



# Southeast Asia: A political and economic introduction

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Southeast Asia's growing importance to the rest of the world, including the UK, is widely acknowledged today. It is China's 'backyard' and could be the site of competition between it and the US (not to mention India and Japan). There are a number of long-running territorial disputes between China and the member states of the Association of Southeast Asian Nations that could draw the US in. The region is also globally significant in terms of climate change and biodiversity. Southeast Asia's overall openness to trade and investment makes its role in the world economy an important one. This openness, along with the growth of consumption amongst its new middle class, has created markets for Western exports, making Southeast Asia a key region for the UK Government's strategy for export-led recovery.

This paper provides a broad introduction to Southeast Asia. It offers key facts and figures about the region, followed by country studies of Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam. It then looks more analytically at two key issues for the region: democratisation and Islamist terrorism. It ends with a select bibliography.

This paper should be read in conjunction with *Military balance in Southeast Asia* (RP 11/79, 14 December 2011), which undertakes an in-depth study of military and security issues across the region.

Jon Lunn  
Gavin Thompson

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**Contributing Authors:** Oliver Bennett, climate change and environment, Science and Environment Section  
Modupe Oshikoya, sections 1.5—1.10, International Affairs and Defence Section

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## Summary

The term 'Southeast Asia' was first used to define a "war theatre" during World War II. As such, unlike some other regional descriptions, it is not a term with a long or resonant history. However, it is now well-established, as demonstrated by the fact that the main regional intergovernmental body is the Association of South East Asian Nations (ASEAN).

This paper covers those countries that are full ASEAN member states. With the exception of a number of tables, it does not cover East Timor, which achieved independence in 2002 and which is currently applying for membership of ASEAN. The ten full member states of ASEAN are: Brunei, Cambodia, Indonesia, Laos, Malaysia, Burma (officially called Myanmar), Philippines, Singapore, Thailand and Vietnam.

Why does Southeast Asia matter to the rest of the world, including the UK? Here are just a few reasons.

Southeast Asia is China's 'backyard' and could be the site of growing competition between China and the US (not to mention India and Japan), which after a period of distraction, is once again actively engaged in the region. Quite apart from wider economic competition between the two, there are a number of long-running territorial disputes between China and member states of ASEAN that could draw the US in – above all, in the South China Sea, where there are thought to be large reserves of oil and gas, over the Paracel and Spratly islands. According to the *Financial Times*:

Internally, south-east Asia is a potentially toxic mix of raw nationalism, resource competition and a kaleidoscope of political systems that, democracy aside, ranges from absolute monarchy in Brunei via military dictatorship in Burma to the communist regimes of Laos and Vietnam. Both the rise of China and renewed US interest are altering the balance of an *entente asiatique* that has broadly held since the end of the Vietnam War. If the competition is economic it could [...] be good for the region, but there are no guarantees that rivalries can be contained within the economic sphere.<sup>1</sup>

Southeast Asia is predicted to become the largest defence market in the world over the next few years and some warn that the region could be on the brink of a potential arms race.

The region has seen the apparent retreat of political authoritarianism over the last 25 years, but how far has it given way to democracy? Some claim that, in many respects, even those countries which have moved beyond blatant dictatorship, such as Indonesia, Malaysia, the Philippines or Thailand, in many ways remain "imitation democracies". Others prefer the concept of 'hybridity', arguing that most of the states in the region continue to combine authoritarian and democratic elements. Another way of understanding the political dynamics of Southeast Asia is to move beyond the 'democratisation' paradigm entirely and focus instead on how elites across the region seek, in different ways, to construct "modes of participation", often technocratic and administrative in character, to regulate political conflict and shape who is included in, and who is excluded from, the political system. All in all, it makes little sense to view Southeast Asian countries as moving inexorably towards the Western model of democracy. For example, the rising urban middle classes across the region have been characterised as "contingent democrats", favouring democracy only when it suits their interests. Religion, ethnicity and the power of monarchy (real or symbolic) are also important factors in shaping who is politically included or excluded.

The region contains 250 million Muslims and includes the largest Muslim majority country in the world, Indonesia. Southeast Asia has been the focus of much Western attention since the late 1990s in the context of what came to be called 'The Global War on Terror'. Southeast

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<sup>1</sup> "A wider radius", *Financial Times*, 28 January 2010

Asia is the home-base of several *jihadi* organisations with alleged links to al-Qaeda that have shown themselves, over the last decade, willing to use violence against Western and (far more often) local targets. The 2002 Bali bombing was a high water-mark in this regard. The best known organisations are Jemaah Islamiyah and Abu Sayyaf. Both have been gravely weakened over the last decade. There have been warnings that Islamist terrorism is becoming more 'indigenised' and 'decentralised'. However, some experts argue that the threat was often exaggerated in the past and is now in decline. They also claim that the relationship in Southeast Asia between Islamist terrorism and the broader movement known as 'political Islam' has overwhelmingly been one of antagonism, rather than complicity.

The region is also globally significant in terms of climate change. In 2000 the region contributed 12% of the world's greenhouse gas emissions, a 27% increase from 1990 levels. 75% of these emissions were related to deforestation and the draining of peat lands.<sup>2</sup> These 'land use change' emissions mean that Indonesia is in the world's top five emitters of greenhouse gases, generating about 60% of the region's emissions in 2000.<sup>3</sup> <sup>4</sup> The region's global share of emissions has increased over the last ten years and, on current trends, is predicted to increase further over the coming decades. The region is also globally significant for biodiversity. From 1990 to 2005, 41 million hectares of forest in the region was converted to crop or grassland—an area 20 times the size of Wales. Global action to mitigate and adapt to climate change is important for the region as it is considered particularly vulnerable to the predicted negative impacts.<sup>5</sup> According to the UN Food and Agriculture Organization:

[...] forest cover in Southeast Asia is projected to fall from 49 percent in 2010 to 46 percent in 2020 as a result of losses in the majority of countries amounting to 16 million hectares, an area just less than the size of Cambodia. Between 1990 and 2010 the forests of Southeast Asia contracted in size by just under 33 million hectares, an area greater than that of Viet Nam [...] With forest conversion the primary driver of biodiversity loss, estimates are that between 13 percent and 42 percent of species will be lost in Southeast Asia by 2100, at least half of which could represent global extinctions.<sup>6</sup>

Southeast Asia's openness to trade and investment makes its role in the world economy an increasingly important one. Many of its countries have followed a similar path to development, moving in the space of a generation from inward-looking economies dominated by agricultural production, to industrialised, outward looking, market-oriented economies, open to trade and capital flows. With this openness has come severe vulnerability, exposed during the Asian financial crisis of 1997/98, but also rapid development. Though the West is importing an increasingly large proportion of its goods from China, the comparatively limited restrictions on inward investment and foreign ownership of business in much of South East Asia make for a more reciprocal economic relationship with this region: UK foreign direct investment in Singapore alone is four times what it is in China. Trade openness and the growth of consumption among a new middle class have also created markets for Western exports, making it a key region for the Government's strategy for export-led economic recovery. The UK Government has announced that it will be increasing its diplomatic strength in Burma, Indonesia, Malaysia, the Philippines, Thailand and Vietnam.

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<sup>2</sup> [The Economics of Climate Change in Southeast Asia: A Regional Review](#), Asian Development Bank, April 2009. For a geopolitical analysis, see a conference report by the US National Intelligence Council, [Southeast Asia: The impact of climate change to 2030](#), January 2010. It concluded that the region faced a greater threat from "existing manmade environmental challenges" than from climate change during the period to 2030.

<sup>3</sup> [Globe Climate Legislation Study](#), Globe International, April 2011

<sup>4</sup> [The Economics of Climate Change in Southeast Asia: A Regional Review](#), Asian Development Bank, April 2009

<sup>5</sup> *ibid*

<sup>6</sup> ["Southeast Asia sub-regional report"](#), Asia-Pacific Forestry Sector Outlook Study II, Food and Agriculture Organization, Bangkok, 2011



## **1 Key facts and figures**

### **1.1 Demography, development and economy: regional overview**

Southeast Asia encompasses countries at dramatically different stages of economic and human development. Burma and Cambodia are among the world's 35 low-income countries, as classified by the World Bank, while Singapore is the third-richest country in the world measured by GDP per capita.

In between these extremes are countries that can credibly aspire to high-income status within the next decade, such as Malaysia, and others where living standards are set to rise rapidly, but which will remain in the middle-income group for the foreseeable future, such as Indonesia and Vietnam.

In human development terms, there is a similar disparity across the region. However, with the possible exceptions of East Timor and Burma, there are no countries in Southeast Asia where the development picture is as poor as that found in Sub-Saharan Africa. Even these two countries have lower rates of child mortality and higher life expectancy than Sub-Saharan Africa, partly because the region has not been blighted by HIV/AIDS.

In countries such as Indonesia and Vietnam, graduation to middle-income status has been accompanied not only by falling mortality and improving literacy and school enrolment, but also falling levels of overseas development assistance. Some countries have been more successful than others in translating rapid economic growth into meaningful reductions in poverty. Capital flows, and poor economic management have contributed to credit bubbles and cycles of instability.

Like many emerging economies, the countries of Southeast Asia, with their young and relatively well-educated populations, have a demographic advantage over the developed world. At a very general level this will be manifested in coming years in faster growth and a convergence in living standards.

However, with life expectancies now approaching 'Western' levels across much of the region, in coming generations, many countries may have to change their approach to social protection. They may see the same pressures come to bear on their public finances that are currently faced in the developed world.

Tables setting out demographic, development and economic indicators for the region, organised by country, can be found in the Appendices at the end of this paper.



## 1.2 Trade profiles by country

### Indonesia

	Rank		Value \$bn		% GDP	
	Exports	Imports	Exports	Imports	Exports	Imports
Merchandise	27	29	157.8	131.7	22.3%	18.6%
Services	40	32	16.2	25.8	2.3%	3.7%

### Trading partners

	% total	\$bn
<i>Top export destinations</i>		
Japan	16.3	25.72
EU-27	10.9	17.20
China	9.9	15.62
United States	9.1	14.36
Singapore	8.7	13.73
<i>Top sources of imports</i>		
China	15	19.76
Thailand	14.9	19.62
Hong Kong	12.5	16.46
Vietnam	7.3	9.61
Taipei	6.9	9.09

### Trade balance, \$bn



### Principal traded commodities

<i>Principal exports</i>	% total	\$bn	<i>Principal imports</i>	% total	\$bn
Mineral fuels, oils, distillation products, etc	29.64	46.77	Mineral fuels, oils, distillation products, etc	20.29	27.531
Animal,vegetable fats and oils, cleavage products, etc	10.34	16.31	Nuclear reactors, boilers, machinery, etc	15.12	20.506
Electrical, electronic equipment	6.61	10.43	Electrical, electronic equipment	11.12	15.089
Rubber and articles thereof	5.94	9.37	Vehicles other than railway,	5.44	7.377
Ores, slag and ash	5.17	8.15	Iron and steel	4.70	6.371
Other commodities	42.31	66.75	Other commodities	43.33	58.788

**Malaysia**

	Rank		Value \$bn		% GDP	
	Exports	Imports	Exports	Imports	Exports	Imports
Merchandise	23	25	198.8	164.7	83.6%	69.3%
Services	29	30	32.7	32	13.8%	13.5%

**Trading partners**

	% total	\$bn
<i>Top export destinations</i>		
Singapore	13.3	26.44
China	12.6	25.05
EU-27	10.7	21.27
Japan	10.4	20.68
United States	9.5	18.89
<i>Top sources of imports</i>		
Japan	12.5	20.59
China	12.5	20.59
Singapore	11.4	18.78
United States	10.6	17.46
EU-27	10.2	16.80

**Trade balance \$bn****Principal traded commodities**

<i>Principal exports</i>	% total	\$bn	<i>Principal imports</i>	% total	\$bn
Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles	28.08	55.8	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles	31.18	51.2
Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes	15.85	31.5	Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	12.97	21.3
Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	15.05	29.9	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral	9.99	16.4
Animal or vegetable fats and oils and their cleavage products; prepared edible fats; animal or vegetable waxes	8.15	16.2	Vehicles other than railway or tramway rolling-stock, and parts and accessories thereof	3.47	5.7
Rubber and articles thereof	3.93	7.8	Iron and steel	3.29	5.4
Other commodities	28.94	57.5	Other commodities	39.10	64.2

## Philippines

	Rank		Value \$bn		% GDP	
	Exports	Imports	Exports	Imports	Exports	Imports
Merchandise	52	47	51.5	58.23	25.8%	29.2%
Services	44	53	13.24	11.07	6.6%	5.5%

### Trading partners

	% total	\$bn
<i>Top export destinations</i>		
Japan	15.2	7.83
United States	14.7	7.57
EU-27	14.4	7.42
Singapore	14.2	7.31
China	11.1	5.72
<i>Top sources of imports</i>		
Japan	12.5	7.28
United States	10.8	6.29
Singapore	9.3	5.42
China	8.5	4.95
EU-27	7.3	4.25

### Trade balance, \$bn



### Principal traded commodities

<i>Principal exports</i>	% total	\$bn	<i>Principal imports</i>	% total	\$bn
Electrical machinery and equipment and parts thereof; sound recorders and r ...	43.87	22.59	Electrical machinery and equipment and parts thereof; sound recorders and r ...	27.82	16.264
Machinery and mechanical appliances; parts thereof	21.07	10.848	Mineral fuels, mineral oils and products of their distillation	17.02	9.954
Vehicles other than railway or tramway rolling stock	3.61	1.861	Machinery and mechanical appliances; parts thereof	12.83	7.502
Optical, photographic, cinematographic, measuring, checking, precision, med ...	2.53	1.303	Vehicles other than railway or tramway rolling stock	4.91	2.872
Animal or vegetable fats and oils	2.47	1.274	Cereals	3.93	2.298
Other commodities	26.45	13.621	Other commodities	33.49	19.579

## Singapore

	Rank		Value \$bn		% GDP	
	<i>Exports</i>	<i>Imports</i>	<i>Exports</i>	<i>Imports</i>	<i>Exports</i>	<i>Imports</i>
Merchandise	14	15	351.9	111.9	158.0%	50.2%
Services	10	11	111.9	96.1	50.2%	43.2%

### Trading partners

	% total	\$bn
<i>Top export destinations</i>		
Malaysia	11.9	41.88
Hong Kong	11.7	41.17
China	10.3	36.25
EU-27	10	35.19
Indonesia	9.4	33.08
<i>Top sources of imports</i>		
EU-27	12.3	13.76
Malaysia	11.7	13.09
United States	11.5	12.87
China	10.8	12.09
Japan	7.9	8.84

### Trade balance, \$bn



### Principal traded commodities

<i>Principal exports</i>	% total	\$bn	<i>Principal imports</i>	% total	\$bn
Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles	27.80	86.4	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles	33.73	118.7
Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes	26.13	81.2	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes	16.11	56.7
Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	15.06	46.8	Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	15.40	54.2
Commodities not specified according to kind	2.73	8.5	Commodities not specified according to kind	7.08	24.9
Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; parts and accessories thereof	2.70	8.4	Organic chemicals	4.23	14.9
Other commodities	25.58	79.5	Other commodities	23.44	82.5

**Thailand**

	Rank		Value \$bn		% GDP	
	Exports	Imports	Exports	Imports	Exports	Imports
Merchandise	25	22	195.3	182.4	61.3%	57.2%
Services	27	23	33.8	45.6	10.6%	14.3%

**Trading partners**

	% total	\$bn
<i>Top export destinations</i>		
EU-27	11.2	21.87
China	11	21.48
Japan	10.5	20.51
United States	10.4	20.31
Hong Kong	6.7	13.09
<i>Top sources of imports</i>		
Japan	20.8	37.94
China	13.3	24.26
EU-27	7.6	13.86
United States	5.9	10.76
Malaysia	5.9	10.76

**Trade balance, \$bn****Principal traded commodities**

<i>Principal exports</i>	% total	\$bn	<i>Principal imports</i>	% total	\$bn
Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	18.04	32.9	Electrical machinery and equipment and parts thereof; sound recorders and	17.20	33.6
Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles	17.38	31.7	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes	14.79	28.9
Vehicles other than railway or tramway rolling-stock, and parts and accessories thereof	13.38	24.4	Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	9.52	18.6
Rubber and articles thereof	6.03	11	Iron and steel	7.52	14.7
Natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad with precious metal, and articles thereof; imitation jewellery; coin	5.70	10.4	Natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad with precious metal, and articles thereof; imitation jewellery; coin	5.99	11.7
Other commodities	39.47	72	Other commodities	44.98	87.9

**Vietnam**

	Rank		Value \$bn		% GDP	
	Exports	Imports	Exports	Imports	Exports	Imports
Merchandise	39	35	72.2	84.8	22.6%	26.6%
Services	56	55	7.4	9.8	2.3%	3.1%

**Trading partners**

	% total	\$bn
<i>Top export destinations</i>		
United States	20	14.44
EU-27	16.5	11.91
Japan	11.1	8.01
China	9.5	6.86
Switzerland	4.4	3.18
<i>Top sources of imports</i>		
China	22	18.66
Singapore	10	8.48
Japan	9.8	8.31
South Korea	9.6	8.14
Taipei	8.7	7.38

**Trade balance, \$bn****Principal traded commodities**

<i>Principal exports</i>	% total	\$bn	<i>Principal imports</i>	% total	\$bn
Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral	14.86	8.5	Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	14.29	10
Articles of apparel and clothing accessories, not knitted or crocheted	7.69	4.4	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles	11.86	8.3
Electrical machinery and equipment and parts thereof; sound recorders and reproducers, Footwear, gaiters and the like; parts of such articles	7.34	4.2	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral	10.86	7.6
Articles of apparel and clothing accessories, knitted or crocheted	6.99	4	Iron and steel	8.86	6.2
Other commodities	55.77	31.9	Plastics and articles thereof	5.71	4
			Other commodities	48.43	33.9

### 1.3 Climate change and the environment

In 2000 the region contributed 12% of the world's greenhouse gas emissions, a 27% increase from 1990 levels. 75% of these emissions were related to deforestation and the draining of peat lands.<sup>7</sup> These 'land use change' emissions mean that Indonesia is in the world's top five emitters of greenhouse gases, generating about 60% of the region's emissions in 2000.<sup>8 9</sup> The region's global share of emissions has increased over the last ten years and is predicted to increase further over the coming decades.<sup>10</sup>

According to the UN Food and Agriculture Organization:

[...] forest cover in Southeast Asia is projected to fall from 49 percent in 2010 to 46 percent in 2020 as a result of losses in the majority of countries amounting to 16 million hectares, an area just less than the size of Cambodia. Between 1990 and 2010 the forests of Southeast Asia contracted in size by just under 33 million hectares, an area greater than that of Viet Nam [...]

[...] Projected reductions in forest area between 2010 and 2020 equate to estimated losses of 8.72 giga tonnes CO<sub>2</sub> equivalent – almost 20 percent more than China's total CO<sub>2</sub> emissions for 2005 or, on a mean annual basis, around 85 percent of total European Union (EU15) transport emissions for 2010. With forest conversion the primary driver of biodiversity loss, estimates are that between 13 percent and 42 percent of species will be lost in Southeast Asia by 2100, at least half of which could represent global extinctions.<sup>11</sup>

All ASEAN countries have ratified the 1992 UN Framework Convention on Climate Change (UNFCCC) and the 1997 Kyoto Protocol. They are parties to the ongoing international climate change negotiations, endorsing the December 2010 Cancun Agreements and the December 2011 Durban Platform for Enhanced Action, in which it has been agreed to begin negotiations on a new global climate change treaty, to be completed by 2015 and to come into effect from 2020, to succeed the Kyoto Protocol. The Durban Platform also includes provision for the establishment of a Green Fund to support the efforts of developing countries.<sup>12</sup>

In order to reduce emissions from deforestation around the world, including Southeast Asia, negotiations are taking place through the UNFCCC to establish a mechanism called Reducing Emissions from Deforestation and Forest Degradation (REDD). The central aim is to create a system to pay compensation to developing countries for not converting their forests to other uses.

The specific arrangements are still being negotiated, but REDD would probably involve rich countries paying developing countries on the basis of measurable reductions in greenhouse gas emissions from deforestation.<sup>13</sup> The hope is that this would incentivise the protection of

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<sup>7</sup> [The Economics of Climate Change in Southeast Asia: A Regional Review](#), Asian Development Bank, April 2009 (Last accessed 8 December 2011, as were all subsequent hyperlinks). For a geopolitical analysis, see a conference report by the US National Intelligence Council, [Southeast Asia: The impact of climate change to 2030](#), January 2010. It concluded that the region faced a greater threat from "existing manmade environmental challenges" than from climate change during the period to 2030.

