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SOUTHEAST ASIAN AFFAIRS 2024

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SOUTHEAST ASIAN AFFAIRS 2024

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Introduction

Daljit Singh, Hoang Thi Ha and Cha Hae Won

The year 2023 ended with a mixed bag of hopes and frustrations for Southeast Asian countries. The region had left the Covid-19 pandemic behind, but geopolitical tensions such as the ongoing Russia-Ukraine war and the Israel-Hamas war, as well as the subdued performance of the Chinese economy, cast a long shadow over the region's aspirations for a robust post-pandemic recovery. Many countries in the region are currently undergoing leadership transitions, ranging from post-election political consolidation to active campaigning for upcoming elections. Geopolitical tensions between the United States and China, along with the pressure to take sides, are significant sources of concern for many Southeast Asian governments. But foremost among the priorities of Southeast Asian policymakers are efforts to curb inflation, transition towards a more sustainable economic growth model—including by diversifying away from the oil and gas sector and embracing EV industries—and enhance national competitiveness to capitalize on the next wave of FDI diversification from China.

Political Developments

After and Before the Votes: Political Transitions in Malaysia, Thailand, the Philippines, Cambodia, Timor-Leste, Singapore and Indonesia

A number of Southeast Asian states—Malaysia, Thailand, the Philippines, Cambodia and Timor-Leste—were in the process of political consolidation after leadership transitions resulting from elections in 2022 and 2023.

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In Malaysia, there was relative political stability after five years of frequent changes of government. National politics was dominated by Prime Minister Anwar Ibrahim and partisan skirmishes over race and religion, as noted by Ariel Tan in her Malaysia overview chapter. The main challenges facing the prime minister were to deliver on his reform agenda, win more Malay support while retaining non-Malay support, and improve the economy. In the six state elections in August, the ruling coalition successfully defended the states under its rule as well as three parliamentary seats but saw an erosion of Malay support. As such, the government enjoyed a strong majority in parliament. However, approval ratings for Anwar and the government declined significantly in 2023 stemming from public concerns about the economy, especially the higher cost of living.

In Thailand, the political divide between the Thaksin-led Pheu Thai Party and the conservative establishment centred on the military and the monarchy, which has been the major source of political instability since 2006, was bridged surprisingly by an alliance between the two. This new alignment, as described by Napon Jatusripitak, reflects a return to old politics driven by the shared interests and common adversaries of the elites, particularly vis-à-vis the Move Forward Party (MFP) and the broader pro-democracy movements. Long-term stability is by no means guaranteed as this delicate balance will face tests. The electoral victory of the MFP—and the denial of its premiership position following Pheu Thai's decision to collaborate with the conservative establishment—underscored the ideological differences in the country over the role of the monarchy and the military. This structural tension in Thai politics will continue to simmer below the surface. These changes have occurred at a time when the economy is vulnerable because of external economic and geopolitical factors, which adds to the uncertainties facing the country going forward.

On the Philippines, Ruth R. Lusterio-Rico highlights the emerging cracks within the political alliance between President Marcos Jr. and Vice-President Sara Duterte, whose “UniTeam” secured a landslide victory in the election of May 2022. These cracks pose uncertainties for the future politics of the country. Issues causing the fissure included the release from jail of former senator and secretary of justice De Lima, and the controversy surrounding Sara's misuse of Confidential Funds. Political manoeuvrings as to who will succeed Marcos Jr. as president in 2027 have already begun. While the country registered impressive economic growth, many Filipinos were unhappy with the increase in prices of basic commodities and utilities, unemployment and underemployment. In the thematic chapter on the country, Yvonne T. Chua analyses the plague of disinformation in which “government, politicians and their allies employ disinformation both online

and offline to manipulate public opinion, suppress critics, advance controversial policies and consolidate power”.

