

Reproduced from *Regional Outlook: Southeast Asia 2011-2012* edited by Michael J. Montesano and Leeh Poh Onn (Singapore: Institute of Southeast Asian Studies, 2011). This version was obtained electronically direct from the publisher on condition that copyright is not infringed. No part of this publication may be reproduced without the prior permission of the Institute of Southeast Asian Studies. Individual articles are available at < <http://bookshop.iseas.edu.sg> >

Regional Outlook

The **Institute of Southeast Asian Studies (ISEAS)** was established as an autonomous organization in 1968. It is a regional centre dedicated to the study of socio-political, security and economic trends and developments in Southeast Asia and its wider geostrategic and economic environment. The Institute's research programmes are the Regional Economic Studies (RES, including ASEAN and APEC), Regional Strategic and Political Studies (RSPS), and Regional Social and Cultural Studies (RSCS).

ISEAS Publishing, an established academic press, has issued almost 2,000 books and journals. It is the largest scholarly publisher of research about Southeast Asia from within the region. ISEAS Publishing works with many other academic and trade publishers and distributors to disseminate important research and analyses from and about Southeast Asia to the rest of the world.

REGIONAL OUTLOOK
Southeast Asia 2012–2013
Editorial Committee

Chairperson

K. Kesavapany

Editors

Michael J. Montesano

Lee Poh Onn

Production Editor

Stephen Logan

Regional Outlook

SOUTHEAST ASIA
2012–2013



INSTITUTE OF SOUTHEAST ASIAN STUDIES
Singapore

First published in Singapore in 2012 by
ISEAS Publishing
Institute of Southeast Asian Studies
30 Heng Mui Keng Terrace
Pasir Panjang Road
Singapore 119614

E-mail: publish@iseas.edu.sg

Website: <http://bookshop.iseas.edu.sg>

All rights reserved. No part of this publication may be reproduced, translated, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without the prior consent of the Institute of Southeast Asian Studies.

© 2012 Institute of Southeast Asian Studies, Singapore

The responsibility for facts and opinions expressed in this publication rests exclusively with the contributors and their interpretations do not necessarily reflect the views or the policy of the Institute, or its supporters.

ISEAS Library Cataloguing-in-Publication Data

Regional outlook: Southeast Asia.

1992-1993-

Annual

1. Economic forecasting—Southeast Asia—Periodicals.
2. Southeast Asia—Politics and government—Periodicals.
3. Southeast Asia—Economic conditions—Periodicals.

DS501 S720

1992

ISSN 0218-3056

ISBN: 978-981-4379-80-9 (soft cover)

ISBN: 981-981-4379-81-6 (E-book PDF)

Typeset by International Typesetters Pte Ltd
Printed in Singapore by Seng Lee Press Pte Ltd

CONTENTS

Preface	vii
<i>K. Kesavapany</i>	
Introduction	xi
<i>Michael J. Montesano and Lee Poh Onn</i>	

POLITICAL OUTLOOK

Southeast Asia's Security and Political Outlook	3
Current Sino-ASEAN Relations in Review	10
China-Southeast Asia Relations: Purpose versus Disunity?	16
Crunch Time for Asia-Pacific Multilateralism	20
The United States and Southeast Asia: Electoral Distractions Ahead? 26	
Civil Society Engagement in ASEAN	35
The ASEAN-10	45
Brunei Darussalam	45
Cambodia	51
Indonesia	55
Laos	59
Malaysia	63
Myanmar	68
Philippines	76
Singapore	81

Thailand	86
Vietnam	89

ECONOMIC OUTLOOK

Regional Economic Outlook	99
2012: A Reversal of Food Crises?	106
Thailand as Global Automotive Hub: Impacts and Prospects after the Floods of 2011	110
Myanmar: Facing the Future	115
The Islamic Bond Market in Malaysia	119
The ASEAN-10	125
Brunei Darussalam	125
Cambodia	128
Indonesia	135
Laos	141
Malaysia	145
Myanmar	157
Philippines	172
Singapore	177
Thailand	185
Vietnam	192
The Contributors	199

PREFACE

Twenty-one years ago, the Institute of Southeast Asian Studies inaugurated a topical, forward-looking annual publication intended to benefit businesspeople, diplomats, security specialists, professionals, journalists, and others with a stake in understanding regional developments. That publication has long since earned the admiration and trust of readers both in the region and outside Southeast Asia. They have come to rely on its well-informed and timely analysis of the near-term developments and trends likely to have the greatest impact on their work. The latest edition of *Regional Outlook: Southeast Asia* builds on this strong tradition. Its contents underscore ISEAS' commitment to offering stakeholders in regional affairs access to the thinking of leading specialists in the fields of politics, security, and economics, as those stakeholders seek to anticipate events in the year ahead.