<sup>8</sup> [Globe Climate Legislation Study](#), Globe International, April 2011

<sup>9</sup> [The Economics of Climate Change in Southeast Asia: A Regional Review](#), Asian Development Bank, April 2009

<sup>10</sup> Ibid

<sup>11</sup> "Southeast Asia sub-regional report", Asia-Pacific Forestry Sector Outlook Study II, Food and Agriculture Organization, Bangkok, 2011

<sup>12</sup> I. Kuntjoro and M. Caballero-Anthony, "Cancun Agreement: Implications for Southeast Asia", NTS Alert, January 2011; "Durban to deliver on climate pact", *The Australian*, 12 December 2011

<sup>13</sup> [UNFCCC Bonn negotiating session makes progress on REDD+](#), REDD Plus, 28 June 2011

forests by developing countries.<sup>14</sup> However, there are significant challenges in developing a REDD system that will lead to significant reductions in the rate of deforestation, and to overall reductions in global emissions.<sup>15</sup> It is also clear that REDD will fail to reduce deforestation in the absence of wider governance reforms in developing countries and specific action to address the causes of deforestation. Negotiations on REDD now include conservation and forest management measures (known as REDD+). They made some progress during 2010 and 2011.<sup>16</sup>

Countries in Southeast Asia have experienced large-scale illegal logging. The illegal timber trade contributes to deforestation and environmental damage as it hinders effective governance and sustainable management of forest resources.<sup>17</sup> International and domestic initiatives have contributed to large cuts in illegal logging over the past decade —down by 75% in Indonesia since 2000. Nevertheless, some 40–61 per cent of logging in Indonesia, and 14–25 per cent in Malaysia, remains illegal.<sup>18</sup>

Palm oil is a major export from Southeast Asia, in particular Malaysia and Indonesia. It is the world's most produced vegetable oil. It is also used in a large number of food and chemical products.<sup>19</sup> Demand for biofuels in the EU and other developed countries is widely believed to contribute significantly to demand for the crop. Palm oil is an attractive crop as the oil palm produces a higher yield of oil than other vegetable oil crops. As it is a perennial plant it also requires less fertiliser than other crops. For these reasons palm oil has some environmental benefits over other sources of vegetable oil—its efficiency means that less land is needed to produce the same amount of oil than if an alternative crop was grown.<sup>20</sup>

However, the palm oil industry can have significant environmental impacts when it leads to tropical deforestation.<sup>21</sup> A report by the UN, as discussed by the Environmental Audit Committee, showed that the conversion of land to palm oil production was the primary cause of deforestation in Indonesia and Malaysia:

...clearance of forest for palm oil plantations is now the primary cause of permanent rainforest loss in Indonesia and Malaysia. A UN report, *The Last Stand of the Orangutan*, concluded that given the huge demand for palm oil it is 'very difficult to curb the spread of plantations'. It also concluded that the 'rapid increase in plantation acreage is one of the greatest threats to orangutans and the forests on which they depend'. It found that between 1967 and 2000 the area under palm oil plantations grew from under 2,000 km<sup>2</sup> to over 30,000 km<sup>2</sup>, with demand expected to double this area by 2020... The UN estimate that combined with logging and fire pressures, palm oil production could result in the destruction of 98% of Indonesia's rainforest within 12 years.<sup>22</sup>

A further report by the UN Development Programme in 2007 described the development of the palm oil sector as a "cautionary tale" that was "associated with widespread deforestation and violation of human rights of indigenous people".<sup>23</sup>

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<sup>14</sup> *The REDD road to Copenhagen: Readiness for what?*, ODI Opinion 118, December 2008

<sup>15</sup> *REDD+ and carbon markets: Ten Myths Exploded*, FERN, June 2011

<sup>16</sup> *Brazil speeds up its Copenhagen homework*, COP15 Copenhagen, 29 October 2009

<sup>17</sup> Environmental Audit Committee, *Reducing greenhouse gas emissions from deforestation: No hope without forests*, HC 30, Session 2008-09, 16 June 2009

<sup>18</sup> *Illegal Logging and Related Trade*, Chatham House, July 2010

<sup>19</sup> Environmental Audit Committee, *Reducing greenhouse gas emissions from deforestation: No hope without forests*

<sup>20</sup> *What is palm oil?*, Green Palm, 6 October 2011

<sup>21</sup> Environmental Audit Committee, *Are biofuels sustainable?*, HC 76, Session 2007-08, 21 January 2008

<sup>22</sup> Ibid

<sup>23</sup> *Human Development Report 2007/2008*, United Nations Development Programme, 2007

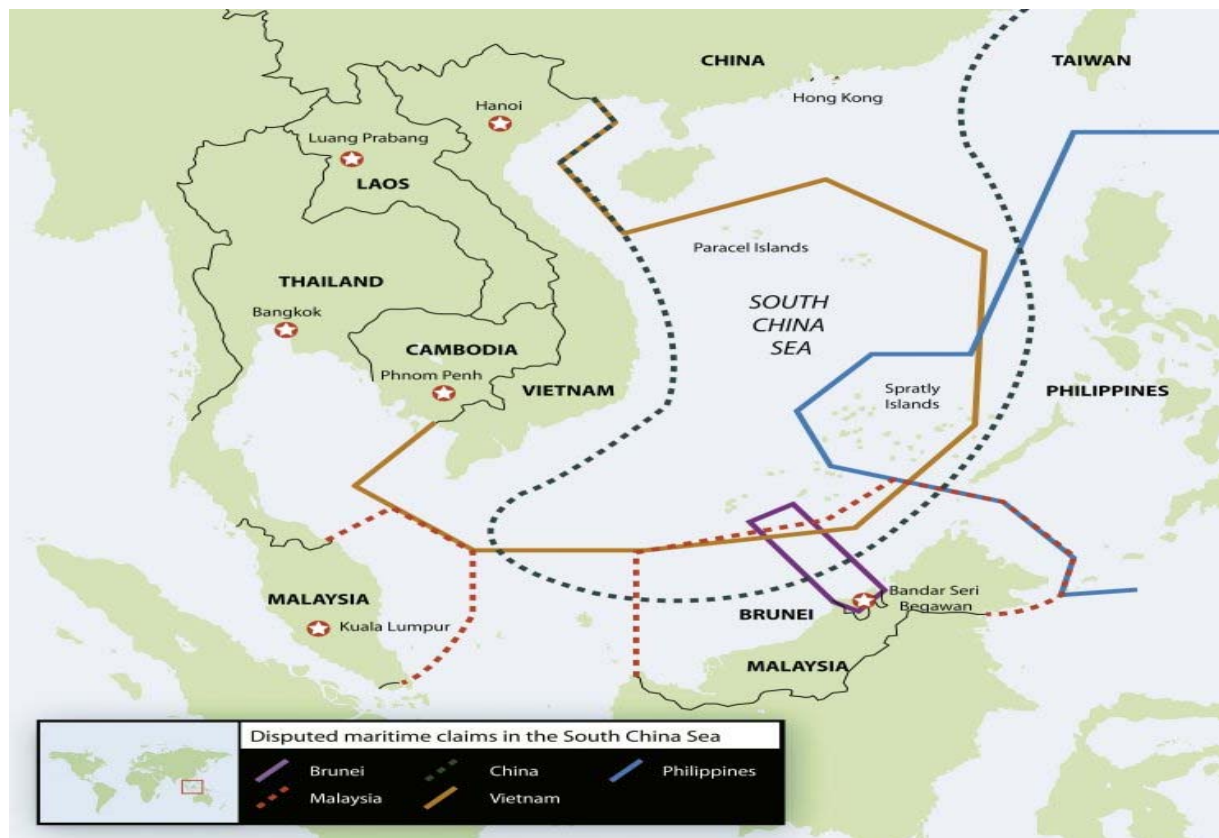


Southeast Asia is also facing a range of other environmental challenges, many of which are associated with rapid urbanisation and population growth in the region. These challenges include: contaminated water supplies,<sup>24</sup> overfishing,<sup>25</sup> vulnerability to natural disasters,<sup>26</sup> waste disposal,<sup>27</sup> and smog and air pollution.<sup>28</sup> The Association of Southeast Asian Nations (ASEAN) promotes coordination amongst its member states on environmental management. This has led to a number of environment-related agreements in the region (see also Section 2.5). For more information see the [ASEAN environment webpage](#). Individual governments are also pursuing their own national plans. For example, a moratorium on new logging concessions has been introduced in Indonesia while a regulatory framework is being developed.<sup>29</sup> The country has a target for a 26% reduction relative to 'business as usual' at 2020, with a further 15% target by that date with international assistance.<sup>30</sup>

#### 1.4 Main territorial disputes in the region

Southeast Asia is home to a range of complex territorial disputes. These have hindered efforts to build regional co-operation and integration. Many land borders have yet to be demarcated and there are also significant disputes over maritime boundaries. Below is a summary of the main outstanding disputes in the region.

##### *South China Sea*<sup>31</sup>



Source: IHS/Jane's

<sup>24</sup> *Sick water? The central role of wastewater management in sustainable development*, UNEP, 2010

<sup>25</sup> *State of the Marine Environment Report for the East Asian Seas*, UNEP, 2009

<sup>26</sup> Ibid

<sup>27</sup> *Fourth ASEAN State of the Environment Report 2009*, ASEAN, October 2009

<sup>28</sup> *Combating Haze in ASEAN*, HazeOnline, 6 October 2011

<sup>29</sup> "Indonesian president: 'Reforms are painful'", interview with the Council on Foreign Relations, 25 May 2011

<sup>30</sup> "Indonesia's role in international climate change policy", [www.eastasiaforum.org](http://www.eastasiaforum.org), 11 October 2011

<sup>31</sup> For a more in-depth discussion of the South China Sea, see section 1.3 of the companion Library Paper, *The Military Balance in Southeast Asia*, RP 11/79, 14 December 2011.

The Gulf of Tonkin is disputed by China and Vietnam. There are overlapping maritime claims. At dispute is access to fisheries and oil and gas resources;<sup>32</sup> The Paracel Islands are disputed by China, Taiwan and Vietnam. The Spratly Islands are disputed by China, Taiwan, Malaysia, the Philippines, Vietnam, and Brunei.

On several occasions in the past, there have been naval clashes between China and Vietnam over the Paracel and Spratly Islands, most notably in 1974 and 1988. While these disputes are undoubtedly prompted by competition for natural resources, as significant is the fact that both are located in the path of one of the world's major shipping routes.

More generally, China has on occasions forced non-Chinese fishing vessels out of parts of the South China Sea that are in dispute, sometimes fining them. China also has a history of pressurising foreign oil companies from doing exploratory work in the area in co-operation with other countries. Tensions have risen over rival claims in the South China Sea in recent years and the countries involved in the disputes have been strengthening their military capabilities in the area. The US Seventh Fleet also operates in the area.

In 2009 Malaysia, the Philippines and Vietnam filed papers with the United Nations Commission on the Convention on the Law of the Sea (UNCLOS), formalising their legal claims. China responded angrily. In mid 2010, US Secretary of State Hillary Clinton stated that the US had a "national interest" in maintaining respect for international law in the South China Sea. Soon after Clinton's statement, it was reported that China had expanded its "core national interests" to include, for the first time, the South China Sea, although one analyst has since suggested that this may have been a misunderstanding of what Chinese officials said.<sup>33</sup>

China is opposed to greater US involvement in the resolution of disputes in the South China Sea, preferring bilateral negotiations. The other countries favour greater US involvement and prefer multilateral negotiations through ASEAN.

In 2002 China and ASEAN agreed a *Declaration on the Conduct of Parties in the South China Sea* in which all countries agreed to seek peaceful solutions to disputes in the South China Sea.<sup>34</sup> There was another rise in tensions between China and ASEAN member states in the region during the first half of 2011. In July 2011 the two parties agreed 'cooperation guidelines' for implementing the Declaration. These and other diplomatic efforts led to a lowering of tensions.<sup>35</sup> In November 2011, China proposed that a legally binding code of conduct should be negotiated.<sup>36</sup>

#### *The Gulf of Thailand*

Thailand, Vietnam and Cambodia have had rival overlapping maritime claims in an area with untapped oil and gas reserves. While Thailand and Vietnam reach a settlement in 1991, Thailand and Cambodia remain in dispute.<sup>37</sup>

#### *Preah Vihear Temple*

This dispute over territory on the Thailand-Cambodia border was thought to have been resolved by a ruling of the International Court of Justice (ICJ) in 1962 that the Temple

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<sup>32</sup> Zou Keyuan, "[Maritime boundary delimitation in the Gulf of Tonkin](#)", *Ocean Development and International Law*, 30, 1999

<sup>33</sup> Michael Swaine, "[China's Assertive Behavior—Part One: On 'Core Interests'](#)", China Leadership Monitor, No. 34, Winter 2011

<sup>34</sup> [Text of the Declaration](#)

<sup>35</sup> "China, ASEA set 'guidelines' on sea row, but no deal expected", Reuters.com, 20 July 2011

<sup>36</sup> "Code of conduct for S China sea", *China Daily*, 20 November 2011

<sup>37</sup> CLC Asia, "[The struggle between Thailand and Cambodia over oil and gas resources](#)", 16 September 2010

belongs to Cambodia. Thailand accepted the ruling but recently has revived the dispute, following a UNESCO decision to declare the Temple a World Heritage Site in 2008.

The most recent outbreak of violence occurred between February and May 2011 in areas around three temples, including Preah Vihear.<sup>38</sup> Cambodia has asked the ICJ urgently to clarify its 1962 ruling.<sup>39</sup> It did so in October, calling on both countries to refrain from any action that might extend the dispute or make it more difficult to resolve.<sup>40</sup>

More generally, parts of the border between the two countries have still not been demarcated, which encourages sporadic outbreaks of fighting. Cambodia has sought ASEAN mediation and UN Security Council intervention. Thailand would prefer a bilateral solution and has objected to proposals for Indonesian observers along the border. It has been argued that the dispute over the Temple was revived largely because it serves the purposes of rival Thai political groupings which have found it useful in the context of their domestic political manoeuvres.<sup>41</sup>

### *Sabah*

The Philippines maintains a claim to Sabah, which became part of Malaysia in 1962. However, relations between the two countries have improved significantly in recent decades. The prospect of conflict over the issue appears low.

### *Mekong River*

Strictly speaking, this is not a territorial dispute. China, Burma<sup>42</sup>, Thailand, Laos, Vietnam, and Cambodia have had regular disagreements over access to the waters of the Mekong River and the natural resources within it, including fish. There have been a series of controversial damming projects along the Mekong River, with China strongly to the fore in recent years as it pursues increases in power generation capacity that will support rapid industrialisation. Environmentalists are concerned that China's plans will gravely damage the river's delicate ecosystem. A proposed dam in Laos has also been repeatedly delayed as a result of objections from Cambodia and Vietnam.

The four downstream nations – Thailand, Laos, Vietnam and Cambodia – formed the Mekong River Commission in 1995, and relations are being managed reasonably successfully partly as a result.<sup>43</sup> However, future prospects are complicated by the fact that China has refused to join.<sup>44</sup> In November 2011, it was reported that, in order to combat attacks on cargo ships, China has agreed to carry out joint patrols on the River with Thailand, Laos and Burma.<sup>45</sup>

Attempts to resolve territorial disputes in Southeast Asia have taken place primarily at the bilateral level. However, three disputes have been taken to the ICJ for judgment, although this has not always led to a resolution. The first case, as described above, concerned the Preah Vihear Temple. Indonesia and Malaysia turned to the ICJ in 1998, in order to resolve an ongoing dispute over Pulau Ligitan and Pulau Sipadan, two islands in the Celebes Sea. In

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<sup>38</sup> "Thailand and Cambodia agree truce after border clashes", *BBC News Online*, 28 April 2011. Thailand was heavily criticised for using cluster munitions in the course of the February 2011 clashes.

<sup>39</sup> "Cambodia seeks UN court ruling on Thai border row", *BBC News Online*, 3 May 2011

<sup>40</sup> "Indonesia and ASEAN's peace-making role", *Jakarta Post*, 28 October 2011

<sup>41</sup> For a wider discussion of the links between domestic politics and foreign policy, see: Lee Jones, "Democratization and foreign policy in Southeast Asia: the case of the ASEAN Inter-Parliamentary Myanmar Caucus", *Cambridge Review of International Affairs*, 22:3, 2009

<sup>42</sup> Burma is officially called Myanmar. However, this paper uses Burma, the name by which the country is best known.

<sup>43</sup> Rajesh Daniel, Louis Lebel and John Dore (eds), *Democratizing Water Governance in the Mekong Region*, (Chiang Mai, 2007)

<sup>44</sup> Fred Pearce, "[The damming of the Mekong: Major blow to an epic river](#)", *environment360*, 16 June 2009

<sup>45</sup> "China and neighbouring states to patrol Mekong river", *BBC News Online*, 27 November 2011

2002 the ICJ awarded both to Malaysia. In 2003, Malaysia and Singapore referred territorial disputes regarding Pedra Branca (known as Pulau Batu Puteh in Malaysia), Middle Rocks and South Ledge. In 2008 the ICJ awarded the first to Singapore, the second to Malaysia and awarded shared sovereignty over the third.

A territorial dispute between Singapore and Malaysia was resolved in 2005 following a reference for arbitration to the International Tribunal for the Law of the Sea.<sup>46</sup>

### 1.5 The Association of Southeast Asian Nations (ASEAN)

ASEAN is a regional intergovernmental organisation of ten countries across Southeast Asia: its member countries are Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Burma, the Philippines, Singapore, Thailand and Vietnam. The chair of ASEAN during 2011 is Indonesia. The chair in 2012 will be Cambodia. Burma is set to be the chair in 2014.

ASEAN was initially formed by the leaders of Indonesia, Malaysia, Philippines, Singapore and Thailand, following the signing of the ASEAN Declaration on 8 August 1967.<sup>47</sup> Brunei Darussalam joined on 7 January 1984, Vietnam joined on 28 July 1995, Laos and Burma joined on 23 July 1997 and Cambodia joined on 30 April 1999. East Timor officially applied for membership in March 2011.<sup>48</sup> The application remains under consideration but all the indications are that it will be accepted.

The key principles that member states of ASEAN are required to abide by were first articulated in the 1976 Treaty of Amity and Cooperation in Southeast Asia. They were: mutual respect for the independence, sovereignty, equality, territorial integrity, and national identity of all nations; the right of every State to lead its national existence free from external interference, subversion or coercion; non-interference in the internal affairs of one another; settlement of differences or disputes by peaceful manner; the renunciation of the threat or use of force; and effective cooperation.<sup>49</sup> Since 1987, non-regional states with a stake in Southeast Asia have been invited to sign the treaty.

In 1997 ASEAN agreed a Vision for 2020 that set out a range of detailed security, political and economic goals for the region by that year.<sup>50</sup> In the years that have followed, the organisation has elaborated on how this vision will be achieved. In 2007, it agreed to create what it calls 'the ASEAN community' by 2020, comprising three pillars: political-security community, economic community and socio-cultural community. In 2009, ASEAN decided to accelerate the process so that it is completed by 2015. To this end, it published a 'Roadmap for the ASEAN community' (2009-15).<sup>51</sup>

ASEAN also adopted a 'written constitution', known as the ASEAN Charter, in 2007.<sup>52</sup> The Charter established the ASEAN group as a legal entity, creating permanent representation for members at its secretariat in Jakarta, Indonesia and committed member heads of state to twice yearly meetings.<sup>53</sup> The Charter set out a blueprint for economic reforms designed to create a European-style free trade community by 2015. The Charter reaffirmed ASEAN's longstanding principles of non-interference in the internal affairs of its member states and decision-making based on consultation and consensus. This is often referred to as 'the ASEAN Way'.

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<sup>46</sup> Anna Louise Strachan, "Resolving Southeast Asian territorial disputes", Institute of Peace and Conflict Studies, New Delhi, Issue Brief No. 133, October 2009

<sup>47</sup> [ASEAN Declaration](#)

<sup>48</sup> "East Timor applies to join ASEAN", *BBC News Online*, 4 March 2011

<sup>49</sup> [ASEAN Treaty of Amity and Cooperation in Southeast Asia](#), 24 February 1976

<sup>50</sup> [ASEAN Vision 2020](#)

<sup>51</sup> [Roadmap for the ASEAN Community \(2009-15\)](#)

<sup>52</sup> "South East Asia to launch charter", *BBC News Online*, 15 December 2008

<sup>53</sup> [ASEAN Charter](#)

However, the Charter also created a commission to monitor and investigate human rights in the region.<sup>54</sup> The ASEAN Intergovernmental Commission on Human Rights was inaugurated in late 2009.<sup>55</sup> ASEAN's newer members – in particular Burma, which has found itself under closer regional scrutiny over the past decade – have generally been much less keen on this commission than its older ones. Critics argue that it is proving largely ineffective.

Some analysts have argued that the principle of non-interference has led to a lack of regional cooperation and undermined the effectiveness of ASEAN, with Burma often given as an example. However, others have claimed that ASEAN has pursued many initiatives to try and promote change in Burma and, more broadly, that the principle of non-interference has often been ignored, particularly when it suits the interests of powerful states within the organisation.

Other examples cited that contradict the supposedly inviolable principle of non-interference include the past sponsorship of armed rebel groups, humanitarian intervention in East Timor in 1999 and significant moves towards greater pooling of economic sovereignty.<sup>56</sup> ASEAN has welcomed recent reforms in Burma, which hopes to chair the organisation in 2014.

In 2007, ASEAN was awarded observer status by the UN General Assembly, consolidating diplomatic ties and cooperation on development issues with the UN, in particular the Economic and Social Commission for Asia and the Pacific (ESCAP).<sup>57</sup> At the 2011 ASEAN summit in Bali, Indonesia, member states signed Bali Concord III, in which they committed ASEAN to playing a greater and more pro-active role in “a global community of nations”.<sup>58</sup>

There are also a series of institutional mechanisms linking ASEAN member states with the countries of East Asia and the Pacific. ASEAN Plus Three (APT) is a round-table group of the ten ASEAN member countries plus three countries in East Asia – China, Japan and South Korea.<sup>59</sup> The first leaders' meeting was in 1997 during the Asian financial crisis.