On Cambodia, David Hutt describes how the country’s ruling Cambodian People’s Party (CPP) engineered a “once-in-a-lifetime” transfer of power from Hun Sen, who had been the premier since 1992, to his son Hun Manet. It was a meticulously planned and smoothly executed exercise, preceded by the suppression of the political opposition and a landslide win by the CPP in a general election. While no longer the prime minister, Hun Sen still retains significant influence as president of the CPP, president of the Privy Council and possibly the next president of the Senate. The succession exercise embraced a broad spectrum involving the ruling party and the government and state apparatus, including the military. In many instances, the incumbents were succeeded by their children or those trusted by Hun Sen, alongside several non-hereditary cabinet appointments of capable technocrats. Hutt attributes the massive changes to the need to protect the interests of the main political families in the country and to ensure continuity and stability. One of the most difficult challenges facing the new government is to deal with the massive scale of human trafficking, forced labour and international scam syndicates, which have damaged the country’s reputation and brought criticism from foreign states whose nationals have been caught up in these nefarious activities.

In Timor Leste, the country’s presidential election in 2022 and the parliamentary one in 2023 saw the return of the “old firm” of Jose Ramos-Horta as president and Xanana Gusmao as prime minister. This enhances the prospects for the country’s political stability. However, as Michael Leach explains, the team has some daunting challenges to address, especially the solvency of the oil and gas sovereign fund upon which a growing national budget depends—hence the need for diversification of the economy. The issue of youth unemployment is a concern in view of a major demographic “youth bulge”. Also, there is a need for a younger generation of leaders to come forward to take the reins of power in the not-too-distant future, which Leach thinks could unfold in the current parliamentary term.

In Indonesia and Singapore, elections and leadership changes will unfold in 2024 and 2025. In Singapore, the succession question had been settled in 2022 with Finance Minister Lawrence Wong being named as successor to Prime Minister Lee Hsien Loong. The handover of the premiership may take place around November or December 2024. Singapore’s next general election must be held by 23 November 2025, with the prime minister having the prerogative to call for an earlier election if deemed necessary. Singapore’s economy in 2023 was still awaiting a strong post-pandemic recovery. Inflation and the higher cost of living were widespread concerns, especially when the inflation rate exceeded wage growth.

Eugene K.B. Tan, in his Singapore overview chapter, discusses other significant developments in Singapore during the year, including the launch of the Forward SG report outlining government policies to enhance the well-being of the broad middle ground of Singapore society, which largely encompasses the middle class; the presidential election; concerns about the impact of the Israel-Hamas conflict on Singapore society; a corruption scandal and sensational money laundering cases involving foreign nationals; and a financial package to help meet the retirement needs of “young seniors”. In the thematic chapter on Singapore, Benjamin Joshua Ong focuses on the 2023 presidential election in which the winner was Tharman Shanmugaratnam. Benjamin also explains the qualifying criteria to participate in the election and the limits of the president’s role.

Indonesian politics in 2023 were dominated by contestations, campaigns and horse-trading bargains in the lead-up to the elections scheduled for February 2024. Greg Fealy, in his chapter on Indonesia, provides an analysis of the elections, the presidential candidates and the campaign dynamics. President Joko Widodo continued to enjoy high popularity ratings in the last full year of his presidency, a good deal of it due to public satisfaction with his management of the economy. While acknowledging Jokowi’s successes, Fealy also notes dark traits to his presidency, arguing that “[his] gradual but systematic undercutting of democratic principles has made Indonesia less free and less transparent ... [leaving] a precedent for succeeding presidents to follow should they wish to grasp greater powers for themselves by eroding institutions created to defend rights and ensure the rule of law”.

Challenges Lurking beneath Political Stability in Brunei, Laos and Vietnam

Brunei was politically stable and cautiously optimistic about the near-term future. However, its primary concern lies in the long-term challenge of diversifying its economy away from dependence on oil and gas resources to prepare for the day when these resources are depleted. In 2023, the government and the sultan himself especially emphasized the importance and urgency of realizing *Wawasan Brunei 2035* (Brunei Vision 2035), the central agenda of which was economic diversification. So far, the efforts to do so have faced an uphill task. The stakes are significant as the success of these efforts is crucial for maintaining the country’s generous welfare benefits and even the survival of the monarchy itself.

