in the south, which was ineptly handled and could worsen, and the need to reform the education system on which the competitiveness of the economy and the efficacy of the poverty reduction programmes depend.

In the Philippine presidential election in May, President Gloria Macapagal Arroyo, the incumbent, was confirmed in the presidency after a narrow win. However, the victory was marred by perceptions of fraud that questioned its legitimacy. Her approval ratings plunged during the year because of public perception that she had done little to combat rampant corruption. There were indications of politicians in general losing legitimacy in the eyes of the public because they were identified with powerful political dynasties out to advance their own interests. Badly needed reforms were not being implemented.

Although it managed a growth rate of about 6 per cent in 2004, the Philippines seemed to be in decline. Unemployment was approaching 11 per cent; about half the people were living below the poverty line (calculated at US\$223 per annum at the prevailing exchange rate); the annual population growth rate was estimated to be 2.34 per cent, the highest in Asia; the economy was burdened by large budget deficits and public debt; and the government was fighting two simultaneous insurgencies. Behind the public expressions of solidarity in the war against terrorism, there were signs of exasperation in the United States, the country's principal ally, about the state of affairs in the country and the performance of the government.

The year also witnessed political transition of a kind in Singapore with the smooth handover of prime ministership from Goh Chok Tong to Lee Hsien Loong on 12 August. Goh became Senior Minister in the cabinet replacing Lee Kuan Yew who moved on to be Minister Mentor. Generally, in terms of political parameters and major policy templates, continuity from the Goh regime rather than change was

a hallmark in the well-planned transition. Nevertheless the emergence of a more youthful cabinet clearly signalled a generational change in the making. As part of this process continuing efforts were made to reflect a softer approach in terms of further relaxation of social control; a more consultative style of government and greater corporate transparency among government-linked corporations. The pressures of a globalizing economy, the need to remain internationally competitive as well as the changing expectations of a new emerging generation of voters were impacting on governance in the city-state which is expected to go to the polls by 2005 to give a fresh mandate to the new prime minister. In this respect a strong economy (that grew by 8.4 per cent in 2004 as contrasted with 1.4 per cent in the previous year) and is likely to have respectable, though slower, growth in 2005, will provide another underpinning to political legitimacy of the new generation political leadership.

In Myanmar, regardless of its internal problems and the external pressures on it, the military regime remained strong enough to continue in power. The removal of Prime Minister Khin Nyunt from both his government and intelligence positions and the disbanding of his intelligence corps did not affect the stability of the ruling junta. The pro-democracy exile organizations were weaker and could not hope to bring down the regime; the ethnic insurgent groups no longer posed any significant threat to it, and indeed many seemed prepared to go along with its seven-point democracy road map; political activism had declined among the general public, including students and monks, with most people believing that the regime was too strong for the NLD and other opposition groups to bring about any change.

The National Convention to prepare for a new constitution would reconvene in February 2005. The National League for Democracy (NLD) had boycotted the Convention when the junta refused to allow its leaders, Daw Aung San Suu Kyi and U Tin Oo, to be released from detention. Although the boycott weakens the legitimacy of the National Convention, the junta seemed prepared to move ahead to arrive at a constitution that protects its interests. The NLD on its part, totally beholden to Aung San Suu Kyi, showed a singular inability to rethink options and work out a clear strategy to deal with the present situation. The average age of the members of the central executive committee is 80. The changes that the military was planning to introduce through a new constitution would fall well short of what most people desire, but to most people any change that makes their lives easier and hopefully paves the way for larger changes in the future would be acceptable.

Among the three Indochina countries, Vietnam and Laos continued to be run by Leninist parties that felt threatened by the emergence of any organized political opposition. Both faced international criticism for their heavy-handed treatment of minority groups, the Montagnards in Vietnam and the Hmong in Laos.

In terms of economic growth, Vietnam remained among the best performing economies in the region. GDP growth was expected to reach 7.3–7.5 per cent in 2004. Yet it was difficult to avoid the feeling that the country was held back from realizing its true potential by its failure to push ahead more vigorously with reforms. Corruption, slow progress in the equitization of state-owned enterprises, and serious weaknesses in the education and health care systems were drags on efforts to sustain future growth, reduce poverty and integrate successfully into the international economy. Negotiations were taking place with the European Union, the United States and China on accession to the WTO by 2005 — a landmark event for Vietnam. Benefits from accession would depend not only on the good faith of Vietnam's trading partners but also on the ability of Vietnam to make and manage the necessary adjustments.

In Cambodia, the stalemate resulting from the elections of 2003 that prevented any of the parties to achieve a two-thirds majority to govern alone was resolved when in June 2004 Prime Minister Hun Sen and Prince Ranariddh agreed to form a new coalition. The event marked the final overwhelming triumph of Prime Minister Hun Sen in the struggle for the control of the state of Cambodia since the United Nations Transitional Authority (UNTAC) tried in the early 1990s to set it on a path of democracy, free market economics, and human rights. What has emerged is a melding of bureaucratic, military and economic power at the top in an oligopolistic turbo-capitalism that has brought about a socioeconomic transformation marked by extreme polarization. In October the country's constitutional monarch King Sihanouk abdicated and his son Prince Sihamoni was crowned as the new king.

Southeast Asian Affairs 2005 addresses a broad range of issues from a regional perspective in its first five chapters. These are followed by the country surveys and special theme articles on most of the countries covered.

Chin Kin Wah

Daljit Singh

Editors

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