In 2010 Chinese Premier Wen Jiabao proposed strengthening ties between ASEAN member countries and the APT by establishing an East Asian Free Trade Area (FTA) that would enhance the economic competitiveness of the region and improve its strategic importance in the world.<sup>60</sup> With annual ‘East Asia Summits’ now taking place, there is an ongoing debate about the feasibility of moving beyond the APT to an ‘East Asian community’ similar to the European Union.<sup>61</sup>

While economic and diplomatic relations with China are currently at the top of ASEAN's agenda, the organisation is also developing ties with the other rapidly rising power in Asia – India. India is negotiating Comprehensive Economic Partnership Agreements (CEPA) with a number of ASEAN member states and has already signed pacts with Singapore and Malaysia. There were hopes that a CEPA might be signed between India and ASEAN as a whole by the end of 2011. However, differences over the services sector are holding it up.<sup>62</sup>

All ten member countries of ASEAN are also part of the ASEAN Regional Forum (ARF), a mechanism for discussing peace and security issues in Southeast Asia with a broader group of interested countries. The ARF's members include all of the ASEAN member countries plus

<sup>54</sup> “ASEAN agrees on landmark charter”, *BBC News Online*, 30 July 2007

<sup>55</sup> [ASEAN Intergovernmental Commission on Human Rights](#)

<sup>56</sup> L. Jones, “Beyond securitization: explaining the scope of security policy in Southeast Asia”, *International Relations of the Asia-Pacific*, 2011, pp3-4

<sup>57</sup> [United Nations Economic and Social Commission for Asia and the Pacific \(UNESCAP\)](#)

<sup>58</sup> “ASEAN pledges a common platform”, *Jakarta Post*, 18 November 2011

<sup>59</sup> [ASEAN Plus Three Cooperation](#)

<sup>60</sup> “Chinese premier proposes enhancing ASEAN Plus Three co-op”, *Xinhuanet News Online*, 29 October 2010

<sup>61</sup> “New order takes shape in East”, *Daily Telegraph*, 10 October 2009

<sup>62</sup> “Services sector deal with ASEAN bloc stuck”, *Business Standard*, 17 November 2011

Australia, Bangladesh, Canada, China, European Union, India, Japan, Mongolia, New Zealand, Pakistan, Papua New Guinea, Russian Federation, Sri Lanka, East Timor, and the United States.<sup>63</sup>

Environmental and climate change issues are included in the Roadmap for an ASEAN Community, which builds on a series of earlier declarations and agreements – for example, a 2002 Agreement on Transboundary Haze Pollution and a 2007 Declaration on Climate Change, Energy and the Environment. It has also established an ASEAN Climate Change Initiative. But critics such as Greenpeace claim that ASEAN's response to climate change in practice has been "sluggish".<sup>64</sup>

Brunei, Indonesia, Malaysia, The Philippines, Singapore, Thailand and Vietnam are also members of Asia-Pacific Economic Cooperation (APEC), which was established in 1989 to promote free trade and economic cooperation through the Asia-Pacific region.<sup>65</sup>

Singapore and Brunei are also members of the US-backed Trans-Pacific Strategic Economic Partnership, which is set to be upgraded to the Trans-Pacific Partnership. With China and the US tussling for influence in the region, Indonesian President Yudhoyono has said that Southeast Asia should no longer be dominated by a sole superpower, whether the US or China, calling for the establishment of a "dynamic equilibrium" in the region.<sup>66</sup>

## 1.6 China and the region

Southeast Asian countries today increasingly engage with a 'rising' China. Indeed, some now call the region China's 'backyard'. However, distrust of its motivations, unresolved maritime territorial disputes and long-standing military partnerships with the US for a long time prevented Southeast Asian countries from developing closer ties.

During the Cold War, China supported many communist insurgency movements in the region. This led many Southeast Asian countries to form alliances with Western powers to counter China's influence. An example is the Five Power Defence Arrangements, a series of bilateral defence agreements that involve the UK, Australia and New Zealand in the strategic defence of Malaysia and Singapore.<sup>67</sup> It was unease about Vietnam's growing influence in the region, following its invasion of Cambodia in 1978 and the associated armed conflict along the Thai-Cambodian border, which prompted ASEAN to begin establishing ties with China as a counter-balancing player.<sup>68</sup>

Since the end of the Cold War, China and ASEAN have developed a more positive and growing partnership, although ambivalence about China's growing power and underlying intentions does remain in some quarters. Over the last decade, China has embarked on a strong drive to strengthen its influence through trade and investment. It has steadily increased its investment in the infrastructure, energy, agriculture and mining industries in several countries in Southeast Asia. These projects mainly rely on Chinese construction materials, equipment and expertise. Recently, China set plans to build roads and hi-speed rail networks across Southeast Asia, linking the Mekong River to its own southern and

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<sup>63</sup> [ASEAN Regional Forum](#)

<sup>64</sup> "ASEAN slammed for weak approach to climate change", [www.interaksyon.com](http://www.interaksyon.com), 9 May 2011. For a fuller description of ASEAN's policies, see: Dr R. Letchumanan, "Is there an ASEAN policy on climate change?", no date. See also the [ASEAN Environment webpage](#).

<sup>65</sup> [APEC](#)

<sup>66</sup> "How America should adjust to the Pacific century", *Financial Times*, 17 November 2011

<sup>67</sup> "[Five Power Defence Arrangements](#)", FCO website

<sup>68</sup> "ASEAN and the Cambodian Problem", *Asian Survey*, Vol. 22 No. 6, June 1982, p552

western province, thus achieving greater energy security and enhancing its own commercial links.<sup>69</sup>

In 2002 China and ASEAN signed a Framework Agreement for an ASEAN-China Free Trade Area (ACFTA). Agreements were subsequently reached on the trades in goods and services. The FTA came into effect in 2010 with the full implementation of zero tariffs for most goods from China and six members of ASEAN – Brunei, Indonesia, Malaysia, Philippines, Singapore and Thailand. The less developed members of ASEAN – Cambodia, Laos, Burma and Vietnam – are scheduled to do the same in 2015.<sup>70</sup>

Around 15% of ASEAN's external trade is conducted with China: in 2009, it exported \$82 billion-worth of goods to China and imported \$97 billion from there, making it the group's third most important export market, and its most important source of imports.<sup>71</sup>

Trade between China and ASEAN was valued at \$293 billion in 2010 – a 30% increase on 2009 levels. Overall, ASEAN is now China's fourth largest trading partner, behind only the EU, US and Japan, and many expect it to improve on that position over the next decade.<sup>72</sup> However, there is debate about whether all the ASEAN countries currently participating in the FTA are benefiting from it, with some arguing that Indonesia and the Philippines have so far been insufficiently competitive to do so.<sup>73</sup> Some also argue that the ACFTA could be overtaken in significance by the emerging concept of the 'East Asian Community' (see also section 1.6).

China is a member of ASEAN Plus Three (APT), a round-table group of the ten ASEAN member countries plus three countries in East Asia – China, Japan and South Korea.<sup>74</sup> China is also a member of the ASEAN Regional Forum and routinely attends ASEAN meetings. In October 2011, China recently announced that it would open a mission to ASEAN in 2012 and at the 2011 ASEAN summit it pledged a further \$10 billion in loans to ASEAN countries, following on from a pledge of \$15 billion in 2009.<sup>75</sup>

However, there are concerns among ASEAN countries that China may be becoming more aggressive in asserting its strongly contested territorial claims in the South China Sea.<sup>76</sup> ASEAN member states fear that China's growing economic, political and military clout could lead to a weakening of regional unity and pose threats to their security.<sup>77</sup>

A 2002 agreement between ASEAN and China, the Declaration of Conduct of Parties in the South China Sea, stipulated that all parties would avoid taking actions that might lead to an escalation in tensions in those waters.<sup>78</sup> But while China often sends out reassuring signals, renewed clashes since late 2010 over the South China Sea have led to what some have perceived as a more threatening tone, with China describing the area as a 'core interest'. Relations with Vietnam became particularly fraught for a time and anti-China public demonstrations were briefly tolerated by the Vietnamese authorities.

This rise in tensions has prompted some ASEAN member states to reinvigorate security ties with the US, as well as step up naval co-operation between themselves. However, at the July

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<sup>69</sup> "Thai group thinks big in China", *Financial Times*, 12 July 2010

<sup>70</sup> S. Thangavelu, "Will China benefit from the ASEAN-China FTA?", [www.eastasiaforum.org](http://www.eastasiaforum.org), 27 January 2010

<sup>71</sup> ASEAN [External Trade statistics](#), Table 19. The rankings count the EU-27 as a single import/export market.

<sup>72</sup> "China's trade with ASEAN growing", *BBC News Online*, 21 October 2011

<sup>73</sup> "China's uneasy relationship with business neighbours", *BBC News Online*, 24 October 2011

<sup>74</sup> [ASEAN Plus Three Cooperation](#)

<sup>75</sup> "Code of conduct for S China sea", *China Daily*, 20 November 2011

<sup>76</sup> 'Why are South China Sea tensions rising', *BBC News Online*, 3 September 2010

<sup>77</sup> "ASEAN's China Challenge", *The Diplomat*, 20 May 2011

<sup>78</sup> 'Code of conduct' for disputed islands', *BBC News Online*, 4 November 2002

2011 ASEAN Foreign Ministers Meeting in Bali, ASEAN member states and China agreed 'cooperation guidelines' for implementing the 2002 Declaration.<sup>79</sup> Although the underlying disputes remain unresolved, this has helped for now to reduce tensions.

In November 2011, China proposed that a legally binding code of conduct should be negotiated.<sup>80</sup> Indonesian President Yudhoyono has said that Southeast Asia should no longer be dominated by a sole superpower, whether the US or China, calling for the establishment of a "dynamic equilibrium" in the region.<sup>81</sup>

### 1.7 Japan and the region

Japan's relationship with the states of Southeast Asia was for some time after World War II strongly shaped by the fact of Japanese occupation of most of the region and effective control over the rest. Japan created a Greater East Asian Co-Prosperity Sphere, including all of Southeast Asia, in 1942. Some nationalist elements within the region welcomed Japanese as liberation from European imperialism. Many others fiercely opposed and resisted it.

Inevitably, it took time for the legacy of the war to recede. The nature of the relationship between Japan and the countries of Southeast Asia had changed significantly by the 1970s, by which time Japan was undergoing its 'economic miracle'. Indeed, Japan was to Southeast Asia in the late-20<sup>th</sup> Century what China has become during the early 21<sup>st</sup>: the most important economic player in the broader Asia-Pacific region. Japan remains a crucial economic and aid partner today, but it has lost the pre-eminence which it once enjoyed.

Japan's close links with the US during the Cold War also enhanced its attractiveness to Southeast Asian countries where anti-communism was a strong political force. At the same time, its constitutional ban on collective self-defence and its commitment to the peaceful resolution of disputes rendered it relatively unthreatening and opened up possibilities for Japanese mediation initiatives – for example, during the Vietnamese occupation of Cambodia.

Since the 11 September 2001 terrorist attacks on the US, Japan has sought to support wider Western counter-terrorism efforts in Southeast Asia. Its support has focused on law enforcement, export control, money laundering, anti-piracy, port security, immigration control and the proliferation of Weapons of Mass Destruction.<sup>82</sup>

Japan was quick to establish positive ties with ASEAN after its formation in the mid 1970s, offering substantial funds in support of the regional organisation's programmes. In 1977, the then Japanese Prime Minister Fukuda attended the second ASEAN summit and promised that Japan would be an "equal partner of ASEAN and its member countries."<sup>83</sup>

To help ASEAN countries recover from the Asian financial crisis in 1997-8, Japan established the Japan-ASEAN Solidarity Fund in 1999 and the Japan-ASEAN General Exchange Fund (JAGEF) in 2000. In 2001, the ASEAN-Japan Eminent Persons Group produced a vision for Japan-ASEAN Relations in the 21st Century. It proposed expanding cooperation to include international issues such as UN reform and the WTO.<sup>84</sup>

A Japan-ASEAN Plan of Action was agreed in 2003. It established a comprehensive framework for future relations in the fields of economics and finance, politics and security, as

<sup>79</sup> "China, ASEA set 'guidelines' on sea row, but no deal expected", *Reuters*, 20 July 2011,

<sup>80</sup> "Code of conduct for S China sea", *China Daily*, 20 November 2011

<sup>81</sup> "How America should adjust to the Pacific century", *Financial Times*, 17 November 2011

<sup>82</sup> D. Fouse and Y. Sato, "Enhancing basic governance: Japan's comprehensive counterterrorism assistance to Southeast Asia", Asia-Pacific Center for Security Studies, February 2006

<sup>83</sup> B. Gordon, "Japan, the US and Southeast Asia", *Foreign Affairs*, April 1978

<sup>84</sup> "[Japan-ASEAN relations](#)", Japanese Ministry of Foreign Affairs, 2006



well as exchanges and cultural cooperation. Among the specific initiatives contained in the Plan of Action was a commitment by Japan to contribute \$1.5 billion for the Mekong Region Development project over three years. Its involvement with issues involving the Mekong Region has been institutionalised in recent years through the holding of Mekong-Japan summit meetings. Cambodia, Laos, Burma, Thailand and Vietnam also take part.<sup>85</sup>

In 2004, Japan acceded to the Treaty of Amity and Cooperation in Southeast Asia.<sup>86</sup> Japan is part of ASEAN Plus Three, which seeks to act as a bridge between ASEAN member states and the most important East Asian states. It is also part of the ASEAN Regional Forum. Since 1997, there have been annual Japan-ASEAN summits. Relations were further deepened in 2008, when Japan signed a Comprehensive Economic Partnership Agreement with ASEAN.

Around 13% of ASEAN's external trade is conducted with Japan: in 2009, it exported \$78 billion-worth of goods to Japan and imported \$83 billion from there, making it the group's fourth most important export market, and its second most important source of imports.<sup>87</sup>

## 1.8 The US and the region

The 1954 Manila Pact of the Southeast Asia Treaty Organisation (SEATO) commits the US (and other Western member states) to come to the aid of two states in the region if they come under attack: Thailand and The Philippines both of which signed the Pact and were members of SEATO. While SEATO, which was very much a product of the Cold War, was dissolved in 1977, the Pact remains in force.<sup>88</sup>

The US signed the Treaty of Amity and Cooperation in Southeast Asia in July 2009, thereby strengthening its relations with ASEAN countries across the political, security and trade spheres.<sup>89</sup> In the same year, the US was also invited to participate in the ASEAN Defence Ministry Meeting Plus.<sup>90</sup>

US-ASEAN relations were further formalised when President Obama and the leaders of ASEAN held the first ever US-ASEAN summit in November 2009.<sup>91</sup> A second summit was held in September 2010 and the agenda included issues of security alignment, economic growth and trade and human rights in Burma.<sup>92</sup> The US is also a member of the ASEAN Regional Forum, which acts as a bridge between ASEAN member states and the states of the Asia-Pacific more broadly.

The US has close political, security and economic relations with most of the member states of ASEAN, often on the basis of bilateral treaty arrangements, for example, the 1951 US-Philippines Mutual Defence Treaty and the 1966 Treaty of Amity and Economic Relations with Thailand.<sup>93</sup> Relations with a minority of countries in the region were characterised by intense conflict and violence in the past, most notably Vietnam, Cambodia and Laos. Ties with each of these countries gradually improved following the end of the Vietnam War in 1973, with the process accelerating with regard to the remaining Communist states of

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<sup>85</sup> ["Fourth Mekong-Japan foreign ministers' meeting"](#), Ministry of Foreign Affairs of Japan press release, 26 July 2011. For information about Japan's relations with specific Southeast Asian countries, see:

<sup>86</sup> Ibid

<sup>87</sup> ASEAN [External Trade statistics](#), Table 19. The rankings count the EU-27 as a single import/export market.

<sup>88</sup> ["Background note: Thailand"](#), US State Department, 28 January 2011

<sup>89</sup> ["US signs Treaty of Amity and Cooperation \(TAC\)"](#), ASEAN Secretariat press release, 22 July 2009

<sup>90</sup> ["ADMM-Plus: Strategic Cooperation for Peace, Stability, and Development in the Region"](#), Chairman's statement of the first ASEAN Defence Ministers' Meeting-Plus, 12 October 2010

<sup>91</sup> ["Overview of ASEAN-US Dialogue Relations"](#), ASEAN website

<sup>92</sup> ["The 2<sup>nd</sup> ASEAN-U.S. Summit in New York: What's on the Menu in Manhattan?"](#), Centre for Strategic and International Studies, 23 September 2010

<sup>93</sup> ["Background note: Thailand"](#), US State Department, 28 January 2011

Vietnam and Laos after the end of the Cold War, but the US continues to raise concerns about the human rights performance of these countries.

Since the 1990s, US relations with the region have been mainly complicated by events in Burma. The US has imposed an extensive range of sanctions, including visa bans and asset freezes, against leading Burmese military figures and related entities, as well as a ban on imports from Burma and a ban on US investment in the country.<sup>94</sup> In early 2011, Burma held elections. The US Administration condemned them as a “sham”. The US Congress approved the extension of sanctions for a further year in September 2011<sup>95</sup>

Nonetheless, since President Obama took office in 2009, there has also been increased diplomatic engagement with Burma. For a long time the Administration described the results of this dialogue as disappointing.<sup>96</sup> In September 2011 it also threatened Burma with further sanctions for failing to take effective action against the illegal drugs trade.<sup>97</sup> However, in December 2011, US Secretary of State Hillary Clinton visited Burma, meeting with political leaders from all sides, including Aung San Suu Kyi. Clinton’s message was that, while there had been encouraging signs of reform, more needed to be done before sanctions could be lifted.

Critics have argued over the last decade that the US often neglected issues other than Burma to the detriment of its own interests. Under President Barack Obama the US has viewed the region less exclusively through the prism of Burma. This has been partly prompted by the growing influence of China. After tensions between a number of ASEAN member states and China rose over rival maritime claims in the South China Sea during 2011, the US – with the endorsement of those ASEAN states – became involved in the dispute, to China’s displeasure.<sup>98</sup>

In November 2011, the US proposed upgrading the Trans-Pacific Strategic Economic Partnership, of which Singapore and Brunei are members, to a new body called the Trans-Pacific Partnership. China has not been invited to join. Along with moves to establish a small semi-permanent military presence in Australia, this move confirms that the US is determined not to lose its influence over the Asia-Pacific region. Indonesian President Yudhoyono has said that Southeast Asia should no longer be dominated by a sole superpower, whether the US or China, calling for the establishment of a “dynamic equilibrium” in the region.<sup>99</sup>

The US is also engaged with climate change and environmental issues across the region. Southeast Asia is included in the US Agency for International Development’s ‘Environmental Cooperation-Asia’ programme. Key programme countries include Indonesia, the Philippines, Thailand and Vietnam.<sup>100</sup>

Around 12% of ASEAN’s external trade is conducted with the US: in 2009, it exported \$82 billion-worth of goods to the US and imported \$67 billion from there, making it the group’s second most important export market, and its fourth most important source of imports.<sup>101</sup>

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<sup>94</sup> For further details, see the [‘Burma sanctions’](#) page of the US Department of the Treasury

<sup>95</sup> “US president calls Burma elections ‘sham’”, *Voice of America*, 9 November 2010

<sup>96</sup> “US renews Myanmar sanctions”, *Agence France Presse*, 16 May 2011

<sup>97</sup> “Burma May Face US Sanctions for Drug-Fighting ‘Failure’”, *Voice of America*, 15 September 2011

<sup>98</sup> “U.S.-China row may take turn for worse at Asia security meet”, *Reuters*, 19 July 2011

<sup>99</sup> “How America should adjust to the Pacific century”, *Financial Times*, 17 November 2011

<sup>100</sup> [ECO-Asia](#) website

<sup>101</sup> ASEAN [External Trade statistics](#), Table 19. The rankings count the EU-27 as a single import/export market.

## 1.9 The UK and the region

The UK conducts its relationship with ASEAN through the European Union (EU). The UK has extensive bilateral relations with each member state of ASEAN. The 1954 Manila Pact of the Southeast Asia Treaty Organisation (SEATO) commits the UK (and other Western member states) to come to the aid of member states in the region if they come under attack. At the time, Thailand and the Philippines signed the Pact and joined SEATO. Although SEATO, which was very much a product of the Cold War, was dissolved in 1977, the Pact remains in force.<sup>102</sup>

The UK is part of the Five Power Defence Arrangements, set up in 1971 with Malaysia, Singapore, Australia and New Zealand. It is the basis for defence co-operation between the UK, Malaysia and Singapore today.<sup>103</sup> All five members take part in annual naval and land exercises.<sup>104</sup>

Under a Treaty of Friendship and Co-operation, the UK has a defence battalion of Gurkhas in the south of Brunei, the only permanent deployment of British troops east of Cyprus.<sup>105</sup>

The British government has contributed \$3.8 million to the budget of the Khmer Rouge Tribunal or the Extraordinary Chambers in the Courts of Cambodia (ECCC),<sup>106</sup> a joint hybrid UN-Cambodian court set up to prosecute those responsible for human rights abuses and allegations of genocide during the Khmer Rouge regime of 1975-79.<sup>107</sup> The UK Government also funds outreach programmes and specialised training of court officials in association with the International Criminal Court (ICC).<sup>108</sup>

The UK's relations with Indonesia have a heavy emphasis on democracy building, business and trade, counter-terrorism and climate change.<sup>109</sup> In 2006, former Prime Minister Tony Blair initiated the establishment of a regular partnership forum between the two countries

With regard to the Philippines, in 2009 the UK Government was asked to participate in an International Contact Group of States and NGO's to help support the peace process between the Philippine government and the Moro Islamic Liberation Front.<sup>110</sup> The UK and the Philippines are working together on the steering committee of the Open Government Partnership, a new initiative that aims to encourage more transparent and accountable government worldwide.<sup>111</sup>

The UK and Thailand have strong security, defence and business ties. Thailand's largest steel producer recently bought the Corus Teeside Cast Products (TCP) steel plant in a multi-million pound deal that will create and secure jobs in Newcastle. Exiled former Thai Prime Minister Thaksin Shinawatra sought exile in Britain before his conviction on corruption charges in Thailand in 2008<sup>112</sup>, following which the Home Office barred him from the UK.<sup>113</sup>

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<sup>102</sup> "Background note: Thailand", US State Department, 28 January 2011

<sup>103</sup> These Arrangements are discussed in more depth in the companion Library Paper, Library Paper, *The Military Balance in Southeast Asia*, RP 11/79, 14 December 2011

<sup>104</sup> "[Defence Secretary meets Malaysian Prime Minister and Defence Minister](#)", Ministry of Defence press release, 17 January 2011

<sup>105</sup> The UK had troops based in Malaysia and Singapore until 1971.