Laos saw an unusual change in the leadership in 2023, with Sonexay Siphandone replacing Phankham Viphavanh as prime minister. Sonexay’s appointment, which came amid public scrutiny of his predecessor’s handling of multiple crises and

accusations of extravagance during times of economic downturn, signifies regime continuity given his background from a prominent family with deep political ties. Sonexay inherits significant governance challenges amid the unprecedented dire economic situation in Laos. As outlined by Oliver Tappe, the country has been going through a severe economic and financial crisis, with staggering public debt, currency depreciation and rampant inflation. The younger generation of Laos are losing confidence in the state's promises to deliver a better life. Attempts by the ruling Lao People's Revolutionary Party to mitigate macro-economic problems have not produced any significant improvements.

In neighbouring Vietnam, despite the next party congress being two years away, premature leadership changes have occurred because of the anti-corruption campaign spearheaded by Vietnam Communist Party (VCP) general secretary Nguyen Phu Trong. This so-called "blazing furnace" resulted in the removal of top VCP leaders, including President Nguyen Xuan Phuc and two deputy prime ministers in early 2023. It has led to the consolidation of Trong's power at the expense of the collective leadership structure; the tightening of political control over the press, social media and civil society; and a slowdown in economic decision-making, especially in project and licence approval. Moreover, Nguyen Khac Giang highlights the emerging trend of "securitization of the Vietnamese state"; i.e., the growing dominance of internal affairs institutions such as the ministry of public security and party disciplinary committees. The key question, as articulated by Edward J. Malesky and Thiem Hai Bui in the overview chapter, is "whether the campaign represents a fundamental new beginning or merely opens a window to observe underlying weaknesses in the regime". Inaction—the prevailing response so far of the bureaucracy to the anti-corruption drive—does not amount to fundamental change yet.

Myanmar: Approaching a Failed State

While the rest of Southeast Asia is bouncing back from the Covid-19 pandemic and concentrating on economic revitalization, Myanmar continues its descent into the status of a "failed state". The nation is embroiled in a protracted civil war and teeters on the brink of economic collapse, with no clear resolution on the horizon. Persistent resistance from anti-military forces caused the State Administration Council (SAC), led by coup leader Senior General Min Aung Hlaing, to abandon its election plan in 2023 and extend the state of emergency. The year also witnessed the SAC's most significant military setbacks and territorial losses since the coup, including during the "1027" operation launched by three ethnic armed

organizations in October. This has put into question the longstanding belief that “the military was the only national institution that could hold the country together”, as Mary Callahan highlights in the overview chapter. The thematic chapter by Sean Turnell and Moe Thuzar sheds light on the country’s economic plight and the deteriorating living conditions of Myanmar’s people. With a meagre one per cent growth in 2023, the economy remained plagued by foreign investment exits, shrinking manufacturing, high inflation and other financial problems. The SAC’s misguided economic policies, which have shifted away from market-oriented ones to more state-centric measures aimed solely at survival, have exacerbated the situation further.

Geopolitical Developments

Southeast Asian countries and ASEAN face the daunting task of navigating the complexities and disruptions brought about by the intensifying Sino-US rivalry. Ian Chong, in his overview of the region, argues that there is just a narrow margin for neutrality and non-alignment, “since even taking a non-position can become siding with the other if major powers increasingly emphasize relative gains”. He observes that—apart from the Philippines, which is a US security ally, and Vietnam, which has a hedging strategy—the countries of Southeast Asia have merely been “hiding and freeriding”. Most countries in the region have been relatively silent on the contestations in the South China Sea, where maritime communication lines vital to their economies are at risk, hoping that the United States and its allies will deter excessive Chinese claims and action. This passivity discourages the region from taking new initiatives to grapple with the ongoing challenges. In the economic realm, the pursuit of “internal circulation” by China and “on-shoring” and “friend-shoring” by the United States, its allies and close friends means that plugging into key production chains may become more difficult for much of Southeast Asia.

Most states in the region continue to aim for a balance in their relations with China and the United States. Rizal Sukma, in his thematic chapter on Indonesia’s foreign policy, points out that a posture of balance is dictated by the two fundamental principles of Indonesia’s foreign policy since the country’s independence: namely, *bebas-aktif* (free and active). This does not mean passively sitting on the fence, but actively seeking creative solutions to address the challenges the country faces in maintaining the balance. In the present context, it requires strengthening Indonesia’s national resilience and building up ASEAN’s capacity and institutional effectiveness. ASEAN, he says, should go beyond the normative

approach in dealing with great powers by developing a strategy “to restrain and deny the legitimacy of any bad actions by great powers towards the region”. This can be done through collective action by ASEAN to uphold international law, including the 1982 United Nations Convention on the Law of the Sea. ASEAN needs to speak up and express a collective voice against any acts that violate international law. Indonesia, for its part, while maintaining its *bebas* position, needs to step up its *aktif* role in the Indo-Pacific.

