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SOUTHEAST ASIAN AFFAIRS 2012

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SOUTHEAST ASIAN AFFAIRS 2012

**Edited by
Daljit Singh
Pushpa Thambipillai**



INSTITUTE OF SOUTHEAST ASIAN STUDIES
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Foreword

I am pleased to present the thirty-ninth edition of *Southeast Asian Affairs*. Like past issues in the series, this review of political, economic, and security developments in Southeast Asia in 2011 contains both Southeast Asian and outside perspectives of Southeast Asia. It is designed to be easily readable yet in-depth, informative and analytical. *Southeast Asian Affairs* has become a useful guide to all those, both specialists and non-specialists, who seek to understand Southeast Asian dynamics.

The year 2011 saw some slowdown from the strong economic growth in the previous year, but generally Southeast Asia as a region still did well. Perhaps the major political surprise was the rapid pace of change in Myanmar which saw ministers, officials, and businessmen from many countries scrambling to the country to assess the prospects and opportunities. Tensions in the South China Sea subsided somewhat in the second half of the year, though it was not clear if this relative calm would continue in 2012. ASEAN had an active year under Indonesia's Chair: among other things, it mediated in the Thai-Cambodia border conflict; held the expanded East Asian Summit with U.S. and Russian participation for the first time; and, in a vote of confidence in the reforms under way in Myanmar, agreed that Myanmar should chair ASEAN in 2014.

I would like to thank the authors and the editors, as well as others who have, in one way or another, helped to make this publication possible. The contents of this volume represent a wide variety of views and perspectives. Needless to say, the authors alone are responsible for the facts and opinions expressed in their respective contributions, and their interpretations do not necessarily reflect the views of the Institute.

Tan Chin Tiong
Director
Institute of Southeast Asian Studies
March 2012

Introduction

Economic growth in Southeast Asia slowed down in 2011 after the sharp recovery in 2010 from the global financial and economic crisis of 2008–9. A cooling down was particularly evident in the second half of the year. There was considerable uncertainty about how the European crisis would unfold, the prospects of a U.S. recovery, how much China would decelerate, and the future of oil prices.

In the political arena, the changes in Myanmar were the most striking. Reforms enacted during the elected government's first year in office under the new constitution exceeded the expectations of most observers. Less media grabbing, but still important, was the Singapore general election in May. It signified a more open and competitive political environment and more vigorous debate of government policies. There was little change in the political openness (or lack of it) in other countries in the region. The general election in Thailand made no difference to the continuing political polarization in the country. Indonesia was generally stable and attracted more attention as an investment destination. However, good growth rates masked continuing economic weaknesses and failure to protect religious minorities was also a troubling blemish. Democracy is not yet entrenched in strong institutions.

In Southeast Asia's interstate relations, the border conflict between Thailand and Cambodia stood out, demonstrating the role of narrow nationalism over wider ASEAN interests. Elsewhere interstate relations were generally amicable, though often not problem free. There are still many unresolved boundary disputes and border problems — both land and maritime — between Southeast Asian countries. Though mostly quiet for the moment, there is the risk of flare-ups if they are politicized within countries as happened in the case of the Thai-Cambodia border conflict.

The year also saw the United States announcing a shift of strategic focus from the Atlantic to the Pacific, or more precisely to the “Indo-Pacific” region, which includes both the Asia Pacific and India/Indian Ocean. This reflected the shift in global economic power towards Asia where America would want continued commercial access to sustain its own growth. Also during the year, which was the sixtieth anniversary of the San Francisco Treaty that saw the establishment of

the first U.S. bilateral alliances with countries of the Western Pacific, American leaders gave assurances that the projected cuts in the U.S. defence budget would not reduce U.S. military deployments in the Asia-Pacific. The growing significance, both strategic and economic, of the Indo-Pacific region to U.S. interests suggests an enhanced strategic value of Southeast Asia which is viewed as a hinge between the Western Pacific and the Indian Ocean because of the vital sea lanes that pass through it. Together with Russia, the United States participated for the first time in the East Asian Summit in Bali, Indonesia.

Expanded U.S. engagement with the region, including involvement in the security dynamics of the South China Sea, is taking place at a time of China's rapid military modernization and its seemingly unchanging posture in the South China Sea. Sino-U.S. competition in the region could intensify though broader shared interests of the two countries could help in moderating it. In the South China Sea itself, tensions subsided in the second half of 2011, but it was not clear whether this was just a temporary phenomenon. The basic positions of the parties did not change, though the ASEAN claimants were trying to bring their claims in line with the 1982 United Nations Convention on the Law of the Sea.