<sup>106</sup> [Extraordinary Chambers in the Courts of Cambodia \(ECCC\) website](#)

<sup>107</sup> "Cambodia's brutal Khmer Rouge regime", *BBC News Online*, 19 July 2010

<sup>108</sup> "[Khmer Rouge Tribunal](#)", FCO website

<sup>109</sup> "[Indonesia Country information](#)", FCO website

<sup>110</sup> "[Peace Negotiations in the Philippines: The Government, the MILF and International NGOs](#)", United States Institute of Peace, 28 April 2011

<sup>111</sup> "The Open Government Partnership", *UK Government News*, 23 September 2011

<sup>112</sup> "Will Thaksin be extradited?", *BBC News online*, 24 October 2010

<sup>113</sup> Home Office bars Thaksin Shinawatra from returning to Britain', *Times*, 10 November 2008

Ties are also increasing between the UK and Vietnam. In September 2010, the two countries established a 'strategic partnership'.<sup>114</sup> A first strategic dialogue meeting took place in October 2011. In November 2011, the two countries signed a Defence Co-operation Memorandum of Understanding.<sup>115</sup>

Southeast Asia is a focus for a range of international conservation and climate change related actions. The UK is involved in these actions, both bilaterally and multilaterally through the EU and other international fora. Some key Southeast Asian environment policy areas for the UK include: the establishment of a forest payment mechanism to protect forest carbon stocks; measures to reduce illegal logging; and palm oil and biofuels.

The UK is thought to be a major importer of illegally-harvested timber, some of which comes from Southeast Asia. The estimated value of all illegal timber and timber product imports to the UK in 2008 was \$1 billion.<sup>116</sup> This made "the UK the world's third largest importer of illegal timber and Europe's largest although these figures are difficult to verify given the covert nature of illegal logging".<sup>117</sup> The Environmental Audit Committee concluded that "the UK is undermining efforts to improve forest governance and contributing to deforestation and its associated emissions".<sup>118</sup>

UK policy on illegal timber over the past decade has focused on encouraging government and business to ensure that it only buys legal timber, and on galvanising action at an EU level. Two major pieces of European legislation have been agreed to reduce imports of illegal timber into the EU—the Forest Law Enforcement, Governance and Trade Programme (FLEGT) and an import ban (see the next section for more details).

The UK is also a significant importer of biofuels produced in Southeast Asia. Some 28% of UK biofuels were derived from palm oil in 2009-10. At least 15.5 million litres of palm oil from Indonesia and 10.4 million litres from Malaysia were burnt as fuel in the UK in the first 9 months of 2010-11.<sup>119</sup>

Concerns about deforestation and the high relative costs of biofuels policy led the Environmental Audit Committee in 2008 to recommend a moratorium on biofuels.<sup>120</sup> In 2011 the Nuffield Council on Bioethics concluded that current biofuels policy can be considered "unethical". It said that strict certification was needed to avoid the negative human and environmental impacts currently caused by biofuels policy. The UK Government is currently reviewing biofuels policy.<sup>121</sup>

UK-based NGOs have been active on climate change and environment issues in Southeast Asia, sometimes to the displeasure of the governments and corporations across the region. For example, in October 2011 the head of Greenpeace UK was refused entry to Indonesia. He was visiting in the context of the NGOs campaign against deforestation in the country. Another Greenpeace UK campaigner was also subsequently deported.<sup>122</sup>

Around 3% of ASEAN's external trade is conducted with the UK: in 2010, it exported \$18 billion-worth of goods to the UK and imported \$10.4 billion from there, making it the group's

<sup>114</sup> "FCO hosts first ever UK-Vietnam strategic dialogue", FCO press release, 26 October 2011

<sup>115</sup> "UK and Vietnam sign Defence Co-operation Memorandum of Understanding", UK Ministry of Defence press release, 24 November 2011

<sup>116</sup> *Illegally Logged Timber: EU and UK legislation*, House of Commons Library standard note, 3 March 2011

<sup>117</sup> Environmental Audit Committee, *Reducing greenhouse gas emissions from deforestation: No hope without forests*, HC 30, Session 2008-09, 16 June 2009

<sup>118</sup> Ibid

<sup>119</sup> *Year two of the RTFO*, Renewable Fuels Agency, 2 February 2011

<sup>120</sup> Environmental Audit Committee, *Are biofuels sustainable?*, HC76, Session 2007-08, 21 January 2008

<sup>121</sup> *Biofuels*, House of Commons Library standard note, 1 June 2011

<sup>122</sup> "Second Greenpeace activist deported from Indonesia", [www.mongabay.com](http://www.mongabay.com), 20 October 2011

eighth most important import and export market.<sup>123</sup> From the UK's perspective, ASEAN accounted for 3.2% of its total imports and 2.6% of its exports.

The UK Government has announced that, as part of its efforts to expand British political and economic ties with Southeast Asia, it intends to increase its diplomatic strength in Burma, Indonesia, Malaysia, the Philippines, Thailand and Vietnam.<sup>124</sup>

### 1.10 The EU and the region

The EU has a strong relationship with ASEAN as a regional bloc and with its member states.<sup>125</sup> The signing of a Cooperation Agreement in 1980 represented the first step to deepen trade and business links between the two regions.<sup>126</sup>

In 2004 the EU endorsed plans for a "New Partnership with Southeast Asia".<sup>127</sup> The 2007 Nuremberg Declaration on EU-ASEAN Partnership<sup>128</sup> called for a deeper relationship between the EU and ASEAN. An EU-ASEAN Joint Declaration<sup>129</sup> was signed at the first ever joint EU-ASEAN Summit on 22 November 2007, organised to celebrate 30 years of formal relations between the two regions.<sup>130</sup> Under a joint EU-ASEAN Plan of Action<sup>131</sup> endorsed at the summit, programmes of co-operation were agreed on law, crime, counter-terrorism and nuclear non-proliferation, trade and investment, the environment and climate change, cross-cultural exchanges and disaster management.<sup>132</sup>

Individual Framework Agreements on Partnership and Co-operation (PCA) have also been pursued through negotiations with Thailand, Indonesia, Singapore, the Philippines, Malaysia and Brunei. A PCA has been signed with Indonesia. PCAs with the Philippines and Vietnam are also due to come into effect in the near future.<sup>133</sup> PCAs constitute the political framework for the subsequent negotiation of Free Trade Agreements between the EU and these countries.

The main diplomatic disagreements between the EU and ASEAN have been on the issues of human rights and democracy. In November 1997, Burma became a fully fledged member of ASEAN, raising serious concerns within the EU about ASEAN's commitment to human rights. This led to the cancellation of the EU-ASEAN Foreign Ministers meeting in the same year.<sup>134</sup> The EU introduced a series of "restrictive measures" against leading regime figures and entities in Burma, in the form of visa bans and asset freezes, progressively strengthening them over time. Bans on trade and investment in timber, precious metals and gems were also introduced.<sup>135</sup>

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<sup>123</sup> ASEAN [External Trade statistics](#), Table 19. The rankings count the EU-27 excluding the UK as a single import/export market.

<sup>124</sup> "The best diplomatic service in the world", speech by Rt Hon William Hague MP, the British Foreign Secretary, 8 September 2011

<sup>125</sup> France is also a signatory to the 1954 Manila Pact.

<sup>126</sup> [ASEAN-European Union Dialogue](#)

<sup>127</sup> "A new partnership with Southeast Asia", European Commission, 2004

<sup>128</sup> "Nuremberg declaration on EU-ASEAN enhanced partnership", 15 March 2007

<sup>129</sup> "EU-ASEAN joint declaration", November 2007

<sup>130</sup> "Joint Declaration of the ASEAN-EU Commemorative Summit", Singapore, 22 November 2007

<sup>131</sup> "Plan of Action to Implement the Nuremberg Declaration on an EU-ASEAN Enhanced Partnership", 22 November 2007

<sup>132</sup> "Nuremberg declaration on EU-ASEAN enhanced partnership", 15 March 2007

<sup>133</sup> Signature has been delayed because the UK Government has not yet approved them due to concerns raised in Parliament by the European Scrutiny Committee. However, the Government has said that it now intends to override those concerns "Deal with EU hits snag in the United Kingdom", [www.bilaterals.org](http://www.bilaterals.org), 23 May 2011

<sup>134</sup> "UK tasked with defusing ASEAN quarrel with EU", *European Voice*, 11 December 1997

<sup>135</sup> "EU agrees extra Burma sanctions", *Independent*, 16 October 2007. For further details on the EU's regime of restrictive measures against Burma see the European Commission's regularly updated [summary](#)

The EU has repeatedly sought to persuade ASEAN member states to take what it would view as a stronger stance on Burma. However, there has been little faith on the part of ASEAN governments in the efficacy of sanctions as a means of bringing about change in that country.

In November 2010 Burma held elections for the first time in 20 years. The EU publicly condemned the Burmese general election as fatally flawed.<sup>136</sup> The EU stated that Burma's elections were not "free, fair or inclusive" and were not "compatible with internationally accepted standards".<sup>137</sup>

In February 2011 the EU imposed visa bans and froze the assets of lifelong civilian members of the new Burmese Government who had not been subject to these measures in the past but then immediately suspended them for one year. The Burmese foreign minister was also exempted. The prohibition on EU high-level visits was also lifted for one year. These steps were taken following conversations with Aung San Suu Kyi, who had recently been released from detention. The bans on trade and investment in timber, precious metals and gems were retained unchanged. These steps were portrayed as time-limited initiatives that allow the EU to explore the potential for reform under the new political dispensation in Burma.<sup>138</sup> Some EU member states have always been less convinced of the efficacy and justification for sanctions than others. A range of reform measures by the new Burmese Government during the last few months of 2011 led some to claim that real change is underway<sup>139</sup>.

The EU is playing a prominent role in international initiatives to combat the impact of climate change and strengthen environmental protection across Southeast Asia. For example, in 2003 the EU agreed the Forest Law Enforcement, Governance and Trade Programme (FLEGT). This seeks to establish bilateral Voluntary Partnership Agreements (VPAs) with the governments of timber producing developing countries, in which they agree to improve the governance of the forestry sector and only export legally sourced timber to the EU. All countries in Southeast Asia are working towards or have agreed a VPA, except for Brunei, Singapore and the Philippines. For example, the EU and Indonesia signed a VPA in May 2011.<sup>140</sup>

While the VPA system may lead to more effective controls on illegal timber, it has been slow to establish and it will not cover all trade.<sup>141</sup> No FLEGT licensed wood has yet entered the EU from anywhere in the world—although the first shipment carrying a FLEGT license is expected in 2011/12.<sup>142</sup> Partly to address the slow pace of FLEGT, in October 2010 the EU agreed to ban the import of illegal timber to the EU from 2013. It also introduced a requirement for companies to undertake a risk management exercise to minimise the risk of placing illegally harvested timber or timber products on the EU market. This is known as 'due diligence'. The due diligence system is currently being developed.<sup>143</sup> Work is underway at the EU level to determine whether additional controls should be introduced to address concerns about current biofuels policy—a decision is expected before the end of 2011.<sup>144</sup>

Around 14% of ASEAN's external trade is conducted with the EU: in 2009, it exported \$93 billion-worth of goods to the EU and imported \$79 billion, making it the group's second most important export market, and its fourth most important source of imports.<sup>145</sup>

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<sup>136</sup> "Western states dismiss Burma's election", *BBC News Online*, 8 November 2010

<sup>137</sup> [Press release](#), 3082<sup>nd</sup> Council Meeting, Council of the European Union, 12 April 2011

<sup>138</sup> *Ibid*

<sup>139</sup> "When a hero's image signals a new Burmese dawn", *Financial Times*, 6 October 2011

<sup>140</sup> "EU and Indonesia sign deal on illegal timber", *BBC News Online*, 4 May 2011

<sup>141</sup> [Controlling Illegal Logging: Consumer-Country Measures](#), Chatham House, March 2011

<sup>142</sup> [FLEGT Voluntary partnership Agreements](#), FLEGT, viewed 6 October 2011

<sup>143</sup> Visit the [European Commission website](#) for a summary of the legislation and the latest information.

<sup>144</sup> [Scientific advisors urge rethink of biofuels policy](#), Reuters, 16 September 2011

<sup>145</sup> ASEAN [External Trade statistics](#), Table 19. The rankings count the EU-27 as a single import/export market.

## 2 Country studies<sup>146</sup>

### 2.1 Indonesia

#### Key facts and figures

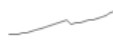







Indonesia consists of over 18,000 islands, of which 6,000 are inhabited. The largest wholly Indonesian islands are (in order): Sumatra, Papua, Sulawesi and Java. A section of the island of Borneo is also part of Indonesia. The vast majority of the islands, including Bali and the Moluccas, are small in size. The capital of Indonesia is Jakarta. The vast majority of the population lives on Java and Bali. Islam arrived in Indonesia in about 1100 AD, gradually supplanting Hinduism as the dominant religion. Today, approximately 86% of the population is Muslim, with 9% Christian. Over 450 languages, falling into two main groups (Austronesian and Papuan), have been recognised. The national language, Indonesian, is a variant of Malay. Indonesia has a significant Chinese community, estimated at 3 million, whose elite occupies an economically dominant position. However, a significant number of Chinese do not have citizenship. The community has in the past been the target of pogroms.

Indonesia is rich in natural resources and the largest producer of palm oil in the world. It has the second largest copper reserves and the third largest coal reserves in the world. It has enjoyed a 5% growth rate or better each year since 1998, is the world's 18<sup>th</sup> largest economy based on GDP and is the only Southeast Asian member of the G20. However, the majority of its population lives on less than \$2 per day. The country has experienced major deforestation since 1950 and is currently the world's third largest emitter of greenhouse gases.

#### History

The Indonesian archipelago was first colonised by the Dutch East India Company in the 16<sup>th</sup> Century, with the Dutch Government taking over responsibility in 1799

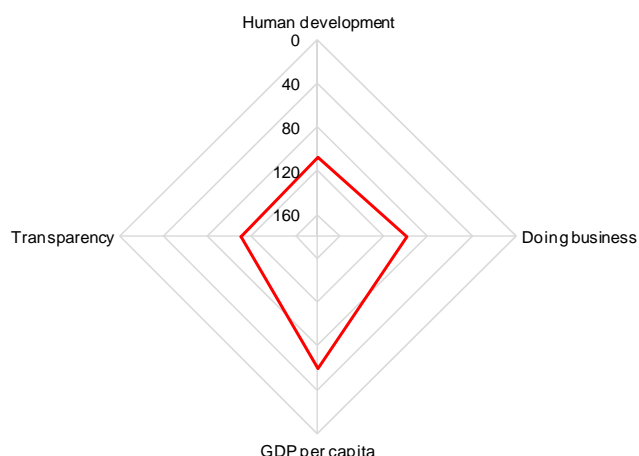
#### Indonesia in 2010: fast facts

GDP, \$bn	707	
Annual average change, %, 2000-10	5.2	
Population	234.4	
Annual average change, %, 2000-10	1.3	
Inflation, %	7.0	
Unemployment, %	7.1	
Current account balance, % GDP	0.9	
Poverty (% <\$2 per day)	60.0	(no trend data)
Adult literacy, %	92.0	
Under-five mortality, per thousand	38.9	
Life expectancy, years	70.8	

Note: charts show trends since 1980

#### Key rankings

Chart shows ranking against 181 countries, with '0' being the top/most favourably-assessed country



<sup>146</sup> Readers will note that there are no country studies on Brunei, Cambodia, Burma and Laos. The countries covered were selected on the basis of an assessment of their political and economic importance in the region and for the rest of the world. However, the exclusion of Burma may require further explanation. It has not been included as a country study because it has been extensively covered by other Library briefings over the last decade and continues to be so. Readers will also see that there are no footnotes in the country studies. Particularly useful sources for these country studies were: *Europa World Online*; the journal *Asian Survey*; and reports published by the IMF, the World Bank and the Asian Development Bank.

but only taking complete control of the entire archipelago in 1910. The Dutch kept many traditional rulers in place and sought to rule in part through them. The colonial economy was based on plantation agriculture and oil. The Chinese community dominated commerce. The small indigenous elite led an emerging secularist nationalist movement from the early 20<sup>th</sup> Century onwards but it remained weak until the Japanese occupation of 1942-45, which raised hopes of independence. Following the Japanese surrender, Sukarno and Hatta, the leaders of the nationalist movement, declared independence on 17 August 1945, becoming President and Vice-President of the Republic of Indonesia. After four years of fighting and talks, the Dutch, under considerable US pressure – which feared that if national aspirations were denied, communism might take root – reluctantly accepted Indonesian independence. However, despite nationalist protests, the Dutch retained control over West New Guinea (subsequently known as Irian Jaya and then, more recently, as Papua).

Indonesia was a parliamentary democracy between 1950 and 1957. However, it faced rebellion in the Moluccas, where a largely Christian movement tried to break-away, and in parts of Java, Aceh and Sulawesi, where there were attempts to impose an Islamic state. These regional rebellions received US support. Two years after the first national elections, Sukarno declared martial law. The period 1959-65 was one of 'Guided Democracy' – in reality, an authoritarian system in which the army and the Communist Party became increasingly influential. Sukarno was boosted by his recovery of West New Guinea in 1963, but then became involved in confrontation with Malaysia, which he viewed as an ex-British 'neo-colony'. In 1965, a separatist insurgency broke out in West New Guinea.

By 1965, Indonesia was one of the poorest countries in the world. There were fears amongst Islamist politicians and the army that the Communist Party might seize power once an ageing Sukarno had departed the stage. Rumours of a possible military coup mounted. A 'counter-coup' by junior officers to forestall this failed, leaving the senior officers strengthened, above all General Suharto. Power quickly shifted towards Suharto over the following year. The Communist Party was proscribed and 500,000 members and sympathisers killed by the army and anti-communist militias. In 1968 Suharto became President. Sukarno died under house arrest in 1970.

### ***From Suharto to Yudhoyono***

Suharto's 'New Order' abandoned Sukarno's left-wing rhetoric and replaced it with the Pancasila, five principles originally set out by Sukarno in 1945: Belief in God, national unity, humanitarianism, social justice and democracy. Over time, this became a powerful national ideology, designed to safeguard Indonesia from internal conflict and communism. Although periodic national elections took place, the next three decades saw *de facto* one-party rule by the Golkar party, strongly backed by the military. It also saw significant economic development, albeit marred by extensive corruption. When the Dutch withdrew from East Timor in 1975, Indonesia unilaterally occupied it, with Western acquiescence. Suharto was heavily supported by the West during the Cold War, despite Indonesia's role as the birthplace of the Non-Aligned Movement.

By the 1990s, Suharto and his regime were showing signs of age. However, he showed little enthusiasm for grooming a successor. A growing middle class was calling for greater openness – and some did emerge. Suharto also showed growing tolerance towards moderate political Islam during his last decade in power. Suharto's main political challenger was Megawati Sukarnoputri, daughter of Sukarno. But the East Asian economic crisis of 1997 did more to undermine Suharto than Megawati. Economic near-collapse, which some have argued was made worse by abrupt withdrawals of state subsidies and reductions in public expenditure on IMF advice, was accompanied by rapidly escalating social unrest, some of it aimed at the Chinese community. The political opposition mobilised around the call for reform and parts of the army began to desert Suharto. In May 1998 he stood down.



He was replaced by his Vice-President BJ Habibie. He introduced a programme of political liberalisation that culminated in elections in June 1999 but his brief tenure in office saw a massive rise in religious and communal conflict across the archipelago. For a while, some questioned whether Indonesia would survive as a state. There was mass unrest in Aceh, Indonesia's most devout Muslim region, and renewed calls for independence, a demand first raised in earnest in the 1970s. The army engaged in a brutal campaign of reprisal in East Timor, both during the run up to and following its vote for independence from Indonesia in August 1999.

A new President was elected by the national assembly in October 1999. He was Abdurrahman Wahid. Megawati and Habibie, the two other candidates, eventually had to withdraw from contention, although Megawati subsequently became Vice-President under Wahid. Wahid was a sincere reformist – perhaps his greatest achievement was introducing a far-reaching decentralisation law – but a highly idiosyncratic politician. His period in power was challenged above all by ongoing communal violence between Muslims and Christians in Maluku in which thousands died. There was also violence in Sulawesi and West Kalimantan. The army resisted efforts to bring it under control, for example by ending its representation in the national assembly. Wahid also found himself under growing threat of impeachment for corruption. In July 2001 Wahid suddenly declared a state of emergency, dissolving the national assembly and other key bodies. However, the national assembly retaliated, successfully calling his bluff by dismissing him and replacing him with Megawati.