In the Philippines, in 2023, there has been a tilt towards its defence treaty ally the United States, especially in terms of closer military cooperation. Ruth R. Lusterio-Rico points out that this tilt has occurred within the broader framework of an “independent foreign policy, with national interest as our primordial guide”, as announced by President Marcos. There are strong anti-China sentiments in the country, which intensified further in the wake of ongoing coercive action by China against the Philippines’ resupply missions to Sierra Madre, which lies within the country’s Exclusive Economic Zone (EEZ).

For Malaysia, Ariel Tan notes that while seeking to balance relations with the United States and China, in 2023 there appeared to be a “slight tilt” towards China. China was the first country Prime Minister Anwar visited after ASEAN countries and Saudi Arabia. It is Malaysia’s biggest trade partner and largest foreign investor. The Israel- Gaza conflict was an irritant in relations with the United States. Malaysia also maintained a critical stance on the Australia-UK-US tripartite security partnership (AUKUS), which would enable Australia to acquire nuclear-powered submarines.

According to Eugene K.B. Tan, in 2023 Singapore continued to pursue a self-proclaimed balanced policy between the two great powers. During the year, Prime Minister Lee visited both the United States and China. During his visit to China, the first since 2019, he met top Chinese leaders, including Xi Jinping, and upgraded Singapore-China ties to an “All-Round High-Quality Future-Oriented Partnership”. Singapore also deepened cooperation in science and technology with a high-profile visit by Deputy Prime Minister Lawrence Wong to the United States to further collaboration in critical and emerging technologies.

Napon Jatusripitak argues that since the coup of 2014, Thailand has gravitated increasingly towards China, thereby damaging the delicate balancing act that Thailand had traditionally tried to maintain. He is uncertain whether the new civilian-led government will be able to restore the equilibrium because of the importance of China in the prevailing emphasis on economic growth. Nevertheless, Thailand’s foreign policy is well diversified beyond the US-China nexus, with strong relations with middle powers, especially Japan, as well ASEAN partners.

In this context, David M. Maliz, in his thematic chapter on Thailand, examines the important Thailand-Japan relationship. While Japan has lost its status as Thailand's paramount foreign partner to China, its ties with Thailand continue to hold significant importance, primarily because of the substantial scale of Japanese investments and the enduring appeal of Japan's soft power.

Cambodia has remained closer to China, its largest trade partner and main provider of foreign investment. Meanwhile, the country's relations with the United States have been adversely affected by the issue of human rights, the suppression of the political opposition, and allegations of possible Chinese military presence at Ream Naval Base. However, Cambodia may seek a more balanced and independent foreign policy, as illustrated by Hun Sen's quick condemnation of Russia's invasion of Ukraine. As David Hutt points out, Hun Manet has also sought to improve relations with Western states, including the United States.

In Laos, China's position is well summed up by Oliver Tappe: "In Laos's foreign relations, China has played and will certainly continue to play a critical yet ambivalent role, eliciting a wide range of perceptions ranging from menace to opportunity.... China definitely wields great influence over Laos, but it falls short of exclusive control. Instead, Laos maintains a diverse network of political, economic and cultural ties with other partners, most notably with its ASEAN neighbours Thailand and Vietnam, as well as with Russia".

Despite conflicting claims in the South China Sea, Brunei's relations with China, its biggest trading partner and investor, have remained smooth and cordial. Jatswan S. Sidhu, in his Brunei chapter, attributes this to Brunei's mild non-confrontational approach to the South China Sea issue, which prompted President Xi Jinping to praise Brunei for prioritizing economic relations rather than the maritime dispute. Brunei's foreign relations are well diversified with ASEAN neighbours and other powers like Japan, the United States and Britain, which prevents any dominant sway of China.