In the regional section of this volume the first two chapters provide the political and economic overview of Southeast Asia. The other three deal respectively with boundary disputes/border issues, the Five Power Defence Arrangements, and the future of Southeast Asia in the coming age of scarcities.

In the opening chapter, Donald Weatherbee observes that as Chair of ASEAN, Indonesia was able to keep the vision of an ASEAN Community intact, but could achieve little that was substantial, given the realities of ASEAN's workings. Whether it was the Thai-Cambodian border conflict, the sharpening great power competition in the region, or protection of human rights, individual Southeast Asian states were giving higher priority to their own national interests than to ASEAN. As for conflicts involving marginalized ethnic/religious minorities in the region, Weatherbee notes that, apart from the case of Aceh, no ASEAN state has been able to muster the national consensus to consider meaningful autonomy as a solution. Myanmar was a potential bright spot in the region, but at the end of 2011 the author still had doubts about the earnestness, depth, and durability of the reform process.

After growing an average of 7.2 per cent in 2010, Southeast Asian economies slowed down to an estimated growth of an average of 5.4 per cent. In her

economic overview of Southeast Asia, Sanchita Basu Das attributes the slowdown to the headwinds from the European crisis, the lack of recovery in the United States, and monetary tightening by policymakers to deal with rising inflation. Exports slackened in the later part of the year. Growth in 2011 was driven in most cases by broad-based domestic demand. To chart a way forward in 2012, argues Sanchita, Southeast Asian states need to implement reforms to cultivate domestic and regional demand, promote price stability, and invest in infrastructure and human resource development on a large scale.

In his analysis of boundary disputes and border issues, Barry Wain observes that the military clashes along the disputed Thai-Cambodian border exposed a little-recognized weakness in Southeast Asia: countless bilateral border disagreements and other land and maritime boundary issues linger unresolved. While attention has focused on China's provocations in support of expansive claims in the South China Sea, Southeast Asian governments for decades have been content to ignore their own border problems. He discusses some of these dormant disputes, which may not flare into violence anytime soon, but Thailand's manipulation of the Preah Vihear temple for domestic political gain has demonstrated the potential danger.

On the fortieth anniversary of the Five Power Defence Arrangements (FPDA), Carlyle Thayer, who has described the FPDA as a quiet "achiever", reviews its development over the past four decades and explains how it has become an important component of the plethora of multilateral security mechanisms in the region, providing a credible conventional deterrent to any potential aggressor, however unlikely the prospect of conventional war. He focuses on the FPDA's programme of exercises, which have evolved in recent years into large-scale combined and joint exercises.

In his chapter, "How Will Southeast Asia Position Itself in Asia's Future in an Age of Scarcities?" Jørgen Ørstrøm Møller argues that Southeast Asia's economy has for several decades benefitted from a combination of factors: high global growth, with the United States in the forefront; China as a new economic superpower with a large pool of cheap labour; and ample and cheap resources. There was also a ready-made Western economic model to emulate and Southeast Asian leaders could concentrate on managing economic growth. This is going to change fundamentally. Global growth will be markedly lower; the Western economic model stands tarnished; the labour force in China will be falling from 2015; the United States has run into severe economic problems with substantial cuts in defence spending looming, casting doubt over its role as a stabilizing power; and resource prices are going up, auguring a shortage which could hamper

economic growth. Further, the environment will require much more policy attention and financial commitment in the future. Thus, instead of just managing economic growth, Southeast Asian leaders will need to create the conditions for economic growth — a more difficult task.

The eleven country reviews and five country-specific thematic chapters delve into developments in individual Southeast Asian countries.

The Sultanate of Brunei is not known for significant political or economic surprises. In her review, Pushpa Thambipillai highlights some of the concerns that underlie the Sultan's drive towards realizing Brunei's Vision 2035. Although developmental progress appears to be slow, there is a coherent attempt to strive for economic growth, diversify away from the dependence on income from oil and gas, broaden employment opportunities for an increasing workforce by providing the right skills and training for youth, and build a society that strictly adheres to its cultural and religious values. As a small state, Brunei recognizes the value of its external linkages, and thus its leadership actively engages with its partners in ASEAN as well as with countries outside the region

In the chapter on Cambodia, Steve Heder observes that twenty years after the Paris Agreements, Cambodia has clearly established itself as a politically sovereign state in a thriving capitalist part of Asia. However, while formally democratic, it is not a liberal democracy as envisaged in the 1991 Agreements. Heder shows how Prime Minister Hun Sen has dominated the political and economic scene, allowing little room for the Opposition. He provides detailed discussion on the economic transformation of Cambodia, including its participation in the Greater Mekong Subregion and engagement in international trade and investments. One highlight of the year was the UN-assisted trial of former Khmer Rouge leaders. Another was the border conflict with its neighbour Thailand that eventually led to a temporary ceasefire between the two parties.