During the three years that she held office, Megawati – despite a growing reputation for aloofness – did much to stabilise Indonesia. Provision for the direct election of future presidents was brought in. Military representation in the national assembly was phased out. Corruption trials took place, although Suharto himself avoided this fate on grounds of ill-health. Indonesia held some trials of officials and others allegedly involved in human rights abuses in East Timor, but most were acquitted and calls for the extradition of some of the accused to face a UN tribunal based in East Timor were also resisted. There was considerable progress made toward resolving the communal conflicts in Sulawesi and Maluku, although outbreaks of violence continued, but she refused to give any ground to separatist movements in Aceh and Papua. The Bali bombings of October 2002, which killed 202 people, highlighted the country as a potential source of international terrorism. Anti-terrorism measures were quickly passed, providing for detention without trial, and several members of the regional militant Islamist organisation Jemaah Islamiyah went on trial in connection with the Bali bombings.

Megawati's party, the Democratic Party of Indonesia (PDI-P), came second in April 2004 legislative elections to Golkar, but a number of new parties did well, including the Partai Demokratai (Democratic Party, DP) established by a former supporter of President Wahid and cabinet minister General (Retired) Susilo Bambang Yudhoyono. In the presidential election, held in July and September, Yudhoyono triumphed, winning 61% to Megawati's 39% in the second round.

Yudhoyono proved to be a successful president during his first term in office, which got off to a very difficult start with a devastating earthquake off the coast of Sumatra and the resultant tsunami. At least 127,000 Indonesians died. However, the tragedy unexpectedly led to the resolution of the long-running conflict with separatist rebels in Aceh, which had been badly affected. In 2005, the separatist Free Aceh Movement abandoned its calls for independence and accepted self-rule. It now governs Aceh. Yudhoyono also presided over healthy rates of economic growth, some progress in combating corruption and consolidation of political pluralism. A Truth and Reconciliation Commission concluded its work, publishing a report on past human rights abuses.

Yudhoyono won a landslide victory with 60.8% of the vote in the first round of the July 2009 presidential election. For the first time, he also had a secure majority in the national

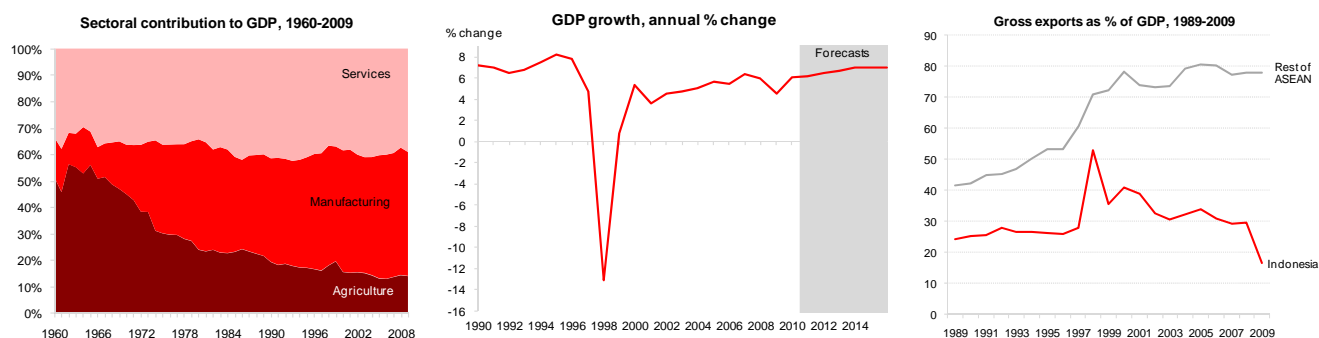
assembly. However, although he was not personally implicated, he was quickly embroiled in a number of scandals involving alleged corruption or abuse of power, one of which involved his Vice-President, Boediono, a former governor of the Bank of Indonesia. In March 2010, the national assembly called for legal action against him, along with finance minister Sri Mulyani Indrawati, in connection with a controversial bank bailout. Mulyani, who many viewed as a strong pro-reform figure within the government, was removed. Boediono remains in post but is widely viewed as damaged. There was also criticism of Yudhoyono for allegedly failing to take strong enough action against a growing number of attacks on Christians, including their churches, by Islamic vigilante groups during late 2010. There was also an increase in attacks on members of the Muslim Ahmadiyya sect. These followed a 2008 law banning members of the sect from practising their faith in public, which some have viewed as encouraging such attacks. In 2010, Yudhoyono established a National Anti-Terrorism Agency.

Yudhoyono has not been able to engineer an Aceh-like resolution to the insurgency in Papua, as West New Guinea is now called, although the insurgents there have never had much success in controlling territory. Low-level violence has persisted, with initiatives to promote development in this impoverished and marginalised region so far amounting to little. Violence and tension were on the rise again in late 2011, partly fuelled by a protracted strike by miners at Freeport, a US-owned gold and copper mine. Sulawesi and the Maluku Islands, in the past sites of communal violence, have been largely peaceful, although there were renewed clashes between Muslims and Christians on Ambon, part of Maluku Islands, in September 2011. A protestant church in Java was also targeted by a suicide bomber in the same month, leaving 27 people wounded. Four people have subsequently been arrested.

Some of Yudhoyono's political lustre appears to have worn off since his 2009 victory. His poll ratings have fallen sharply. An accumulation of corruption scandals is taking its toll, with Muhammed Nazaruddin, the former treasurer of Yudhoyono's political vehicle, the Democratic Party, currently before the courts for allegedly taking bribes. A cabinet reshuffle took place in October 2011. Yudhoyono presides over a fluid and fractured political landscape. The next elections are due in 2014 and Yudhoyono is forbidden under the Constitution to stand for a third time. Accordingly, rising political uncertainty appears likely from 2012 onwards, as rival candidates intensify their jockeying for the next presidential race.

### Key economic issues

After the 1997 financial crisis caused the collapse of the Government, and a fall in living standards that took eight years to recover from, Indonesia's economy has rebounded to an extent: poverty rates have fallen and per capita GDP has doubled to \$3,100 in the six years to 2010. Like other emerging economies, the contribution of agriculture to Indonesia's GDP is small and declining, having been displaced by the industrial sector.<sup>147</sup> But in contrast with many of its export-orientated neighbours, Indonesia's growth has been sustained predominantly by the domestic consumption of an emerging middle class. This, combined

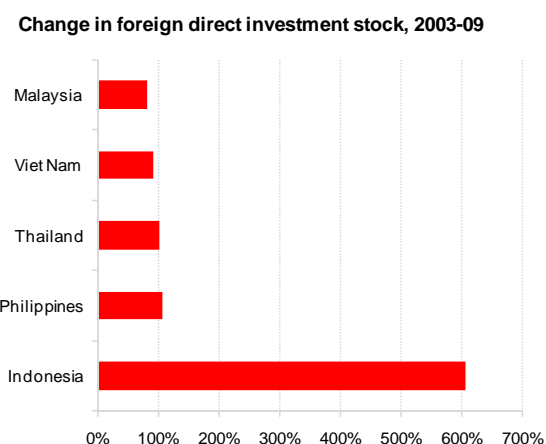


<sup>147</sup> Agriculture remains a significant employer, however, and this uneven growth has led to growing income disparity between urban and rural areas.

with the limited dependence of its domestic banks on foreign funding, enabled it to shrug off the effects of the global recession: growth declined from 6.1% in 2008 to 4.5% in 2009, but jumped back to 6.0% in 2010.

### *Capital flows*

Indonesia's key vulnerability remains the same as it was at the time of the Asian financial crisis in 1997: volatile capital flows. Its economic success, together with a generally higher risk appetite among global investors, has once again made it an attractive destination for foreign capital. Not only does this weaken the competitiveness of its exports by placing upward pressure on the value of its currency, but high levels of foreign investment leave the economy vulnerable to asset price bubbles and reversals in market sentiment. It was the dramatic withdrawal of foreign capital, which accumulated during an economic boom, that precipitated the crisis in 1997. The authorities are considering methods of stemming this volatility, and in June 2010 introduced a requirement that investors in short-term debt issued by the Central Bank must hold it for at least one month before selling it on.



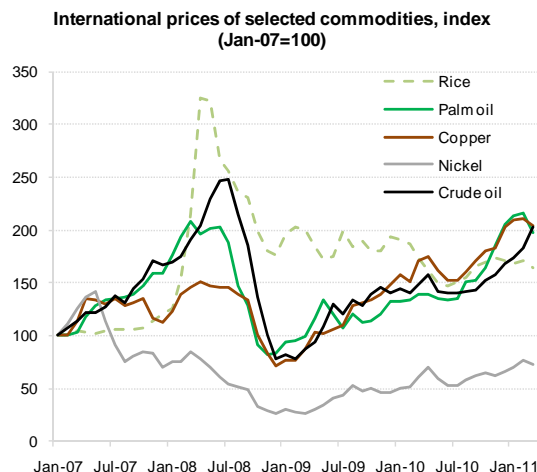
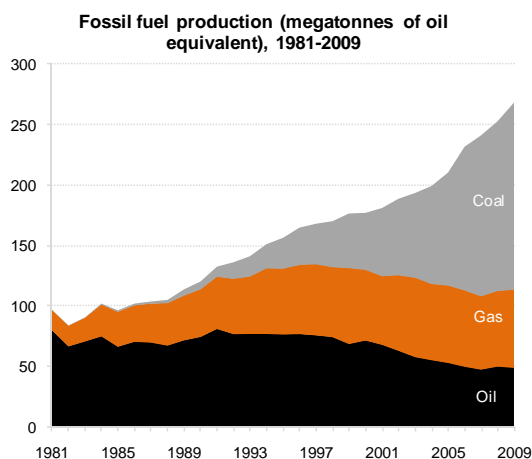
### *Inflation*

High levels of inflation have been a long-term problem for Indonesia: the country suffered hyperinflation of 1,000% in the 1960s, and the 1997 crisis caused a near-doubling of prices in the space of 12 months. Since 1998, the average annual rate of inflation has been 8%. The Central Bank has until recently had some success with the use of monetary policy to keep inflation within a target range of 4-6%, but there remains scepticism among investors about the authorities' resolve to tackle inflationary pressures. Though the high rates seen at the start of 2011 have been driven largely by external factors, notably rising commodity prices, such decisions expose tensions between the government's desire to encourage investment by keeping borrowing costs down, and its objective of price stability.

### *Commodity prices*

Indonesia is relatively rich in natural resources, and has the potential to benefit from rising commodity prices. It is the largest producer and second-largest exporter of palm oil in the world. It also has the second-largest copper reserves and the third-largest coal reserves in the world.

On the other hand, Indonesia has the highest global per capita rice consumption, and the majority of its population live on less than \$2 per day: higher food prices thus have the potential to impoverish large sections of the population. Rising oil prices, meanwhile, are no longer a blessing for Indonesia. Despite being the region's largest oil producer, high domestic consumption has meant it has been a net importer since 2005, and production is in long-term decline. The Indonesian Government spends a fifth of its budget on fuel subsidies, and that figure could rise if it continues in its attempts to shield consumers from oil price fluctuations.



*Public finances and investment*

Indonesia has reduced its public debt burden dramatically over the past ten years, and this has been reflected in ratings' agencies assessments of the risk of default. Since April 2011, all the major agencies rated Indonesian sovereign debt at BB+ which, by the standards of middle-income countries, is a sound assessment. However, this prudence has come at a price. Indonesia's dilapidated transport and utilities infrastructure is widely seen as a constraint on future growth: traffic on Jakarta's roads is notoriously gridlocked, and the port crossing linking Java and Sumatra regularly comes to a standstill because of poor weather and boat breakdowns. The Government has been reluctant to jeopardise its favourable fiscal position by financing new infrastructure through public borrowing, preferring instead to rely on private investment and resource deals with other Asian economies. Of the \$157 billion planned investments between 2010 and 2014, it is expected that the Government will self-finance only a third. The head of Indonesia's Chamber of Commerce has criticised this lack of public investment:

We can be the third largest market in Asia after China and India, but we need infrastructure. It's a huge problem... if necessary, the government should go into debt.

Widespread corruption persists in Indonesia – Transparency International ranks it 110<sup>th</sup> out of 178 countries, alongside Bolivia and Ethiopia in its corruption index – and this, together with the lack of transparency in large-scale government procurement, means the scale of private investment needed to modernise Indonesia's economic infrastructure may not match the Government's expectations.

## 2.2 Malaysia

### Key facts and figures









Malaysia comprises the relatively heavily populated southernmost tip of Asia (peninsular Malaysia), along with nearby islands, where there are eleven states; and northern Borneo, where there are two large but comparatively sparsely populated states – Sabah and Sarawak. The western side of peninsular Malaysia faces the Straits of Malacca, a major maritime trade route. The capital of Malaysia is Kuala Lumpur. Muslim Malays make up about 65% of the total population. About 26% of the population is ethnic Chinese and about 8% is of South Asian origin (all are known as Indians).

### History

The Sultanate of Malacca, which existed during the 15<sup>th</sup> century until the early 16<sup>th</sup>, is viewed by Malays as the foundation of contemporary Malaysia. However, it was pacified first by Portugal and then by the Dutch. The peninsula was divided into a number of small states by the mid-18<sup>th</sup> century, but the arrival of the British at the end of that century – initially driven by a desire to control the Straits of Malacca, but later eager to reap revenues from tin and rubber – marked the beginning of a gradual process of incorporation into the Empire that was not completed until 1914. Modern day Singapore was part of what was known as the Malay States. Officially the British were mandated by treaty only to provide advice, but in practice a complex system of ‘indirect rule’ operated under which Malays enjoyed special privileges. The tin and rubber industries led to large-scale immigration of Chinese labour, to the point where by the 1930s, the Chinese were nearly as numerous in British Malaya as the Malays. A wealthy Chinese mercantile class developed.

The Japanese invasion and occupation of Malaya between 1941 and 1946 was a blow from which British power never fully recovered. Constitutional reforms introduced when British colonial administration was restored provoked widespread protests from the Malay population, led by the United Malays National Organisation (UMNO) over the granting of equal citizenship to all Chinese and Indians and the creation of a single Malayan Union, with the mainly Chinese Singapore made into a separate Crown Colony. By 1948, the idea of a

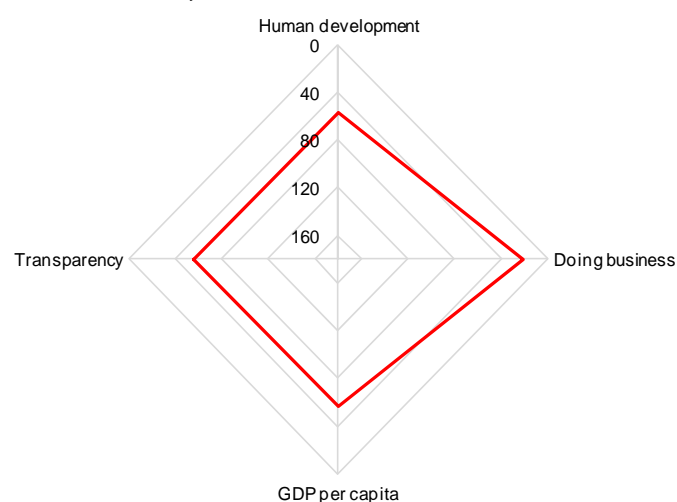
### Malaysia in 2010: fast facts

GDP, \$bn	238	
Annual average change, %, 2000-10	4.6	
Population	28.3	
Annual average change, %, 2000-10	2.0	
Inflation, %	2.4	
Current account balance, % GDP	11.8	
Poverty (% <\$2 per day)	7.8	
Adult literacy, %	92.1	
Under-five mortality, per thousand	6.1	
Life expectancy, years	74.4	

Note: charts show trends since 1980

### Key rankings

Chart shows ranking against 181 countries, with '0' being the top/most favourably-assessed country



Union had been replaced by that of a Federation, as part of which the concept of equal citizenship was abandoned. In turn, this helped push the Chinese-dominated Communist Party of Malaya towards armed struggle. Britain was able eventually to defeat the insurgency during the 1950s, but even as it was doing so it was planning Malaya's political independence. Efforts to promote non-communal politics had limited success, but a cross-communal alliance headed by UMNO won elections in 1955 and formed the first government at independence in 1957. However, the new Constitution made Islam the official religion and designated Malays 'sons of the soil' (*bumiputra*). The pact made was that Malays would over time come to enjoy greater economic power, while the Chinese and Indians would gradually achieve greater political influence.

Singapore's separate status was strongly opposed by many Malay nationalists at independence. By 1963, following negotiations with Britain, the Federation of Malaya expanded to become the Federation of Malaysia, bringing within its ambit Singapore, Sarawak and Sabah (the last two despite the rival objections of Indonesia and the Philippines). The tiny Sultanate of Brunei stayed outside. However, Singapore's membership of the Federation was brief. By 1965 it had left amidst accusations that its leaders were seeking to provoke inter-communal conflict. Singapore's departure left UMNO in a very powerful political position within Malaysia. When this was challenged in the late 1960s, leading to the death of hundreds in communal violence in 1969, its response was to suspend the Constitution. Out of this crisis came the New Economic Policy (NEP), whose aim was to ensure that by 1990 30% of commercial and industrial capital would be owned by Malay 'sons of the soil'. UMNO sought to construct a broader governing coalition which would bring it political control and stability to the country as a whole. This was created in 1974. Known as the Barisan Nasional (BN, National Front), it has been in power at the federal level without interruption since then, although at state level its authority has at times been considerably less secure.

### ***From Mahathir to Najib***

Between 1981 and 2003, Dr Mahathir Mohammed dominated Malaysian politics as Prime Minister and leader of UMNO. On taking office, Mahathir represented the rise of the modernising Malay middle class within a community that until then had largely been led by the aristocracy and its religious leaders. One of his priorities was industrialisation. He updated the NEP in 1989, rebranding it the New Development Policy (NDP), in pursuit of the goal of becoming a fully developed and democratic country by 2020. During the 1980s and 1990s considerable progress was made, at least on the economic front. Malaysia, which was quick to implement capital controls and reject IMF prescriptions in response to the 1997 Asian financial crisis, survived the crisis relatively unscathed. He also took steps to weaken the powers of the Sultans during the 1980s and 1990s and was able to deploy the power of government patronage – and when necessary, its powers of repression (embodied most notably in the Internal Security Act, a survival from the colonial era) – to marginalise opponents within UMNO and outside its ranks. The main outside political threat to UMNOs hold over Malays came from the Party of Islam in Malaysia (PAS), which had most of its support in rural, more conservative, areas but also had constituencies in the towns and cities. But efforts to forge anti-BN cross-communal alliances, despite moments of apparent promise, always fell short during the 1980s and 1990s.

From the mid 1990s to the early 2000s, following another decisive victory in the 1995 elections, the greatest source of political turbulence in Malaysia was UMNO itself. Talk of who would succeed Mahathir, who by this time was in his 70s, came to focus on his Minister of Finance, Anwar Ibrahim. However, a combination of factors came to block Anwar's ascent. Measures introduced by him following the Asian economic crisis in 1997, which Malaysia weathered relatively successfully, appeared to threaten UMNO patronage networks, leading to his dismissal in 1998 from his party positions. He resigned from the party and began a campaign for *reformasi* (reform) which increasingly included calls for greater democracy, but he was soon charged on several counts of corruption and sodomy and ultimately faced trial

for abuse of power. Most independent observers believed that the charges were politically motivated. He was ultimately sentenced in March 1999 to six years' imprisonment. With Anwar neutralised, Mahathir brought Abdullah Badawi to political prominence, appointing him as Deputy Prime Minister. However, with the 2000 elections approaching, UMNO appeared to be facing its greatest electoral challenge, with the PAS growing rapidly in support and a new pro-Anwar party also gathering strength. These parties joined with the predominantly Chinese DAP and others to form the Barisan Alternatif (BA, Alternative Front), but soon major internal divisions were showing. Mahathir responded aggressively. The elections were brought forward to November 1999 and the BN won another comfortable victory, albeit on a declining share of the national vote of 56.5%. Meanwhile, Anwar was tried again, including on charges of committing illegal homosexual acts between mid 1999 and mid 2000, ultimately receiving another nine year prison sentence.

Safely re-elected, Mahathir turned his attention to fighting corruption, aware that it had been one of the issues that had weakened UMNO, and combating a perceived rise in radical Islamic ideas, including in the states of Kelantan and Terengganu, where the PAS had won power. By mid-2002, Islamic law was in force in both states for both Muslims and non-Muslims, although the prevailing federal responsibility for the criminal law under the Constitution meant that it could not be implemented in that sphere. This last track was inevitably strengthened by the terrorist attacks on the US on 11 September 2001. However, Mahathir was also showing growing signs of wishing to stand down. Having been persuaded not to resign in June 2002, in September he announced that he would retire at the end of October 2003. He designated Abdullah Ahmad Badawi as his successor. Abdullah was duly sworn in on 1 November.

