

REGIONAL OUTLOOK

**Southeast Asia
2009–2010**



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INSTITUTE OF SOUTHEAST ASIAN STUDIES



MAP OF MEMBER COUNTRIES OF ASEAN



PACIFIC OCEAN

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**REGIONAL
OUTLOOK**
Southeast Asia
2009–2010

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Southeast Asia 2009-2010



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CONTENTS

Preface	vii
<i>K. Kesavapany</i>	
Introduction	ix
<i>Ian J. Storey and Lee Poh Onn</i>	

POLITICAL OUTLOOK

Southeast Asia's Security Outlook	3
■ ASEAN: New Charter, New Optimism	7
■ United States–Southeast Asia Relations	10
■ Southeast Asia's Quest for Energy Security: Cooperation and Tensions	13
The ASEAN-10	16
Brunei Darussalam	16
Cambodia	19
Indonesia	23
Laos	27
Malaysia	31
Myanmar	35
Philippines	39
Singapore	43
Thailand	47
Vietnam	51

ECONOMIC OUTLOOK

Regional Economic Outlook	57
■ The World Trading System and Southeast Asia: Emerging Protectionism and Post-Doha Challenges	64
■ APEC at 20: Retrospect and Prospect	68
■ Food Crisis in Southeast Asia: What Caused? What Next?	79
■ Income Inequalities in Southeast Asia: Potential for Microfinance	84
The ASEAN-10	89
Brunei Darussalam	89
Cambodia	95
Indonesia	102
Laos	107
Malaysia	112
Myanmar	123
Philippines	129
Singapore	134
Thailand	142
Vietnam	148
The Contributors	153

PREFACE

Since its inception in 1992, the annual *Regional Outlook* series has offered readers concise and insightful analysis of political and economic trends in Southeast Asia and the wider Asia-Pacific region. Over the course of those sixteen years, *Regional Outlook* has tracked existing political and economic trends, identified new ones and assessed their implications for the Association of Southeast Asian Nations (ASEAN) and its member states. Written in an accessible and easily understood scholarly style, this publication is ideally suited for a modern audience of busy executives, professionals, diplomats, journalists and interested observers. The success of *Regional Outlook* is reflected in the loyal readership successfully built up over the years in Southeast Asia and beyond.

The year 2008 was a landmark year for ASEAN and its commitment to create an ASEAN Community by 2015. Most significantly, the ASEAN Charter was set to come into force in December after Thailand delivered the tenth and final instrument of ratification in November. The Charter will have far-ranging political, economic and social implications in that ASEAN will increasingly become a rules-based organization with its own legal identity. ASEAN's dynamic new Secretary-General, Dr Surin Pitsuwan, has already made good progress in turning the Association's aspirations into reality. In the aftermath of Cyclone Nargis, which devastated large parts of Myanmar, Dr Pitsuwan's unstinting efforts ensured humanitarian relief began reaching cyclone victims, underscoring how ASEAN can be an effective tool in times of crisis. On the domestic front, however, several ASEAN countries had to contend with political instability in 2008, especially Thailand, Malaysia and the Philippines. Political violence continued in southern Thailand,

albeit on a reduced scale, while the failure of an agreement between the Arroyo government and the Moro Islamic Liberation Front was a major blow to peace-building efforts in the Philippines. Unfortunately political instability will continue to challenge several ASEAN members in 2009–2010.

On the economic front, growth will be lower for Southeast Asia in 2009 compared to previous years as a direct consequence of the financial crisis which began in the United States in 2007, worsened considerably in 2008 and then infected the entire global financial system. Even emerging economies have not been spared. Whether the impact of the slowdown of the U.S. and Japanese economies on ASEAN will be mitigated by demand from China and India is now questionable, as both economies are forecast to slow in 2009. Oil and commodity prices fell in the latter part of 2008 and this will ease inflationary pressures in Southeast Asia in 2009. But falling consumer demand in the United States and Japan does not bode well for the region given its dependence on both markets for economic growth. However, barring protectionist measures and future unexpected financial shocks which would further erode global economic confidence, it is expected that the world will ride out the current turmoil in about one to two year's time. Fortunately, leaders at the G-20 and APEC summits in 2008 stressed the importance of maintaining trade openness in the current economic slowdown. Economic integration will continue in the region, especially as the ASEAN Charter enters into force, though the pace may be slightly slower because of the global slowdown.

Regional Outlook 2009–2010 was written by a team of experts from within ISEAS and outside and in this edition several new writers were invited to offer fresh perspectives on future developments in the region. I wish to thank the editors, Ian Storey and Lee Poh Onn, as well as all the writers, for their valuable contributions.