In his review of Indonesia, Marcus Mietzner has a mixed view of the legacy that President Yudhoyono will leave for his successor when he leaves office in 2014. Indonesia's politics remained stable in 2011. The macroeconomic indicators were impressive as economic growth approached 7 per cent and rating agency Fitch granted the country investment grade status for the first time since 1997. However, behind this picture of stability and progress, political reforms were coming to a standstill, as conservative elites worked to roll them back and religious minorities were not protected from violent attacks from extremist Islamic groups. The economic statistics masked serious problems: poverty, if measured by the yardstick of US\$2 a day or less, was still extensive, while the

reality of infrastructure development was considerably more dismal than the rhetoric would suggest.

In the second essay on Indonesia, Aris Ananta discusses a problem that not many people either inside or outside of Indonesia are aware of — the increasing percentage of the ageing population. In the next two decades Indonesia will have to address the social and economic aspects of the numbers of older persons amidst its relatively low per capita income and weak infrastructure. Aris Ananta suggests several policy measures that the government can begin to adopt so that the aged do not become a burden.

In his review of Laos, Christopher Roberts provides a generally positive picture. As a consequence of investments and trade in hydropower and minerals, the Lao economy grew by about 8.3 per cent. The government was also becoming more open and transparent. Its international relations with several countries expanded, contributing to more trade and foreign aid. However, some issues continued to pose challenges, for example, transnational crime, including human trafficking and trade in illicit drugs. Human security, like poverty eradication, was one of the major development goals that the government continued to address while ensuring a politically stable domestic environment.

The 2008 general election in Malaysia, according to Joseph Liow and Afif Pasuni, defined much of Malaysian politics in 2011. They analyse the string of by-elections, the Sarawak state elections, the Bersih 2.0 phenomenon and its call for electoral changes, the persistence of controversies over race and religion, and the implications of all these for the widely anticipated general election in 2012. The impact of the Najib administration's attempts to win over fence sitters through a slew of political and economic reforms was limited by the intensification of racial and religious discourse in the country. In foreign relations, the year saw a warming of ties with Singapore, including the resolution of certain bilateral issues.

In the second chapter on Malaysia, G. Sivalingam assesses the country's economic performance. Growth moderated to about 5 per cent in 2011 from 7.2 per cent in 2010 because of the base effect and the continuing decline in external demand. The services sector showed rapid growth as a result of the liberalization of twenty-seven service sub-sectors. Inflationary pressures built up throughout the year and the government used monetary and fiscal policy tools to contain them. The international reserves of the country increased, the banking system was stable, and the capital market vibrant, with the Islamic bond market attracting oil money from the Middle East. There was full employment.

In her review of Myanmar, Moe Thuzar provides an analysis of the rapid pace of reforms since the swearing in of a civilian government, though with a

military past, at the end of March 2011. She sees the beginnings of a convergence of interests between the military-backed government headed by President Thein Sein, the democracy proponents in the country symbolized by Aung San Suu Kyi, and the international community. As she points out, Myanmar faces many challenges, not just in the political reforms, but also in economic development and national integration. The government meanwhile is eager to establish its international credentials as more foreign partners seek to establish political and economic ties with the new Myanmar.

In “The Problem of Democracy in the Republic of the Union of Myanmar: Neither Nation-State nor State-Nation?” David Steinberg explores the historical continuity of the perceived challenges posed by Myanmar’s ethnic groups to the national polity and details the divisive nature of domestic politics. If Myanmar as a “nation-state” has proved to be rather elusive, would the concept of “state-nation” — multiple identities within a national ideological superstructure — prove more apt? However, the author points out that the concessions made to the minorities under the constitution of 2008, in force in 2011, are unlikely to satisfy minority “federal” aspirations without significant alterations in the policies and attitudes of the dominant Burman military.

In her assessment of the Philippines, Aileen Baviera notes that 2011 was a testing period for the Aquino administration over a wide range of issues. The high expectations with which it came to power in 2010 seemed lowered by the end of 2011. Nevertheless, the President was still perceived positively because of his firm stand against his predecessor, Gloria Macapagal-Arroyo, who was accused of wrongdoing during her administration; his actions against corruption; his efforts to have a more democratic form of government; and his work to transform the Liberal Party, which he chaired, from personality-based politics of the past to a more political-programme based one. The economy showed some positive signs, though growth was reduced to 3.7 per cent compared to 7.6 per cent registered in 2010 — as a result of external structural influences and the domestic impact of natural disasters. The economy continued to be fuelled by overseas remittances. On the external front, the Philippines and the U.S. governments entered into closer diplomatic and military arrangements, while foreign policy was dominated by Manila’s tense relations with China over conflicting claims in the South China Sea.