Vietnam meanwhile continued to pursue its omni-directional foreign policy, which cushioned it from excessive dependence on either great power. Diplomatic relations with the United States were upgraded to a "comprehensive strategic partnership", the same status as Russia, China and several other major powers. The upgrade was agreed to during President Biden's historic visit to Vietnam in September 2023. According to Edmund J. Malesky and Thiem Hai Bui, this development was in line with Vietnam's "bamboo diplomacy" of pragmatic flexibility in navigating between the great powers to secure its interests without taking sides. In December, President Xi Jinping paid a state visit to Vietnam and discussed various areas of cooperation. From China's perspective, the most

important achievement of the visit was Vietnam's commitment to join China's "community of common destiny". However, Malesky and Bui suggest that it was just another manifestation of Vietnam's "bamboo diplomacy" and policy of assurance to Beijing "without conceding any of its important national interests".

Economic Developments

Post-Covid Resurgence in Tourism

As countries progressively removed Covid-related restrictions, a resurgence in tourism was observed across the region. In 2023, Brunei welcomed its first batch of tourists, the first since the beginning of the pandemic three years ago. Cambodia experienced a surge in tourism, registering a remarkable 179 per cent increase in international visitors during the first ten months of 2023 compared with the same period in 2022. Similarly, Laos saw a notable increase in international tourist arrivals, surpassing three million in 2023. This growth was aided significantly by the return of Chinese travellers and facilitated by the newly opened China–Laos railway. Meanwhile, Singapore's Changi Airport—having endured a decline to the ninety-fifth spot for international passenger traffic in 2021 as the result of pandemic-induced border closures—witnessed a remarkable rebound, receiving 5.12 million passengers by October 2023, the highest since the onset of the Covid-19 pandemic. The Thai government turned to tourism as a major driver for its economic rejuvenation as well, implementing policies aimed at boosting the tourism sector such as exempting visa fees for tourists and extending temporary visa waivers. These measures were designed to attract an estimated 25–30 million visits in 2023. Amidst the resurgence in tourism across the region, Myanmar stood out as an anomaly. Tourist arrivals remained dismally low in 2023, lingering at less than half the levels in 2019, as travellers are deterred by the ongoing armed conflicts and civil unrest stemming from the 2021 coup.

Rampant Inflation across the Region

Inflation, specifically for vital necessities like food, was a serious concern for various Southeast Asian countries in 2023. Ruth R. Lusterio-Rico observes that the Philippines' economic growth rate had only a marginal effect on the average citizen in light of the increasing prices for food and basic commodities. Similarly, Laos encountered food inflation at an average of 45.6 per cent in the first eight months of 2023, with the price of rice increasing from 7,000 kip to 20,000 kip per kilo, and petrol from 8,000 kip to 25,000 kip per litre. Food inflation also

lingered in Malaysia, at 3.6 per cent in October 2023. In Singapore, the increase of the Goods and Services Tax (GST) from 7 to 8 per cent in 2023 contributed to inflationary pressures, and real incomes of workers in Singapore declined in 2023 despite a rise in nominal incomes.

In response to the challenges posed by inflation, countries in the region implemented measures aimed at curbing its impact. In Malaysia, the government rolled out the Menu Rahmah initiative—which assists private vendors to provide RM5 budget healthy meals—to address public concerns over the rising cost of living. The Singapore government implemented a range of measures under the SG\$8 billion Assurance Package to alleviate the financial burden on its citizens, helping to offset essential expenses such as groceries and utilities. The Bank of Laos tightened monetary conditions and exchange control, increased reserve requirements for foreign exchange, and closed private foreign exchange bureaus to curb the depreciation of the kip, which Oliver Tappe says accounted for two-thirds of the excessive inflation in the country.