K. Kesavapany

Director

Institute of Southeast Asian Studies

3 December 2008

INTRODUCTION

Two events in the first month of 2008 symbolized the passing of one era in Southeast Asia's political development and the dawning of a new one. On 27 January, former Indonesian President Soeharto died at the age of eighty-six after a long illness. Perhaps more than any other Southeast Asian leader, Soeharto embodied a bygone age. The archetypal strongman had risen to power on the back of an attempted coup by the Indonesian Communist Party on 30 September 1965; at the time, nearby Indochina was wracked by conflict and Southeast Asia itself was riven by Cold War rivalries among the Great Powers. Soeharto ruled Indonesia for thirty-two years, crushing all political opposition but transforming the economic fortunes of the country. His passing was appropriately mourned in Indonesia, though in a country that has transformed itself into a vibrant democracy since the collapse of the New Order in 1998, few looked back with nostalgia at the former strongman's tenure.

Earlier in January, a political transformation of a different kind was taking shape. On the first day of the New Year, Dr Surin Pitsuwan assumed the office of Secretary-General of the Association of Southeast Asian Nations (ASEAN). As he took up his responsibilities, the dynamic former Thai foreign minister did not mince his words, warning that if ASEAN did not reinvent itself it risked marginalization and irrelevance: "Without a strong centre, ASEAN cannot remain the fulcrum of power plays in the region. It cannot remain in the driver's seat in political, economic and security affairs." In order to sit behind that wheel, ASEAN believes it needs a new license, and that new license is the ASEAN Charter. Signed in November 2007 during the Association's 40th anniversary year, the Charter introduces a rules-based framework

designed to realize the aspiration of an ASEAN Community by 2015. During 2008, each of the ten members ratified the Charter, despite opposition by some parliamentarians in Indonesia who were concerned at the efficacy of the Charter, and politicians in the Philippines who argued that ratification should be linked to improvements in Myanmar's human rights situation. The stage seemed set for a new phase in ASEAN's development.

Regional crises quickly tested ASEAN's mettle, with mixed results. In early May, Cyclone Nargis barreled into southern Myanmar, killing more than 100,000 people and leaving millions more homeless. Myanmar's ruling generals had failed to give their subjects adequate warning of the impending catastrophe, and their unwillingness to admit foreign aid workers to help pick up the pieces angered and perplexed the international community. Recognizing that its credibility was on the line, ASEAN stepped in and persuaded the generals to cooperate with foreign donors. The Secretary-General's intervention ensured that outside humanitarian assistance began reaching the victims of the cyclone. ASEAN was deemed to have acquitted itself well.

The second test came in July when tensions erupted on the Thai-Cambodian border over land adjacent to the 11th century cliff-top Hindu temple of Preah Vihear. The flare-up occurred after Thailand's foreign minister had backed Cambodia's bid to designate the temple a UNESCO world heritage site. Thailand's Constitutional Court subsequently ruled the foreign minister's action as unconstitutional, leading both sides to beef up their military forces near the temple. ASEAN's offer to mediate was rejected by Thailand which felt the problem should be resolved bilaterally; Cambodia reacted by threatening to take the issue to the United Nations Security Council. An interim agreement to refer the problem to a joint border commission was hammered out, but tensions flared again in October when a gun battle between Thai and Cambodian forces broke out, leaving several soldiers dead on both sides. The incident not only underscored persistent and deep-rooted suspicions among the ASEAN members, but also the long distance still to travel before the Association could truthfully

declare itself a security community free from the prospect of military confrontation.

Political instability was manifest in other parts of Southeast Asia in 2008, most notably in Malaysia, Thailand and the Philippines, three core members of ASEAN. In Malaysia, elections in March dealt a body blow to the ruling Barisan Nasional (BN) coalition, and especially to the dominant party, the United Malays National Organization (UMNO). For the first time in almost four decades, BN lost its two-thirds majority in the federal parliament, as well as control of five states. The devastating result sealed the political fate of Prime Minister Abdullah Badawi, who subsequently agreed to step down in March 2009 in favour of his deputy Najib Razak. Meanwhile, waiting in the wings was the former deputy prime minister, Anwar Ibrahim, now formal leader of the Malaysian opposition. The deadline he set for the downfall of the BN government through parliamentary defections — 16 September — passed without incident. However, since his re-election to parliament in August, Anwar had quickly established himself as a political force to be reckoned with. In the Philippines, the perceived illegitimacy of the administration of Gloria Macapagal Arroyo, and the weakness of state institutions, resulted in continued and pervasive disillusionment.

Events in Thailand in 2008 took a more worrying and violent turn. The December 2007 elections failed to restore political stability to the country after the ouster of former Prime Minister Thaksin Shinawatra in September 2006 and sixteen months of military rule. The People's Power Party (PPP) — a reincarnation of Thaksin's dissolved political vehicle Thai Rak Thai — won the election and its leader, veteran politician Samak Sundarajev, was appointed premier at the end of January. His appointment sparked demonstrations from the anti-Thaksin People's Alliance for Democracy (PAD) who accused Samak of being a proxy of the ousted prime minister. In August the PAD occupied government buildings in an attempt to force Samak to resign; Samak did resign on 9 September, but only after the Constitutional Court had found him guilty of illegally accepting payments for appearing on a TV cooking show. The PPP replaced Samak with Somchai Wongsawat,



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