In the essay, “The Philippines’ National Territory”, Rodolfo Severino urges the Philippines to make up its mind on the various controversial issues surrounding the definition of the Philippines’ territory and maritime regimes and take definitive

national positions on them. In presenting his case he provides an overview of the treaties and constitutions that have left their mark on where the Philippines lies or does not lie. Noting that the Philippines is one of the very few countries that define their national territories in their respective constitutions, he calls on Manila to decide, among other things, on the nature of the waters between the archipelago's baselines and the Treaty of Paris limits; whether considering those waters as other than territorial waters would require a constitutional amendment; whether, when, and where to make submissions to the UN on the country's extended continental shelves other than the one that it has already made; and what the Philippines should do about its Sabah claim.

In his review of Singapore, Eugene Tan observes that the general election of 2011 could be viewed by future historians as the starting point of political transition to a two-party or multi-party democracy. The opposition was able to tap into the general mood that the People's Action Party (PAP) government had not been responsive to the concerns of the average Singaporean and that it would be desirable to have some checks on it. Having secured a PAP government in the general election, though with a strengthened opposition, Singaporeans could take the liberty to make their point again in the presidential election, which saw the candidate perceived to be favoured by the government winning only by a razor-thin margin. Economic growth slowed down in 2011 but the labour market remained tight. In foreign relations, the year was notable for warming bilateral ties with Malaysia.

Terence Chong analyses the factors that contributed to the results in the Singapore general election and examines its ramifications for the ruling PAP and the political landscape in general. He highlights globalization's side effects, perceived policy missteps and misjudgements by the government, and the Internet as key factors in the opposition's gains. The last, he argues, truly levelled the playing field in the area of information distribution. The elections heralded a return to genuine competitive politics not seen in Singapore for some decades.

Nicholas Farrelly, in his review of Thailand, shows that the 2011 election triumph of Yingluck Shinawatra and her Pheu Thai Party demonstrated the continued popularity of her brother, deposed former Prime Minister Thaksin. Inevitably, the election result failed to generate any resolution to the country's political polarization and conflicts. The year will also be remembered for devastating floods in the country which seriously affected Bangkok and the surrounding provinces and damaged the manufacturing and agricultural sectors of the economy. The country continued to experience violence in the three southernmost provinces

where a decade-long conflict, involving a wide range of criminal, insurgent, and official groups, showed no sign of ending. Persistent questions about the role of the monarchy in national life, and about plans for the succession to King Bhumibol Adulyadej, added to the domestic disquiet.

The second chapter on Thailand by Aekapol Chongvilaivan essentially takes stock of foreign direct investment (FDI), both inward and outward, and assesses its potential and performance. FDI into Thailand has resumed its upwards trajectory after the decline during the global financial crisis and has by and large set the stage for Thailand's robust economic recovery. Concurrently, Thai firms have increasingly started to depart from their comfort zones to explore new business opportunities and synergies with new partners by venturing overseas. Nevertheless, several drawbacks critically hamper the country from fully exploiting its massive potential, such as its passive strategy towards FDI, inadequate infrastructure, institutional and education quality, and weak capacity for local entrepreneurs to venture overseas.

Selver Sahin looks at Timor-Leste's progress towards a maturing post-conflict society. She discusses the increasing confidence of its leaders in handling the state's political, economic, and social issues and in wanting to assert Timor-Leste's independence from foreign military and civilian presence, especially from the remaining UN and related missions. Timor-Leste has also actively pursued its external relations, especially with its neighbours, and is seeking early ASEAN membership. However, the writer points out that the country's domestic situation is still fragile, beset with political instability, gang violence, socio-economic underdevelopment, lack of employment opportunities, and a young population generally low in education and skills.

David Koh gives an in-depth analysis of the most important event in Vietnam in 2011, the 11th National Congress of the Vietnamese Communist Party. The Congress is held only once in five years and it endorses political and economic plans for the proceeding five years. Koh also discusses the slate of leadership that the Congress elected to the top party posts. As for the economy, Vietnam did not perform too well and the country remained plagued by corruption. Koh highlights Vietnam's relations with China as it occupied an important focal point for the country — not only reflected in the various bilateral high-level exchanges, but also as a national unifying cause during periods of adverse relations between the two neighbours. Despite difficult relations with China over the South China Sea, Vietnam has maintained its many levels of dialogue and cooperation with China, even as it seeks to achieve a better balance in foreign relations by strengthening ties with other powers.

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Daljit Singh
Pushpa Thambipillai
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