Abdullah's reputation as an Islamic scholar who was loyal to Mahathir's legacy but willing to contemplate a more a democratic dispensation appeared to make him the ideal replacement for Mahathir. National elections in March 2004 gave him a resounding popular mandate. The PAS lost Terengganu. However, his predecessor proved a hard act to follow. He began with a determined anti-corruption and political liberalisation agenda and made some progress. Anwar's conviction for sodomy was overturned on appeal without official protest and he was released from prison. But Abdullah gave inconsistent signals about the role of Islam and soon there were reports that family members were benefitting from state contracts. There was also growing anxiety amongst the Chinese and Indian communities about the commitment of the still largely Malay political elite to communal harmony – one particular concern has been the periodic demolitions of 'unauthorised' Hindu temples by local authorities – and rising opposition to the NDP. In addition, there was another attempt on the part of the political opposition to establish an anti-BN coalition, this time called the People's Alliance. It brought together the PAS, which had moderated its stance on Islamisation, the predominantly Chinese Democratic Action Party (DAP) and the People's Justice Party (PKR), an explicitly multiracial party led, following his release, by Anwar Ibrahim. In March 2008 the BN experienced its worst ever election result, falling below a two-thirds majority in parliament for the first time since 1969, winning 140 out of 222 seats. It now also ruled in only eight of Malaysia's 13 states. Mahathir was openly critical of Abdullah, resigning from UMNO until he stood down. Although hoped-for defections from UMNO enabling the opposition in parliament to win a vote of no confidence failed to materialise, few believed that another set of charges against Anwar for sodomy was a coincidence. The case remains before the courts today.

Abdullah finally agreed to stand down, doing so in April 2009. He was succeeded as Prime Minister by his deputy, Najib Tun Razak. While a more forceful figure, he was faced with the same challenge that had ultimately defeated Abdullah: how to change the system without losing too much political support, in particular amongst the powerful Malay business elite, which has benefited considerably over the decades from state assistance. Najib has introduced a new concept, *iMalaysia*, which emphasizes communal harmony, national unity and improved public governance. With parts of the Malay elite increasingly tempted by the appeal of the politics of race and religion, he has called for everybody in the country to view

themselves as 'Malaysian first'. At the same time, he has had to respond to growing anxiety that Malaysia's economic performance is insufficiently good to secure the developed country status by 2020 that has been a key policy platform for the BN since Mahathir. In the first half of 2010, Najib introduced a Government Transformation Programme and an Economic Transformation Programme, based on a 'New Economic Model', with strong links between the two. A new economic growth strategy for Malaysia was articulated, driven more by private entrepreneurship than by government. However, while affirmative action programmes are set to be at least partially 'de-communalised', the constitutional provisions that give Malays a special position are to remain, as is the long-standing target that 30% of commercial and industrial capital should be owned by Malay 'sons of the soil'. Income inequality today remains widest within the Malay community. Observers viewed Malaysia's recent new five-year plan (known as the 10<sup>th</sup> Malaysia Plan) as failing to put flesh on the new economic growth strategy – indeed, as marking a retreat from it.

An opposition rally in the capital, Kuala Lumpur, in July 2011 was met with what some regarded as excessive force. However, in recent months, Najib has taken several steps aimed at reviving his reformist credentials. For example, in September he announced that the Internal Security Act, which was inherited from the colonial era and which allows for detention without trial, would be repealed. The process of doing so is under way. Measures to enhance media freedom and unban student politics have also been announced. Conservative groups within the ruling coalition have expressed concern about these moves. Human rights advocates have voiced worries that the proposed replacement legislation slips in similar or new restrictions, for example on holding street demonstrations, which will remain banned. The 2012 budget, unveiled in October amidst worries that the state of the global economy could lead to reduced growth in Malaysia, was widely viewed as an attempt to consolidate the BN's support amongst public sector workers and ethnic Malay voters.

The majority of observers predict that Najib has done enough to ensure that the BN will win the next elections, which many expect will now be brought forward to early 2012. However, whether it can restore its two-thirds majority is very uncertain. For better or for worse, the era of the BN's political unassailability does look to be over.

### ***Key economic issues***

Malaysia's path of development over the past three decades has been similar to that of many of its neighbours, with the agricultural sector being gradually displaced by industry and services, rural habitation giving way to urbanisation, and privatisation replacing state ownership. The economy has long been export-orientated.

In growth terms, Malaysia's post-independence economic record has been one of the region's best. It successfully diversified its economy during the 1980s and 90s from one based on rubber and tin to one based on export-orientated manufacturing industries such as textiles and electronic goods. Openness to foreign capital undoubtedly assisted this development, although the government has also been active in guiding Malaysia's industrial development and in managing the economic roles and interests of the country's ethnic groups.

Labour shortages in the 19<sup>th</sup> Century were what first attracted the Chinese migrants that today make up a quarter of Malaysia's population. Today, Malaysia has a substantial labour shortage that is filled by a large expatriate workforce coming predominantly from Indonesia, Nepal and India: the number of registered foreign workers, widely considered to understate the true number, was 2.2 million in 2008, comprising 20% of the total workforce. As part of its economic strategy, the Government aims to reduce the economy's dependence of foreign labour.



*Poverty, inequality and ethnicity*

The Malaysian authorities have been relatively successful in translating the country's growth into poverty reduction: \$2 per day poverty rates declined from 12% in 1984 to 2% in 2009. Disparities remain, however, between rural and urban households, and between ethnic groups: on average, Chinese and Indian-origin households have higher incomes than the indigenous population, although the gap has narrowed since independence. The government has attempted to redress the imbalance directly through affirmative action allowing preferential access to universities and government jobs, through initiatives aimed at increasing the involvement in the corporate sector among indigenous people, and through the transfer of state assets to these groups. Though this was partly successful, in the sense that it increased equity ownership among indigenous groups from 2% to 20% between 1970 and 1990, it also led to the creation of a wealthy elite and inequality *within* indigenous groups that was more severe than in other ethnic groups, without eliminating the income divide *between* groups.

*Long-term development*

The Government's long-term development plan, introduced in 1991, is called *Vision 2020*, the overarching objective of which is for Malaysia to become an industrialised country by 2020 and increase its GDP in real terms eightfold. Since the plan's introduction, Malaysia's GDP has increased threefold in real terms, averaging 5.9% growth per year.

More recently, in 2010 the Government announced a *New Economic Model* and 5-year *Economic Transformation Programme* intended to facilitate progression to developed nation status by 2020. The former reaffirmed the *Vision 2020* target by aiming for per capita national income of \$15,000, which would ensure graduation to high income status by World Bank criteria. The latter set a GDP growth target of 6.5% per annum to 2015 (the IMF forecasts around 5%) and announced \$462bn of investment (two-thirds of which is to come from the private sector) to improve infrastructure, develop the financial sector and increase the skills and capabilities of the Malaysian workforce.

*Trade*

Malaysia's economy is very open, with gross exports roughly equal to GDP and net trade (exports less imports) worth 20% of economic output. Since records began, Malaysia has been a net exporter of goods, and periods of rapid expansion have in the past been linked to strong export growth; conversely, its negative growth in 2009 was associated with a 10% contraction in exports.

Manufacturing in Malaysia expanded rapidly during the 1970s and 80s, spurred partly by foreign investment, particularly in key export sectors such as electronics, and partly, during the 1980s, by import substitution focussed on state-owned heavy industries such as steel and car production (it was during this period that the national car project, Proton, was launched). Today, the sector is the main export sector in Malaysia, contributing 78% of export earnings in 2009. The majority of manufacturing exports by value are electrical and electronic products, most of which go to the US, Singapore, China, Japan and Hong Kong.

Behind Indonesia, Malaysia is south-east Asia's second-largest natural gas producer, the tenth largest in the world, and the world's second-largest exporter of liquefied natural gas. Petroleum and gas production is the responsibility of the state-owned enterprise PETRONAS, which is also a major overseas investor, with rights to exploitation of fields in Vietnam and Indonesia, and several countries in Sub-Saharan Africa. PETRONAS contributes a third of the government's total revenue.

## 2.3 The Philippines

### Key facts and figures

The Philippines consists of 7,100 islands. The two largest islands are Luzon and Mindanao. Together with the nine other largest islands, they comprise 92% of the country's total land mass. It has the second highest population density in Southeast Asia, after Singapore, with the lowland areas of the northern island of Luzon – including the capital, Manila – particularly affected. This predominantly Catholic country has long experienced very high rates of demographic growth. Filipinos, who are indigenous to the Philippines, make up the great majority of the population and share a common culture that has been strongly shaped by Catholicism. The Chinese population is about 1% of the total. However, Filipinos of mixed-race (*mestizo*, Filipino-Chinese) make up a large percentage of the country's elite, which widely uses English. The Muslim Moro minority, which lives in the south of the country, forms 5% of the population. Animist 'hill peoples', living in remote areas make up another 5% or so. The Filipino language called Tagalog is also being developed as a national language.





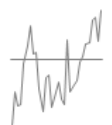




The Philippines has significant copper, chromite and nickel deposits but has only relatively small amounts of oil and coal. Living standards are slightly behind the ASEAN trading bloc average, and its future growth and development is likely to be constrained by low domestic savings and investment rates, and a failure to translate the proceeds of past growth into meaningful reductions in poverty and improvements in education.

Many of the country's biggest environmental challenges, such as water, air and soil pollution and deforestation, derive from rapid demographic growth, poorly regulated industrialisation and urbanisation. It is highly vulnerable to natural disasters.

### History

Spain gradually established control over growing parts of the Philippines from the mid 16<sup>th</sup> century onwards, encountering as it did so a highly fragmented, small-scale indigenous political system. Economic development was minimal until the 19<sup>th</sup> century. By the 1890s, a mass anti-colonial movement led by the *mestizo* elite had emerged. In 1896 a rebellion began that was met with brutality by the Spanish. Then, in 1898, the US declared war on Spain, decisively tipping the balance against the colonial power. Spain ceded the Philippines

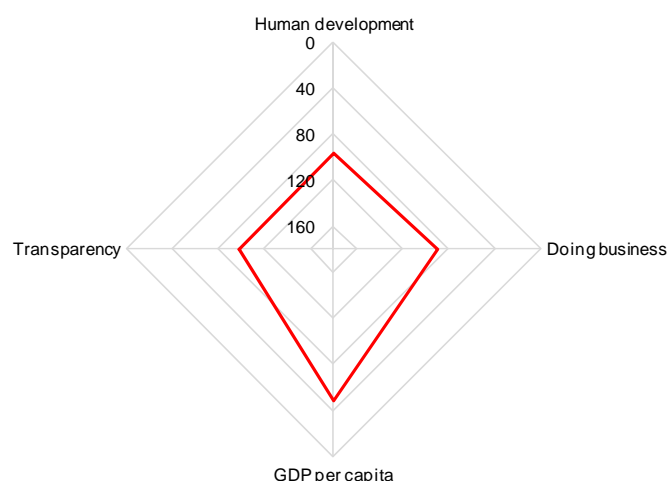
### Philippines in 2010: fast facts

GDP, \$bn	189
Annual average change, %, 2000-10	4.7 
Population	94.0
Annual average change, %, 2000-10	2.0 
Inflation, %	3.0 
Unemployment, %	7.2 
Current account balance, % GDP	4.5 
Poverty (% <\$2 per day)	45.0 
Adult literacy, %	93.6 
Under-five mortality, per thousand	33.1 
Life expectancy, years	71.8 

Note: charts show trends since 1980

### Key rankings

Chart shows ranking against 181 countries, with '0' being the top/most favourably-assessed country



to the US and in January 1899, the Philippine Republic was established, headed by Emilio Aguinaldo, one of the nationalist leaders. However, many nationalists, including Aguinaldo, quickly concluded that this was not yet genuine freedom and took up arms against the US. By 1901, this second phase of rebellion had been defeated. In the end, Spanish colonialism was replaced by US dominance in alliance with the *mestizo* elite.

Governance in the Philippines took on a progressively greater Filipino face over the thirty years that followed. In 1934, it was agreed that the Philippines would become fully independent in 1946. But the US alliance with the *mestizo* elite meant that there were no meaningful moves towards land reform. Extensive land ownership was the bedrock of the elite's wealth, or other social reforms to alleviate poverty and inequality. The 1920s and 1930s saw considerable peasant unrest and the formation of a Communist Party.

The path to independence was anything but smooth. Between 1942 and 1945, the Philippines found itself under Japanese occupation. When independence did come in 1946, the first president, Manuel Roxas, inherited a shattered economy and divided society. His primary goal was to secure the Philippines' ongoing close relationship with the US. In essence, large-scale economic assistance was secured in exchange for agreement that the US would retain 23 military bases across the country and strong support in the Cold War. A radical peasant movement known as the *Hukbalahap*, which had begun as an anti-Japanese armed force posed a significant challenge to the existing order, but by the mid 1950s it had been defeated, in part thanks to a limited land reform initiative in Luzon.

### ***The Marcos era***

During the 1950s and 1960s, leading political figures moved regularly between the two main parties, the Nationalists and the Liberal Party, in pursuit of office. One such politician was Ferdinand Marcos, who left the Liberals in order to be the candidate of the Nationalists in the 1965 presidential election. He was victorious and repeated his triumph in 1969. However, by then he was facing economic problems and rising domestic unrest over social justice issues and the continuing close alliance of the Philippines with the US. At the same time, a Muslim secessionist movement had emerged on the southern islands of Mindanao and Sulu. The Communist Party also split, with one section, called the New People's Army (NPA), allying itself with China and taking up armed struggle. There was a proliferation of private militias, often allied to rival political figures. Marcos, increasingly under attack on grounds of growing corruption and authoritarianism, sought to revise the Constitution so that his term in office could extend beyond the two-term limit. In 1972, Marcos declared martial law and detained many opposition figures. A new Constitution appointed Marcos as both president and prime minister. Martial law was lifted in 1981 and in 1982 a strongly presidential system of government was approved by plebiscite. Marcos was also able to subdue Muslim secessionists in the south, led by the Moro National Liberation Front (MNLF), through an offer of regional autonomy and buying off leaders.

The tide turned dramatically against Marcos after the assassination of exiled former Senator Benigno Aquino in August 1983 as he came down the steps of the aircraft that had brought him home. The killing provoked a wave of massive demonstrations and strikes. Although a commission of inquiry subsequently blamed military figures, many believed that Marcos and his controversial wife Imelda were also implicated. The political crisis led foreign creditors to suspend the loans that had sustained the country for over a decade, there was a slump in inward investment and significant capital flight. Under US pressure, Marcos offered elections in February 1986. Corazon Aquino, the widow of Benigno, eventually emerged as the consensus presidential candidate for the opposition. When the votes were counted, the official election commission declared Marcos the victor but civil society groups disputed this verdict. The Catholic Church sided with Aquino and, after several days of confusion and reports of coup plots, key regime figures – including, crucially in the army – announced that they were withdrawing their support for Marcos. Tens of thousands of Filipinos went onto the

streets in what was called 'people power'. On 25 February, Marcos and his family fled into exile. On the same day, Corazon Aquino was sworn in as president.

### ***From Corazon Aquino to Benigno Aquino Jr***

Corazon Aquino's period in office was a turbulent one for the Philippines. She moved quickly to restore civil liberties and sought negotiations with the Communist Party, now represented in the political sphere by the National Democratic Front (NDF), although these foundered and the authorities returned to counter-insurgency. She launched Commissions to try and recover the funds and assets of Marcos and to investigate human rights abuses during his rule. However, her cabinets contained many members of the old landed oligarchy, as well as a few figures from the Marcos era who were wedded to the old ways. Pro-Marcos supporters remained active. There were numerous political and military coup attempts, which on occasions she only narrowly survived. In 1990-91, Aquino negotiated a dramatic reduction in the US military presence in the Philippines, although the future of the Subic Bay Naval Base remained unresolved. She proved largely ineffective in terms of economic recovery. She was criticised for not going further on land reform. In Mindanao, a group of more radical Muslim secessionists had formed the Moro Islamic Liberation Front (MILF) and resumed the armed struggle.

A new Constitution had been approved in 1987 that entitled Aquino to remain president until 1992. Subsequent presidents would be elected by legislators and allowed one six-year term only. Against the odds, she remained in post to the end, endorsing as her replacement former Chief of Staff of the Armed Forces and Secretary for Defense Fidel Ramos. He was inaugurated in June 1992. Ramos pledged to bring stability, renewed growth through economic liberalisation, and tackle corruption. He had a degree of success on the first two fronts. A new autonomy deal was agreed with the MNLF in 1996, creating the Autonomous Region of Muslim Mindanao (ARMM), but the MILF continued its military operations, saying that this fell far short of secession. In addition, a new secessionist group with radical Islamist ideas, Abu Sayyaf, began a terrorist campaign in parts of the south. Talks with the NDF made no progress. The US decided to withdraw from the Subic Bay Naval Base and did so by late 1992. There was some progress in repatriating funds and assets held abroad by Marcos, who had died in 1993. His wife, Imelda, returned home despite the threat of trial for corruption and eventually served a prison sentence.

For a while, supporters of Ramos called for the Constitution to be revised so that he could stand for a second term. However, the level of opposition meant such calls were still-born. His Vice-President, the populist former film actor Joseph Estrada, was elected in May 1998. His victory was seen by many as indicating that the Philippines' weak party system was now close to collapse. Estrada portrayed himself as a 'man of the masses', promising both to keep Ramos's free-market economic policies and address poverty and land reform. Over time, this juggling act fell apart. By 2000, his government was under growing strain. Negotiations with the NDF and MILF stagnated and, during 2000, levels of violence in the south escalated sharply. His pro-poor measures also proved largely ineffective. In October 2000 a major scandal erupted, in which Estrada was accused of accepting large sums of money from illegal gambling businesses and other sources. Opposition parties announced their intention to impeach him. There were growing anti-Estrada street protests. In January 2001 Estrada was forced from office. He was replaced by his Vice-President, Gloria Arroyo, daughter of former President Macapagal, who had preceded Marcos in office. Arroyo had abandoned her support for Estrada a few months previously.

Arroyo's accession was seen by some as a re-run of 'people power', although the protestors were overwhelmingly from the urban middle class. The urban working class remained largely loyal to Estrada and took to the streets demanding his restoration. The authorities responded heavy-handedly and the protests were suppressed. Estrada was put on trial for corruption and eventually was convicted. However, having come to office by unorthodox means, she faced a struggle to establish her authority. In 2003, there was also an attempted military

coup. Arroyo drew heavily on figures from the Aquino and Ramos presidencies and pledged continuity with their policies on both the political and economic fronts. A peace deal with MILF appeared to have been struck in 2002, but implementation was held up by domestic opposition to it. She was accused of involvement in crime and corruption. Having originally said that she would not stand for election in 2004, in the end Arroyo did so, winning a narrow victory over her opponent, Fernando Poe Jr., amid compelling accusations of electoral fraud.

While her position appeared strengthened, 2005-07 turned out to be a period of continued crisis and plummeting popularity. It looked for a while as if Arroyo might also be overthrown by 'people power' on the streets. In February 2006 and November 2007, there were further failed coup attempts. There was a period of relative political calm between mid 2008 and late 2009, during which time another peace deal was signed by the government and MILF, under which Muslim Mindanao would be expanded and given additional autonomy. However, the Supreme Court halted it in its tracks, declaring that there had been insufficient consultation prior to the agreement. This time, however, the peace process did not unravel, but it did 'freeze'.

Some detected a desire on Arroyo's part to change the Constitution so that she could retain power and influence, if not the presidency, after her term ended in 2010. However, such plans were overtaken by two events during the second half of 2009. The death of Corazon Aquino in August 2009 provoked great popular emotion and soon after, her son, Senator Benigno 'Noynoy' Aquino III, declared his candidacy for the presidency. Then, in November 2009 there was a massacre of at least 57 people travelling in a convoy in Maguindanao Province by gunmen linked to the powerful local family, the Ampatuans, who were close allies of Arroyo. Many of those killed were supporters of an opposition candidate planning to stand for governor against the Ampatuans. While Filipinos were no strangers to political violence by local warlords, the scale and brutality of the massacre sent shockwaves through society.

In the May 2010 presidential election, Aquino comfortably defeated his nearest rival, Joseph Estrada, who had mounted a remarkable political comeback. Estrada's vice-presidential running mate, Jejomar Binay, surprisingly won the vice-presidency. Meanwhile, in Maguindanao, the Ampatuan clan easily retained control over the province even as trials continued in relation to the November 2009 massacre.

Arroyo's legacy was extremely mixed. While she had solid achievements to her name on the economy, politically her presidency had been turbulent. She left office with her popularity low. She took care to secure her position out of office by packing the Supreme Court with allies and successfully running for a seat in Congress, but she may yet face corruption charges. An arrest warrant for election fraud was issued recently and she is being prevented from leaving the country for medical treatment. Aquino's first year or so in power has seen him take action on a number of issues. He has tried, despite Arroyo allies in the Supreme Court ruling it to be 'unconstitutional', to establish a Truth Commission to investigate past corruption and human rights abuses. The Chief Justice of the Supreme Court, an Arroyo ally, has been impeached. Talks with MILF have restarted but continue to be complicated by internal divisions within its ranks. In October 2011 Aquino launched a controversial new military campaign against "lawless elements" in Mindanao, which some claimed was aimed at a rebel MILF faction opposed to the talks. The NPA has refused to re-enter talks in earnest until certain of its cadres have been released from prison. In October 2011, NPA forces attacked three private mining projects on Mindanao.