The present volume scrutinizes the political and economic outlooks for each of the ten ASEAN member states in order to help readers foresee both the opportunities that these states will enjoy and the challenges that they will confront during 2012. It also offers a range of specially commissioned thematic articles. These articles address topics such as the relevance of "the Arab Spring" to Southeast Asia, America's effort to re-focus its attention on the region, imminent challenges to Southeast Asia's multilateralist regional architecture, and the breadth and depth of the development of civil society in the various Southeast Asian countries. Particularly worthy of mention are two articles on the range of issues and dynamics that define the important relationship between Southeast Asia and China. And additional thematic articles treat likely trends in food prices and supplies in the region during 2012, Thailand's prospects for remaining a global automotive hub, the

economic implications of Myanmar's ongoing process of reform, and Malaysia's Islamic bond market.

In turning to near-term trends on the political front in each of the ten members of ASEAN, contributions on the Philippines and Indonesia detail these large democracies' need to surmount persistent obstacles to the consolidation of their political orders. Other essays forecast the fine-tuning of the well-established domestic political orders of Laos, Cambodia, Vietnam, and Brunei. An essay on Singapore reflects on the changed political atmosphere born of the general elections of 2011, and one on Malaysia looks ahead to the likelihood of elections there in 2012. Regarding Thailand and Myanmar, respectively, one contribution dwells on apparently interminable political crisis, while the second considers the implications of the sudden, astonishing recent breaking of a decades-old political logjam. As a group, these ten articles on the politics of ASEAN's member states in the year ahead reveal innumerable unfolding political dynamics often neglected in daily news coverage.

The contributions to this volume on the region's economic prospects take as their starting point the fact that Southeast Asian economies cooled significantly in 2011. This cooling was due to the high base effect of a year earlier. Weak demand from the United States; an overall uneven global recovery; a worsening and uncertain international sovereign-debt crisis; the tsunami, earthquake, and nuclear disaster in Japan; floods in Thailand and Cambodia; and inflationary pressures across economies all threaten growth prospects for 2012 and 2013. The articles in this volume suggest that policymakers need to be on the alert on the economic front: managing inflationary pressures and the looming unemployment situation will be important focus areas.

I wish to thank each of the scholars who have contributed their perspective and insight to *Regional Outlook: Southeast Asia 2012–2013*. Their articles have resulted in a thought-provoking book, one that ISEAS is delighted to publish for the use of a broad readership. I also wish to thank editors Michael Montesano and Lee Poh Onn for commissioning these contributions and Stephen Logan of the ISEAS Publications Unit for ensuring the publication of a book of a very high standard on a tight deadline. All analysis offered in this volume

represents the personal views of contributors, rather than those of the governments and institutions with which they are affiliated. This trenchant and well-informed analysis will, I am confident, compel readers to reassess and refine many of their own views on the outlook for the region in the year ahead.

K. Kesavapany
Director
Institute of Southeast Asian Studies
Singapore

6 December 2011

INTRODUCTION

The APEC and East Asia Summits of November 2011 signaled the return of Southeast Asia to a position of importance in international politics that it had not occupied since the time of the Cold War. But the economies and domestic politics of the region have changed enormously since that time. The consequences of these changes, many of which would have been impossible to foretell even half a decade ago, will shape developments in the region during 2012.

The case of Indonesia exemplifies this reality. It has defied critics sceptical of its prospects for a transition to enduring democratic and civilian rule and emerged as a society of remarkable dynamism. This success has in its turn given rise to a series of difficult near-term challenges for the country. Its stature on the global stage, demonstrated not least by its success in the chair of ASEAN during 2011, demands that its defence establishment commit itself to thinking strategically and transcending its historically inward focus. Indonesians' and foreigners' hopes for the country demand that Jakarta promptly address its deficient police and courts, the weak capacity of much of its state bureaucracy, and the spectre of religious intolerance expressed through violence.