Sluggish Export Demand and Fragmentation of Supply Chains

Geopolitical turbulence such as the ongoing Russia-Ukraine war and Israel-Hamas war, coupled with the subdued recovery of the Chinese economy and reduced demand from Western nations, cast a shadow over the region's hopes for a robust post-pandemic rebound. Thailand's manufacturing exports experienced a "softened demand" because of China's "slower-than-anticipated economic rebound", according to Napon. Vietnam also saw a substantial decline of 11.6 per cent in exports, dropping from US\$371 billion in 2022 to an expected US\$332.82 in 2023. This has led to massive layoffs and unemployment in the country's southern exports hubs. Manu Bhaskaran singled out Singapore and Malaysia as the most affected by China's slump in demand, with double-digit contractions until the end of 2023. Cassey Lee, in the thematic chapter on Malaysia's economy, not only mentions the country's relatively weak export sector in 2023 but also underscores a structural change in the "decline in exports as a driver of Malaysia's growth" going forward.

The region also witnessed growing fragmentation of global supply chains in 2023 because of geopolitical tensions. As highlighted by Manu Bhaskaran in the regional economic overview chapter, "hyper-globalization" during the post-Cold War is transitioning towards industrial policies adopted by both China and Western nations. These policies are driven by the need to reshore manufacturing capacity, particularly in critical sectors such as electrical vehicles (EV) and semiconductors, based on national security concerns rather than comparative advantages. While

this accelerating fragmentation causes “efficiency losses”, Bhaskaran sees a silver lining in the emergence of new trade and investment patterns that stand to benefit Southeast Asia: global corporations are reconsidering their production locations in favour of places such as Southeast Asia, and a decline in capital flowing into China has corresponded with an increase in investment to other Asian economies. Bhaskaran’s views are echoed by Malesky and Bui, who argue that a key factor in Vietnam’s surge in FDI was the diversification away from China fuelled by the ongoing US-China trade conflict, as many Trump-era tariffs remain in effect.

While recognizing these potential benefits, Ian Chong highlights long-term challenges stemming from increasingly fragmented global supply chains. At risk, argues Chong, is the old model of Southeast Asia’s economic growth, which relies on receiving capital and technologies from the West to manufacture or assemble components, which are then exported around the region and to China, ultimately making end products for the world market. He highlights that both the West’s “on-shoring” and “friendshoring” and China’s “internal circulation” strategies have the potential to restrict the flow of critical technologies, supply chains, raw materials and market access for Southeast Asian countries. Furthermore, he argues that a waning interest in a globalized approach to the world economy would shift preferences towards more exclusive arrangements at the expense of global institutions such as the WTO.

Riding the EV Wave

In 2023, the region’s manufacturing sector was the primary recipient of FDI, driven largely by the burgeoning interest in emerging industries such as EVs. Once a manufacturing hub for internal combustion engine vehicles fuelled by Japanese investments, Thailand is now endeavouring to establish itself as an EV manufacturing hub, focusing on attracting investments from Chinese electric vehicle manufacturers such as BYD Co., Great Wall Motor Co., SAIC Motor Corp, and Chongqing Changan. The industry’s momentum was given a boost with a total of US\$1.44 billion investment by Chinese EV manufacturers in July 2023 to establish production facilities in Thailand. Focusing on the “Next Generation Automotive” industry as a cornerstone of its economic vision, Thailand ambitiously targets to eliminate internal combustion engines by 2035 and attain a fifty per cent share of EV sales by 2030.

Thailand’s “forward-thinking approach towards sustainable transportation solutions”, as described by Manu Bhaskaran, is being mirrored elsewhere in the region. Malaysia’s 2024 budget charted a new course by adopting environmental,

social and governance (ESG) priorities to promote green technology and electric vehicles for sustainable development. The New Industrial Master Plan 2030 (NIMP2030) launched by Anwar Ibrahim with the goal of revitalizing the country's manufacturing sector also featured new growth areas that align with energy transition, particularly the encouragement of EVs.

Indonesia, blessed with abundant reserves of nickel and bauxite, is also keen to expand and upgrade its participation in the EV supply chain. The ambition of the Jokowi administration for the country to become an EV hub, particularly in battery manufacturing, has yielded mixed results. In 2023, Tesla announced its decision not to pursue any significant investment plans in Indonesia, whereas South Korean giant LG was set to build an EV battery cell plant and associated facilities in the country. Vietnam is also gearing up to embrace the EV wave. Biden's visit to Hanoi in September 2023 led to collaboration agreements in EV supply chains, including battery storage and rare earth elements, to foster innovation-driven economic growth.