Aquino remains popular with Filipino voters. He is viewed as having shown commitment in terms of improving economic management and combating corruption. However, whatever his ultimate merits as a politician, Aquino's victory illustrated that 'dynastic' politics, based on a small number of extremely wealthy clans deploying patronage, retains extremely strong currency in the Philippines, both at the national and local levels. Even the Marcos family

remains highly politically active. Yet, as a rule, it has proven difficult – at the national level at least – to engineer prolonged incumbency. However, the prevailing one-term limit for presidents might be seen as ‘quasi-institutionalising’ such a system, facilitating alternation between these families and their proxies. Perhaps Filipino politics is less unruly and chaotic than it seems at first sight. Whether this is a sustainable set of political arrangements in the medium- to long-term is another question.

### ***Key economic issues***

The Philippines is an emerging Asian economy with living standards slightly behind the ASEAN trading bloc average. Like many other Southeast Asian nations, it is heavily dependent on export markets, particularly in electronic and agricultural products, to support its growth. Fast population growth and resulting emigration from the Philippines has led to it being a major destination for overseas remittances (\$21 billion in 2010, or 11% of GDP), which have supported high levels of domestic consumption. However, Philippines’ future growth and development is likely to be constrained by low domestic savings and investment rates, and a failure to translate the proceeds of growth into meaningful reductions in poverty and improvements in education.

Following the 2008-09 financial crisis, the economy recovered strongly, with growth in 2010 at its highest rate for over thirty years. This has been fuelled by a recovery in export earnings and remittances. The IMF expects the Philippines to grow at a rate of 5% over the period 2011-16.

### ***Capital flows***

As a relatively stable country with strong growth prospects, the Philippines has seen a sharp increase in capital inflows, starting towards the end of 2010, in common with Indonesia and other emerging economies. Money flows from the US, UK, Hong Kong and Singapore have all risen, as investors in these countries seek higher returns than those available domestically. This has expanded the availability of cheap credit for individuals, firms and the government, but unlike in Indonesia this has not yet created inflationary pressures: inflation averaged 4.0% in 2010, and currently stands at 4.8%. This is partly because the Philippine peso has appreciated in response to capital inflows, moderating the price of imported goods, and partly because domestic food supply conditions have remained favourable.

### ***Poverty, inequality and Millennium Development Goals progress***

The Philippines’ strong economic performance since the Asian financial crisis in 1997 has not been translated into a meaningful reduction in poverty over this period. The severe poverty rate (the proportion of individuals living on less than \$1.25 per day) is around 23%, largely unchanged from 1997 despite a 60% increase in the size of the economy. In the Muslim Mindanao region, the poverty rate is 62%. By comparison, the developing countries of East Asia and Pacific as a whole have seen a fall in poverty rates from 36% to 16% over the same period.

In this respect, the Philippines has not been helped by its rapidly expanding population; its population has doubled to 92m over the past thirty years, a far higher growth rate than the regional average. A predominantly Roman Catholic country, with low levels of contraceptive use (51%, compared with 77% regionally), the President and some legislators were recently threatened with excommunication by church leaders over their support of a Reproductive Health Bill that guaranteed universal access to birth control.

Even taking into account its population growth, the lack of progress in poverty reduction in the face of strong economic growth is striking, and has much to do with the poor administration of public expenditure on social programmes. For instance, the Countrywide Development Fund, and the Priority Development Assistance Fund, allocate money directly to elected representatives to spend on projects of their own personal choosing; leaving aside

the opportunity for misappropriation, there are concerns that such funds are spent on politically motivated 'pork barrel' projects, thereby displacing serious national strategies to improve social welfare.

President Aquino has pledged to address the problems of persistent poverty, corruption and lack of progress towards the Millennium Development Goals: 'if there are no corrupt people, there would be no poor people', ran his election slogan. Even if he is successful in stemming corruption, however, it still remains to be seen whether these intentions can be squared with a commitment to reduce the government's persistent budget deficit from 4% of GDP to 2% by 2013.

#### *Investment and remittances*

Domestically, savings (and hence investment) in the Philippines have been kept low by limited numbers of well-paid jobs; this is reflected by fact that 1 in 8 Filipinos with tertiary education emigrate abroad. As a result, remittances supplement the income of the average Filipino household by \$1,500 per year; but this money is generally sent back to be spent rather than saved, limiting its potential to contribute to long-term growth.

Though flows of capital from abroad are increasing, the environment for long-term investment is not seen as favourable: shifting regulations, poor enforcement of contracts, lack of transparency in public procurement, and corruption and security concerns all negatively affect investor confidence. This is reflected in the Philippines very low ranking in the World Bank's *Doing Business* index (148 out of 183, below Cambodia, Sierra Leone and the Occupied Palestinian Territories), and Transparency International's corruption index (the Philippines ranks 138 out of 179, behind Uganda and Nicaragua).

## 2.4 Singapore

### Key facts and figures

Singapore is a small island city-state to the south of peninsular Malaya, joined to it by a 1.2 kilometre causeway. Of the population, nearly 77% are Chinese, 14% Malay and 8% Indian. There are four official languages: Chinese, English, Malay and Tamil.

Singapore lacks significant natural resources. However, it is strategically placed on the sea route from the Indian Ocean to the South China Sea and has over the last half-century built a strong, highly 'globalised', economy around trade, electronics and – more recently – financial services. It has the highest population density in the world. It is a major emitter of carbon for its size and has experienced considerable environmental degradation and biodiversity loss in the course of its economic development.

### History

Singapore was a prosperous trading centre as long ago as the 14<sup>th</sup> century. However, after it became caught up in rivalries between two empires, it lay largely uninhabited until the 19<sup>th</sup> century, when its strategic maritime position rendered it of interest to Britain. In 1821, it became the property of the British East India Company, which united it politically with its Malay territories in what was known as the Straits Settlements, and a new port was established. However, as the fortunes of the Company declined, settlers and traders called for the Straits Settlements to be brought under direct British rule. The Settlements became a Crown Colony in 1867 and, eventually, part of British Malaya. The island of Singapore found itself on the main maritime highway between Europe and the Far East and by the end of the century it was the main commercial centre for the entire region. After World War I it became an important naval and military base for Britain.

Unlike in most other parts of Southeast Asia, there was little anti-colonial agitation during the first three decades of the 20<sup>th</sup> century. Unlike elsewhere, Japan made no promises of independence during its three-year occupation of the island between 1942 and 1945. When the British returned, they found Singapore's economy in collapse. Their intention was to keep Singapore separate even when self-government was granted for peninsular Malaya. When the Federation of Malaya was established in 1948, Singapore was duly excluded, remaining a Crown Colony. During the 1950s, as the British moved towards self-government

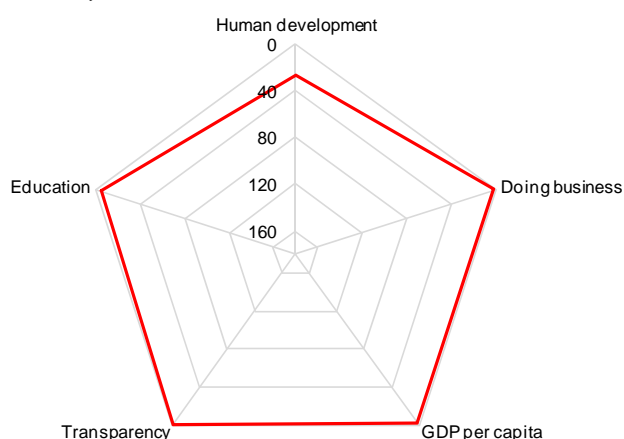
### Singapore in 2010: fast facts

GDP, \$bn	223	
Annual average change, %, 2000-10	5.7	
Population	5.2	
Annual average change, %, 2000-10	2.3	
Inflation, %	4.0	
Unemployment, %	2.2	
Current account balance, % GDP	22.2	
Poverty (% <\$2 per day)	0.0	
Adult literacy, %	94.5	
Under-five mortality, per thousand	2.8	
Life expectancy, years	80.7	

Note: charts show trends since 1980

### Key rankings

Chart shows ranking against 181 countries, with '0' being the top/most favourably-assessed country





for Singapore, local politics became an often ruthless fight between the centre-left, represented by Lee Kuan Yew's People's Action Party (PAP) and the Labour Front, and the pro-communist left. When the first elections under full self-government were held in 1959, the PAP won a decisive victory. Lee Kuan Yew became Prime Minister.

### ***The Lee Kuan Yew era***

Lee entered power committed to an ambitious programme of industrialisation and social reform. He was equally committed to achieving full independence through a merger with the Federation of Malaya, which had become independent in 1957. However, the PAP left-wing was highly suspicious of these plans, fearing that Singapore would be swamped as part of Malaya and that their socialist convictions would find no place in a strongly anti-communist Malaya, where a left-wing insurgency led by Chinese militants had so recently been defeated. When their attempt to force Lee to resign narrowly failed in 1961, they split from the PAP to form the Socialist Front. Lee clamped down heavily on those with alleged communist links, using colonial-era emergency regulations and politically-motivated lawsuits to do so. In August 1963, Singapore unilaterally declared its independence from Britain and joined the Federation of Malaysia. However, the dream now realised rapidly turned sour. Indonesia, which objected to the expanded Federation, sought to sabotage Singapore's economy. In addition, the central Malaysian Government and Singapore's, led by Lee, clashed over how much autonomy Singapore should enjoy. In September 1964, there were communal riots in Singapore. Lee tried to form an alliance with opposition parties across Malaysia, leading the central Malaysian Government to force Singapore to leave the Federation in August 1965. In fact, there is evidence to suggest that Lee's thinking had been moving in this direction too.

The new Republic of Singapore immediately joined the UN and the Commonwealth and committed itself to multiracial, non-communist, democratic socialist principles and to co-operation with Malaysia. But there were many who questioned whether Singapore was viable on its own. The strategy of binding the Singapore economy to that of Malaysia was now in tatters. The challenge faced was soon compounded by a British decision to close its naval and military base, which took place in 1971. Lee's response was to design a new survival strategy based on rapid export-based industrialisation. In 1968 the PAP again won elections in which it pledged to restrict trade union activity and so encourage foreign investment. Lee moved towards a mixed economy in which the government was to play a key role in planning and implementing Singapore's ambitious industrialisation strategy.

By the mid 1970s, following a decade of strong economic growth, confidence was strong that Singapore could prosper on its own. Lee took a range of steps to entrench the PAP's political dominance that led many to argue that democracy in Singapore was little more than a facade, including loading the electoral system against opponents, extensive press censorship and restrictions on freedom of association and assembly. Between 1968 and 1981, the party won every seat in a succession of elections. By the early 1980s its per capita income was the second highest in Southeast Asia after Brunei. Social provision had increased markedly, although Lee was strongly opposed to ideas of a 'welfare state', judging this to be incompatible with the state philosophy of self-reliance. However, Lee, who by this time was delegating more of the day-to-day responsibilities of government to his ministers, remained intolerant of opposition and obsessed with political stability. Singapore's governing elite remained nervous about Singapore's dependence on exports, of which electronics by this time formed a large proportion.

### ***From Lee Kuan Yew to Lee Hsien Loong***

Lee stood down as Prime Minister in 1990, handing over to his deputy, Goh Chok Tong. However, he remained in the Cabinet and kept his position as Secretary-General of the PAP. His son, Lee Hsien Loong was also in the Cabinet. The reputation of Lee and his son was tarnished later in the decade by corruption allegations, although neither withdrew from their

political roles. Goh took steps to open up the political system to a degree and relaxed censorship, although restrictions on the foreign media remained in place. A directly elected presidency was introduced in 1991. Singapore's last political prisoner was released in 1998. However, talk about the need for an active civil society never extended to tolerance of forthright criticism and freedom of association and assembly remained restricted. There was a strong preference for the development of apolitical, technocratic forms of increasing public participation. In elections, a significant proportion of PAP candidates continued to be elected unopposed. Singapore came through the Asian financial crisis relatively unscathed. In elections in 2001, despite a significant economic downturn at the time, the PAP won 82 out of 84 elected seats.

Singapore remained a strong US ally in the aftermath of the attacks of 11 September 2001. Plans by the radical Islamic militant group Jemaah Islamiyah to attack targets in Singapore were successfully foiled. The government redoubled its efforts to promote a multiracial Singapore in response to the enhanced perceived threat. As he had promised to do after the 2001 elections, Goh stood down as Prime Minister in 2004. He was replaced by Lee Hsien Loong. Goh joined Lee Kuan Yew (now officially the Minister Mentor) in the Cabinet. Lee Hsien Loong's first years as Prime Minister were dominated by his decision to allow casinos to open in Singapore. While public criticism of this decision was tolerated, no steps were taken towards greater political pluralism. There seemed no end to the PAP's political dominion more broadly. It resoundingly won the 2006 elections. Relations with Malaysia and other Southeast Asian countries dipped, however, after Lee Kuan Yew accused them of marginalising their ethnic Chinese population. In 2007, the government announced that it would no longer prosecute homosexual acts by consenting adults, although it refused to repeal the attendant colonial-era legislation. It responded to the challenge posed by the rise of 'new media' by increasing its own presence on the Internet.

Lee Hsien Loong's government became preoccupied from 2008 onwards with navigating Singapore's way through the global financial crisis. A rise in unemployment intensified public anxiety about Singapore's continuing high levels of immigration, with the government saying that these levels would be brought down in the long-term. Foreigners now make up about one-third of the population of Singapore. In May 2011 elections the PAP suffered its worst result for over half a century when the number of opposition MPs tripled, with the Workers' Party performing especially strongly. The total opposition share of the vote rose to almost 40%, up from 33% in 2006. The PAP's favoured candidate then won the presidential election in August by a narrow margin. These results have prompted much introspection within the PAP and an apology to the Singaporean people for any mistakes made in its 52 years in power. Lee Kuan Yew resigned from his role of Minister Mentor. Since the election in May there has been a wider government reshuffle and a tightening of immigration rules, along with an increase in public housing construction to try and bring down soaring property prices.

The last 50 years in Singapore have seen both remarkable continuity and change. Economically, the country is transformed. A cursory glance might suggest that Singapore has uncovered a recipe for indefinite success. However, by their cautious statements and deeds, the now officially retired Lee Kuan Yew and his son appear far from convinced that Singapore's future wealth and stability is guaranteed and are still reluctant to go too far down the road of political liberalisation. This made the results of the 2011 elections all the more shocking for the PAP. But there is still a long way to go before a change of government becomes a genuine prospect.

### ***Key economic issues***

Since gaining independence in 1965, Singapore's ascent from third world to first world status has been dramatic. From a starting point that was not significantly more promising than its neighbours in development terms, and less promising in terms of natural resource

availability, its economic performance has far outmatched that of the rest of the region. Measured by GDP per capita,<sup>148</sup> which stood at \$59,000 in 2011, living standards were the third-highest in the world behind Luxembourg and Qatar; however, this figure conceals the fact that average wages are low in comparison to many high-income economies. Life expectancy (81) and infant mortality (2.1 per 1,000) rival the standards of Western Europe. Though Singapore lags behind other high-income countries in terms of overall literacy, youth (age 15-24) literacy is close to 100%.

Its reliance on trade and foreign investment has arguably made Singapore more vulnerable than the 'established' high-income countries to global economic developments, and the collapse in global trade flows in 2009 did indeed cause a contraction in output. However, this was not as serious as had been feared (there was a 0.8% contraction in 2009), and Singapore rebounded dramatically in 2010, with growth of 14.5%. Its highly-developed financial sector also emerged largely unscathed from the global financial crisis, something the IMF attributes to 'sound supervision and risk management systems'.

Looking ahead, the Government has set relatively modest growth targets of 3-5% over the next decade. Singapore has a demographic advantage over the major developed economies: the old-age dependency ratio (13%) is far lower than Western Europe (28%), but rising life expectancy may demand a new approach to social security and health provision, which currently relies almost entirely on private savings and insurance. Future stability will also require careful management of the property market, which is prone to price bubbles, and the cultivation of sources of domestic consumption.

#### *How did they do it?*

Of the Southeast Asian states, Singapore was among the first to see inflows of foreign investment thanks to a government that aggressively encouraged capital from the industrial world, providing tax concessions to foreign investors and removing trade barriers. The investment helped Singapore to develop a manufacturing base, broaden its market access and brought entrepreneurial skills to the economy.

Though the country's success undoubtedly owes much to economic openness and liberalisation of barriers to trade and investment, Singapore's government has in many respects been highly interventionist. Domestic investment has been encouraged by a compulsory savings scheme for Singapore's citizens that remains in place to this day; the government's ownership of land has increased from 44% in 1960 to 85% in 2000, and it makes detailed plans for land usage to complement its development plans; a National Wages Council brings together government, employers and trade unions to negotiate wages; and the National Trade Union Congress administers a grocery chain, and taxi and insurance services. The Government has, at various times, been anti and pro-natalist in order to suit its development strategy, and has set a long-run population target (6.5m by 2050). The economic architect of Singapore, Goh Keng Swee, described Singapore as 'a socialist economy that works': however, even though the Government pursues active economic policy, in comparison with most Western governments, state expenditure on education, health and social services is limited.

Other factors contributing to Singapore's success are its maintenance of colonial trading relations, which many newly independent countries broke off following independence; relentless diversification into more capital and skills-intensive industry, motivated by government infrastructure investment (chemicals and biomedical production are now displacing electronics as the key manufacturing subsectors); and incentives for domestic producers to invest overseas to 'open-up' closed markets in China, Eastern Europe and the

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<sup>148</sup> Purchasing-power parity

Middle East. Alongside high-end manufacturing, the Government is also fostering high value-added services: it hopes to attract 1 million foreign medical patients to Singapore by 2012.

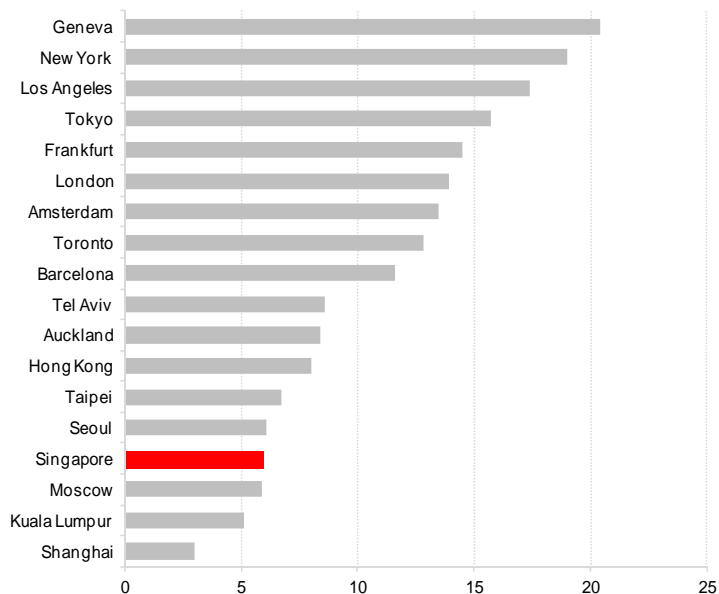
It should be remembered that with a population of just 5m packed into an area of 270 square miles (roughly the size of the York<sup>149</sup> - it is the third most densely populated country in the world), Singapore is a city state that will never be a major economic power, nor can its growth strategy necessarily be emulated by its regional neighbours.

*Living standards and social protection*

Singapore's public expenditure is low by Western standards. In particular, the country's social security system is vestigial in comparison with Western Europe, and offers no guaranteed protection in the face of involuntary unemployment. Retirement and health-related payments are met almost entirely through compulsory employer and employee contributions to a Central Provident Fund. Though recent initiatives such as the Workfare Income Supplement (a tax credit designed to top up the wages of low-income workers), and limited old-age and medical social insurance schemes, security in ill-health and retirement relies almost entirely on the principle of individual savings.

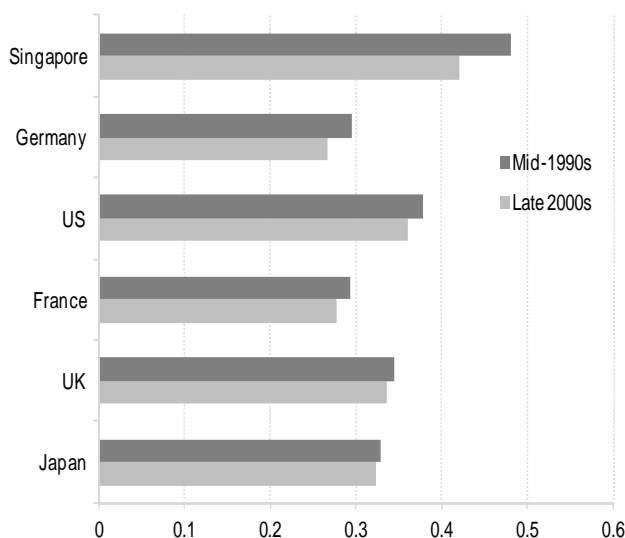
From the chart, it is clear that the wage of the average Singaporean is not consistent with the country's status as the 'third-richest' as measured by GDP per capita. This is partly because a greater proportion of Singapore's output is taken in profits, as opposed to paid in wages, than in many developed economies: compensation of employees accounted for 42% GDP in 2010, as opposed to 62% in the UK and 55% in the US. The disparity between living standards as measured by wages and those measured by GDP also reflects income disparity: mechanisation and rapid technological change have depressed the wages of unskilled and semi-skilled workers, while increasing wage premiums for those that are highly skilled. Though these trends have been seen in most advanced economies, their effect on the income distribution has been exacerbated in Singapore by limited social protection and income tax reductions for higher earners.