The presidency of Benigno Aquino in the Philippines will face similar tests during the same period if Aquino is to achieve his goal of hastening the emergence of his country from its long-time status as the sick man of the region. Observers will be keen to see how the Philippine Government's case against former President Gloria Macapagal Arroyo proceeds and how Manila fares in its effort to advance the cause of peace in Mindanao. Progress, or its lack, in these areas may well serve as a litmus test for the Aquino administration's campaign to improve governance in the country.

In the case of Vietnam, the reform of governance in the economic realm will largely determine the country's path through the year ahead. If 2011 saw the installation of a new leadership team for the Communist Party and state, 2012 will see that team test itself against the challenges posed by inflation, corruption, the risk of a widening income skew, and the persistent poor investment of resources. Neighbouring Laos has stolen a march on the challenges that 2012 may pose by bringing into its leadership men of hands-on political experience, relative youth, and high levels of education. Too, it will benefit in meeting those challenges from an increasingly active National Assembly.

Brunei and Cambodia begin 2012 with few developments of apparent import on the horizon. The former will essay to stay the course of cautiously broadening political participation and encouraging social and economic diversification. Most concretely, and perhaps wisely, this broadening has at its core Brunei's deep economic, diplomatic, and intellectual engagement with its neighbours in the Southeast Asian region. The 2012 local elections in Cambodia will serve as the backdrop to developments in the two areas of most crucial importance to its political order. These areas are, first, the structure of ties between the ruling Cambodian People's Party and big business in the country and, second, the question of whether Hun Sen's long-term rule will emerge as a Cambodian variant of late developmentalism.

In Southeast Asia's pre-eminent developmental state, Singapore, a political "new normal" following the general elections of May 2011 will continue to take shape. Central to this process will be the role of new media, the presence of the largest slate of oppositionists in parliament in decades, and intensifying efforts among Singaporeans to take the lead in defining their national identity and their nation's needs, rather than ceding that task to their government.

The issue of national identity will also stand at the centre of Thai politics during 2012. Efforts to rally the country to recover from the floods of late 2011 will compete with efforts to tear down the government of Prime Minister Yingluck Shinawatra by means fair and foul. The possible return of Thaksin Shinawatra and the uncertain health of King Bhumibol Adulyadej will remain in the news, but the

parliamentary strength of Yingluck's Phuea Thai government holds out the prospect of continued rule by an elected government rather than by the sort of *ancien régime* cabal for which some in Bangkok have called.

Malaysian efforts to forge a workable and inclusive national identity, long beset by issues of ethnicity and corruption, will enter yet another round in 2012. Najib Razak will try to maintain control of the United Malays National Organisation while at the same time convincing his fellow Malaysians outside the party that he has a vision for a less troubled future. Whether he will call national elections during the year remains the biggest source of uncertainty.

Under the leadership of President Thein Sein and thanks to his working relationship with Aung San Suu Kyi, Myanmar enters 2012 poised for the most sweeping changes to come to any Southeast Asian country in many years. The performance of the National League for Democracy in possible by-elections, the consolidation of new government institutions at the sub-national level, negotiations with armed groups representing various ethnic nationalities, and the fate of people imprisoned for political crimes all deserve close attention. At the same time, Myanmar must determine how best to use increasing aid flows, how to liberalize its economy without falling prey to rapacious cowboy capitalism, and how to begin developing the capacities both to hold the ASEAN chair and to host the East Asia Summit in 2014.

In Myanmar and across the region, civil society will — in areas ranging from the environment, human rights, and gender equality to the rule of law, freedom of expression, and access to medicine and health care — continue to evolve as an important actor on the Southeast Asian scene in 2012. Its contribution to political and social change will represent one of the many pathways through which domestic developments in the region's constituent states inform the international politics and security of Southeast Asia.

Additional factors in the region's international politics will be the ever more complex Southeast Asia–China relationship and Washington's posture in Southeast Asia. Progress to fulfil the ambitions of the Trans-Pacific Partnership and the East Asia Summit on the one hand and

the role of ASEAN Plus Three and the political implications of the China-ASEAN Free Trade Agreement on the other will serve as telling indicators of the region's future orientation.

If a "Pax Sinica" is indeed to come to Southeast Asia, many details of that order will nevertheless remain to be worked out. Continued disagreement over an issue so basic as sovereign rights in the South China Sea suggests that considerable difficulty lies ahead. On the other hand, the fast-changing social orders in the nations of the region may predispose their people to continued close ties to the Western democracies and to Australia, India, and Japan, even in a time of mounting Chinese influence. That course, too, will bring many developments for which stakeholders in the region would do well to keep their eyes peeled.

Economic growth for Southeast Asia as a whole will moderate in 2012 and 2013 to about 5 per cent annually. The major economies in Southeast Asia also experienced more moderate growth after the heady growth period in 2010. Factors dampening the economic forecast include weak demand from the United States and an overall uneven global recovery process. The worsening and uncertain sovereign debt crisis, high oil and food prices, and inflationary pressures across economies are also threatening the regional growth prospects in 2012 and 2013.

Brunei Darussalam will continue to grow positively during the forecast period, but at a slower pace because of the global slowdown. New oil and gas drilling plans bode positively for its economy, and high oil prices will buffer its growth rates in this uncertain global economic climate. However, the country must continue to hasten its process of economic diversification in the years to come to ensure that its growth will remain sustainable over the longer term. Growth in Cambodia returned back to positive territory in 2010 and is expected to be positive for 2012 and 2013. Agriculture will play an important role in shoring up growth as the government continues to promote rice production and exports. The tourism sector is also expected to attract more visitors and construction is expected to recover further in 2011-12. However, there are some constraints that need to be dealt with, like

rising inequality and the insecure land titles of farmers, which may not allow the full growth potential of the country to be realized.

Indonesia will continue with its resilient economic expansion in 2012 and 2013. Domestic demand (driven by private consumption) and the strong inflow of foreign direct investment will boost growth in the Indonesian economy and support the momentum of growth in the next two years. Exports have continued to be robust because of the strong demand for commodity products such as palm oil and energy-related products. However, infrastructure deficiencies remain and these will need to be dealt with in the years ahead. High electricity costs and rigid labour laws are some of the other challenges making Indonesia among the most difficult countries to start a business in. In the Lao PDR the resource sector remains the main engine of growth for its economy. The main challenge for growth in Laos is that of controlling inflation and providing effective macroeconomic management to deal with massive foreign capital inflows and windfall expenditures from the resource boom. Growth is expected to be robust at around 8 per cent in 2012 and 2013.

The momentum of growth has progressively weakened in Malaysia because of weakening global demand, especially for electronics and engineering products. Domestic demand in Malaysia has however shown resilience and private consumption has remained firm as a result of favourable labour market and credit market conditions. Malaysia also received the third-highest level of foreign direct investment among its Southeast Asian peers at the beginning of 2011. Malaysia's economic development will reach a crucial stage in the coming years as the government is carrying out a comprehensive range of structural reforms to transform the country into a high-income nation by 2020. The growth momentum in the Philippines will slow in 2012 and 2013 to between 4 and 5 per cent; its budget will also remain in deficit in 2012 and 2013. The agricultural sector remains dominant in Myanmar. GDP is forecast to be between 4.7 and 8.8 per cent for both 2012 and 2013, according to various estimates. Reforms would need to carry on for Myanmar to continue to make progress and to achieve lasting economic development in the years ahead.

The main commitment of the new government in the Philippines would be to show its resolve in strengthening public finances, whilst at the same time improving public services. The main threat to the Philippines economy would be the occurrence of a second global recession as the sovereign debt crisis continues. Agriculture and the production of rice have recovered in 2011 and the Philippines will be partially insulated from the higher global food prices. Inflation is expected to average around 4.6 per cent during the forecast period. The Singapore economy will face some challenges in 2012 and 2013 in the form of a slowing global economy and the sovereign debt crisis in the eurozone. Inflation is however expected to fall from 5 per cent in 2011 to 2.5 to 3.5 per cent in 2012 with GDP growth still in healthy territory between 4 and 5 per cent in the forecast period.

The Thai floods put a severe dent in the Thai economy in the last quarter of 2011, costing between US\$4 and 6 million. Nevertheless, the government's support for long-term plans to prevent future flooding and the economic recovery from the current floods will help to stimulate the Thai economy in 2012 and 2013. Growth is forecast at between 4 and 4.5 per cent annually in both years. In Vietnam challenges remain for the country to sustain its growth performance similar to that of the last decade. A number of long-term and interrelated structural challenges will need to be addressed. One such challenge is the calibre of education and training provided in Vietnam, as there is currently a mismatch between what the schooling system provides and what employers are looking for. Another needed change is for investments in good infrastructure and utilities.

Given all these challenges, Southeast Asian economies will remain interesting to monitor, especially how countries in the region tackle the global economic slowdown and handle the impact of the sovereign debt crisis in Europe.

Michael J. Montesano

Lee Poh Onn

Editors

7 December 2011