**Low average wages in Singapore belie the fact that its GDP per capita is among the highest in the world**  
average wages after tax, \$ per hour, selected cities



Source: UBS Wealth Management Research, *Prices and Earnings*

**Singapore has seen a sharper rise in inequality over the past 15 years than major developed economies**  
GINI coefficient, mid 1990s vs late 2000s, selected economies



<sup>149</sup> City of York unitary authority area. See ONS [UK Standard Area Measurements](#)

*Trade and domestic consumption*

In such a small economy, it is unsurprising that external demand for exported goods and services are of vital importance to Singapore's economy: three-quarters of demand for Singapore's goods and services comes from abroad, and combined, exports and imports were worth four times Singapore's output in 2008. Indeed, because of its small size and openness, Singapore has largely 'gotten away' with failing to cultivate significant domestic demand: consumption as a share of GDP is at a similar level to China, and high property prices have contributed to high rates of saving. However, if it is to insulate itself from volatility in the global economy, Singapore may require a greater contribution from domestic demand. Externally, demand continues to be largely driven by the US, EU and Japan, although intra-regional trade has increased substantially over the last decade: in 2010, Malaysia was Singapore's largest source of goods imports and destination for goods exports.

## 2.5 Thailand

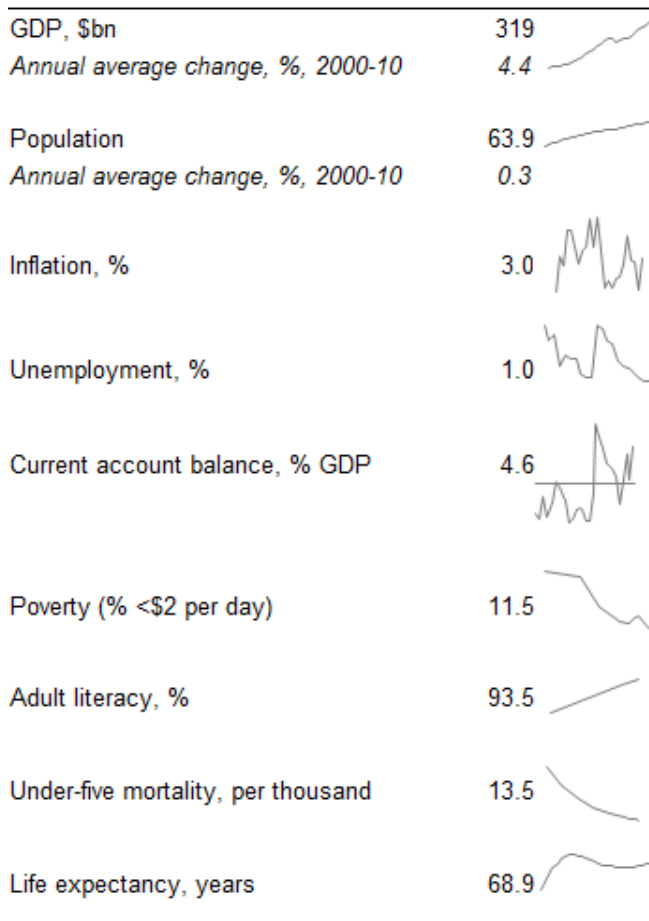
### Key facts and figures

Thailand lies at the heart of Southeast Asia and has borders with Burma, Laos, Cambodia and Malaysia. While much of the country is landlocked, it has a long southern peninsular coastline which faces the Gulf of Thailand. Thailand, previously called Siam, is the only country in the region that has never been formally colonised. It has known statehood under monarchical rule since the 13<sup>th</sup> century and in the past was at the centre of a tributary system that included Laos, parts of Cambodia and the Malay States. The vast majority of the population today is comprised by the Thai ethnic group, which adheres to Buddhism. The most significant minorities – if the ethnic Chinese, many of whom are now culturally assimilated, are not counted – are the Muslim Malays in the far south of the country, Cambodians in the east, and Laotians.

Thailand's most important natural resource is its land. By far the largest crop is rice, much of which is exported. There is some oil and gas production in the Gulf of Thailand. Rubber has displaced timber as the main crop in several parts of the country, where there has been extensive deforestation. More broadly, industrialisation and urbanisation – although largely restricted to Bangkok, the capital – has contributed to land degradation and led to rising air and water pollution levels.

Thailand is the second-largest economy in South East Asia, behind Indonesia. Its development has been driven by international trade and foreign capital, which have transformed it from a low-income traditional agricultural economy into an upper middle-income industrial exporter in the space of a generation. This growth has made it relatively prosperous by regional standards, and, notwithstanding its large tourism sector, its economy has proved remarkably immune to the political upheaval it has witnessed.

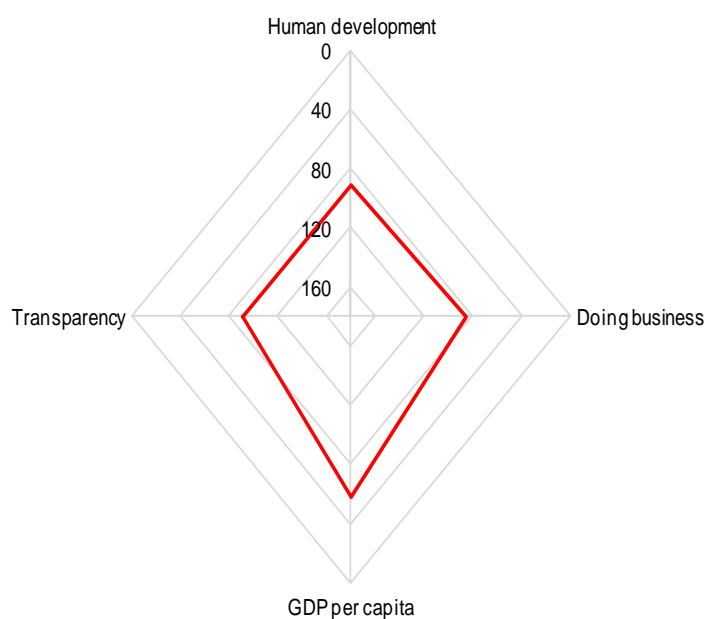
### Thailand in 2010: fast facts



Note: charts show trends since 1980

### Key rankings

Chart shows ranking against 181 countries, with '0' being the top/most favourably-assessed country



## **History**

Thai power and influence in the region was first entrenched in the mid 14<sup>th</sup> century through the creation of the Kingdom of Ayudhya, which successfully conquered the Cambodian empire of Angkor. Limited contact with European powers began in the 16<sup>th</sup> century but Ayudhya remained largely isolated. Ayudhya collapsed in the mid 18<sup>th</sup> century but was rapidly replaced by a new state formation headed by a new ruling house, the Chakri. Bangkok was made the capital. During the first half of the 19<sup>th</sup> century, the Chakri kings consolidated Siam's regional reach, but in 1855, unable to resist rising British power, King Rama IV signed a treaty giving Britain major trade concessions. Over the following decades, while part of the British sphere of influence, Siam had to relinquish many of its regional claims to European powers. However, its rice-dominated economy flourished and there was a significant degree of administrative modernisation of the state.

By the early 20<sup>th</sup> century there were growing tensions between the monarchy and modernisers within the state who wanted to go further with reform. In 1932 a military coup forced King Rama VII to accept the end of royal absolutism. This weakened the prospects for a republic, which some reformers had been increasingly drawn to. Politics was overwhelmingly a preserve of the military elite and its bureaucratic allies. Communism was illegal and the social basis for left-wing politics was limited. The working class was small and, while rural conditions were often harsh, landholdings had not been permitted to become too unequal. However, sections of the ruling elite were attracted to a version of right-wing nationalism strongly motivated by anti-Chinese xenophobia. The change of the country's name to Thailand in 1939 was part of this trend. With the country's elite viewing an alliance with Japan as a means of recovering territories lost to Western powers during the 19<sup>th</sup> century, Thailand supported Japan during most of World War II.

### ***Oscillating between democracy and authoritarian rule: 1947-1992***

Following the war there was a brief attempt to establish a full-blown constitutional democracy, but in 1947 there was another military coup. Phibun Songkhram, a politician with strong military links, headed the dictatorship until 1957. His period in power was marked by state-led industrialisation in which the Thai elite made its peace with Chinese economic power, hastening the latter's assimilation. However, an attempt by Phibun to return the country to some sort of democracy led to a further military coup led by General Sarit Thanarat.

Sarit used the monarchy, represented since 1946 by King Rama IX (known more widely as Bhumibol), to legitimise military rule, in the process building up a personality cult around the monarch. A succession of military leaders, all wedded to economic modernisation and closely allying Thailand with the US, followed until October 1973 when, following months of growing student demonstrations, parts of the army rebelled against its leadership and refused to engage in repression against them. Three years of severe turbulence followed, due to unprecedented political mobilisation across all sectors of society. A communist insurgency had also begun in 1967. Several civilian governments found it increasingly difficult to meet the often radical demands being made of them from below, and by 1976 the country was deeply politically polarised. With the support of the rising urban middle class and centre-right politicians, in October 1976 the army stepped in again and put an end to Thailand's unruly democratic experiment. Between 1976 and 1988, led for much of the period by Prime Minister (and army General) Prem Tinsulanonda, Thailand gradually moved from outright political repression against radical forces towards a more relaxed authoritarianism. The communist insurgency ended. Partly as a result of this, there was increased foreign investment and a period of economic growth. Social reforms were introduced. From 1983, there were halting moves to reintroduce an element of constitutional government into Thailand's politics.

Between 1988 and 1991 there was a period of much greater parliamentary rule under Prem's successor, General Chatichai Choonhavan – Thailand's first leader since 1976 to have been elected to parliament. This marked the end of the long period of military rule. Chatichai headed a broad-based coalition government, in which the business elite played an unprecedentedly large role. During his premiership, he continued with policies of rapid economic development and limited social reform. Parts of the elite were won over by his government's facilitation of logging concessions in neighbouring Burma – Thailand's rain forest had by this time been largely exhausted. But clashes with parts of the military led to yet another coup in February 1991. Although the initial public response was subdued, renewed military rule did not last long. By the following year, civilian protests – with the working class in the lead – were widespread. In response, the military government was given a stronger civilian face and a transition to democracy was announced, culminating in elections in September 1992.

### ***Weak democracy: 1992-2000***

Thailand's oldest political party, the Democratic Party (DP), whose main support comes from the aristocratic and business elite, was able to form a coalition government. This government, in which technocrats featured strongly, ushered in mild economic and political reforms. However, it was defeated in the 1995 elections and one of its main political rivals at this time, the right-wing populist Chart Thai (Thai Nation), -- a party with strong support outside Bangkok and an affinity with patronage politics – was able to form a replacement coalition. This government quickly revealed itself to be corrupt and incompetent and in late 1996 lost early elections that were characterised by high levels of violence and vote-buying. This time, the National Action Party (NAP), another right-wing party with strong links to the military, formed a coalition government. Soon after it came into office, Thailand was hit by the Asian financial crisis, which originated in an attack on the Thai currency, the Baht, by currency speculators. Defections from the government's ranks led to another DP-led coalition under Prime Minister Chuan Leekpai coming into office at the end of 1997. Under the DP-led coalition, which wholesale adopted IMF policies, poverty and inequality increased significantly. This coalition somehow lasted until elections were held in January 2001, amid economic stagnation and mounting social protest. During the run up to these elections, a wealthy media businessman and politician, Thaksin Shinawatra, formed a new party, Thai Rak Thai (Thais love Thais). The party, combining populist pledges aimed at the rural and urban poor with promises of more decisive and effective government, rapidly gathered support, especially in the north, from where Thaksin himself hailed. Despite DP-led efforts to tar Thaksin with corruption allegations, Thai Rak Thai won an unprecedented victory – the first ever absolute parliamentary majority in Thailand's long political history.

### ***Thaksin/anti-Thaksin: 2001-present***

Between 2001 and 2004 the Thai Rak Thai-led government dominated the political scene. Several parties, including the NAP and most of Chart Thai, threw their lot in with Thai Rak Thai. Its social programmes proved extremely popular and the economy performed relatively strongly. However, from the start, critics accused it – and Thaksin, in particular – of abuses of power. He was accused of blurring his private interests and those of the state. There were also accusations that his government was using excessive force, first in its 'war on drugs', in which up to 3,000 people had reportedly died during a three month period in 2003, and subsequently in its counter-insurgency operations against Islamist separatists in the south. A low-level insurgency had existed in the south for many decades. Now it escalated dramatically. Many feared that the counter-insurgency operations were fuelling the violence, rather than calming the situation. But Thaksin's actions did little to dent his popularity and in February 2005, Thai Rak Thai won an even larger majority than it had in 2001. During the remainder of the year, levels of violence in the south intensified still further. In April, the government declared a state of emergency in Thailand's three southern provinces and launched a full-blown military offensive against the insurgents. At the same time, a mainly urban coalition of opposition politicians, with the DP strongly represented, and the middle



class in Bangkok began to mobilise in protest against the alleged erosion of democracy under Thaksin. When family members sold their holdings in a major Thai company to a Singapore government investment corporation, this triggered the formation of the People's Alliance for Democracy (PAD), which called for Thaksin to leave office. Instead, he called a snap election, which PAD urged voters to boycott. Thai Rak Thai again won a majority but there was no resolution of the stand-off. Further elections were announced for October. Amid doubts about the reliability of pledges by Thaksin that he would not seek the position of Prime Minister again, the army gradually moved to distance itself from Thaksin. King Bhumibol also gave indications that he too had run out of patience. On 19 September 2006, the army staged a coup while Thaksin was abroad.

The army undertook to return the country to democracy quickly, but it was clear that it had no intention of allowing Thaksin to return, which he gave every indication of wanting to do. Investigations into his assets promptly began which eventually led to a portion of them being seized. Thai Rak Thai was dissolved in May. A new Constitution was promulgated that was designed to prevent any single party from holding a governing majority on its own. However, in December 2007 elections, the successor party to Thai Rak Thai, Palang Prachachon (People Power Party), won the largest number of seats and formed a new coalition government. While weakened, Thaksin's influence clearly remained considerable. Anti-Thaksin forces did not wait long before mobilising against Prime Minister Samak Sundaravej's government. The PAD again took to the streets during 2008, wearing yellow shirts. Counter-demonstrations were then organised by pro-Thaksin supporters in red shirts, who formed the National United Front of Democracy over Dictatorship (UDD). Samak was then told by the Constitutional Court to stand down from the position of Prime Minister because of an alleged conflict of interest, ushering in a period which many analysts have described as one of 'judicial coup'. Samak was replaced by Thaksin's brother-in-law, Somchai Wongsawat. Then, in December, Palang Prachachon was also disbanded on the orders of the Constitutional Court for alleged electoral fraud. Its members immediately formed a new party, Puea Thai (For Thais - PT). But several also defected and the DP, now led by the English-born Old Etonian Abhisit Vejjajiva, was able to win a vote of no confidence in parliament and form a new coalition of its own. Supporters of PT viewed the new government as illegitimate and the UDD escalated its protests in 2009.

Thailand's apparently permanent crisis intensified even further in 2010. In March, UDD supporters occupied parts of Bangkok's town centre, calling for fresh elections within 30 days. Two months of confrontations and negotiations to end the occupation followed. A state of emergency was declared in the capital and most of the north and northeast of the country. The stand-off ended in May with a military operation against the protestors, but not before they had done massive damage to the commercial centre of Bangkok. 91 died in the operation; over a thousand people were injured. Abhasit and his government sought to stabilise the country, promote national reconciliation and create conditions conducive to it winning the next elections, which were due to be held by the end of 2011. The PAD fell out with the government, charging it with being too accommodating to the UDD. Thaksin, who the government accused of fomenting and financing the UDD, was charged *in absentia* with terrorism. The insurgency in the south continued largely unaddressed due to the scale of Thailand's political crisis. An additional element in the calculus was renewed tension between Thailand and Cambodia over the territorial status of the Preah Vihear temple, which was awarded to Cambodia by the International Court of Justice in 1962. Thaksin accused the government of playing up to ultra-nationalist sentiment on the issue. In early 2011, the two country's armies clashed repeatedly along the border before an uneasy truce was agreed.

In May 2011, Abhasit announced elections for 3 July. Strikingly, PT's leading candidate for the position of Prime Minister was Thaksin's sister, Yingluck. Despite her apparent political inexperience, PT won a decisive electoral victory. So far, the military and other parts of the Thai elite have accepted the popular verdict, while she has been careful to avoid acts that could be viewed as provocative. While there appears no immediate prospect of Thaksin's

return or an amnesty for him, the authorities have announced that he may be given back his Thai passport, which had been revoked, and supporters continue to push for an Amnesty Bill as part of 'national reconciliation' efforts. With Thaksin addressing ministerial meetings by satellite from abroad, critics continue to accuse Yingluck of being little more than a proxy for her brother. Her government's economic policies, which include a large increase in the price paid to farmers for their rice and a big rise in the minimum wage, certainly echo those of her brother. However, such initiatives have been temporarily overtaken by events during the last quarter of 2011, as Thailand has faced its worst flooding for 50 years. It has affected more than two million people in over 30 provinces. The government has been criticised for its handling of the emergency.

Prosecutions continue under controversial *lèse-majesté* laws against those alleged to have insulted the now elderly and unwell 84-year old monarch, King Bhumibol, simply by raising the issue of the succession. The overall level of prosecutions has risen markedly in recent years, leading some to accuse the authorities of using the laws to silence peaceful political dissent. The EU has expressed concern about the issue, as did the US authorities after a US citizen was recently jailed. Some detect a rise in republicanism across the country. The King's anointed successor, his son, Crown Prince Vajiralongkorn, enjoys a much poorer public reputation than his father. Yingluck's government has so far undertaken no new initiative to try and end the insurgency in the south. However, tensions with Cambodia over Preah Vihear have largely disappeared since Yingluck took office.

Thailand's domestic politics since World War II has customarily been turbulent. There have been 18 military coups, but generals and civilians alike – whether under variations on authoritarianism or democracy – have usually found it difficult to construct coherent and long-lasting power blocs. When Thailand did experience a strong government under Thaksin, large parts of the traditional elite and the urban middle class in Bangkok refused to accept it. Thaksin may have been forced into exile, but the political mobilisation of large sections of the rural poor which, whatever his motivations, Thaksin encouraged, is probably irreversible. Time will tell whether Yingluck's victory can usher in a durable resolution of Thailand's deep-rooted political crisis. Plenty of obstacles remain to be overcome.

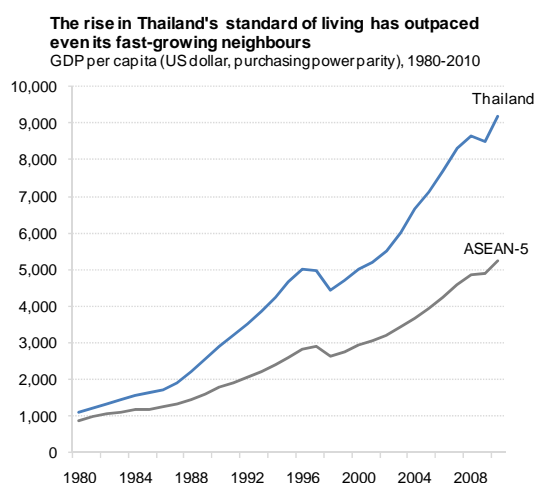
### **Key economic issues**

International trade and inflows of foreign capital have transformed Thailand from a low-income traditional agricultural economy into an upper middle-income industrial exporter in the space of a generation. This growth has made it relatively prosperous by regional standards (see chart), despite political turbulence that has resulted in 24 coups, 18 constitutions and 27 prime ministers in 78 years of democracy.

Though its reliance on exports means its economic prospects are substantially driven by the external environment, it bounced back successfully from the global downturn thanks to its well-capitalised financial sector and a government stimulus programme.

### *International trade and the financial crisis*

Like Malaysia and Vietnam, the Thai economy is heavily reliant on international trade: exports were worth 68% of GDP in 2009, and were as high as 76% before the financial crisis, meaning its performance and prospects are substantially dictated by the external economic environment. When trade flows collapsed during the global recession in 2009, Thailand's economy shrank for the first time since the Asian financial crisis: the contraction of 2.3% in



2009 was the sharpest among the ASEAN economies. By mid-2009, however, it was staging what the IMF has described as a 'remarkable comeback', and in 2010 it registered its fastest economic growth in 15 years. This was partly due to the recovery of global trade; importantly, however, thanks to relatively low levels of public debt, the Thai government also had room to provide a fiscal stimulus through direct cash transfers and subsidies for the poor, and investment in infrastructure projects.

Thailand's recovery was also undoubtedly helped by its stable banking system, which is recognised as being well-capitalised, with strong risk management systems: the proportion of non-performing loans actually fell during 2009. Corporate indebtedness is relatively low, and significantly below what it was before the Asian financial crisis, whilst government debt is under long-term control. Alongside Malaysia, Thailand has experienced the lowest and most stable inflation of the ASEAN-5.

#### *Political turbulence*

The stability of the economic environment in Thailand is at odds with the turmoil that has defined its recent political history. The 2006 coup, and the violent protests of 2008 and 2010, did not noticeably deter international investors: indeed, in 2010, the domestic stock index was the second-best performing in East Asia, despite the exchange being set on fire as the protests reached their violent climax in mid-May; the *baht*, meanwhile, was among the top-performing Asian currencies against the US dollar in 2010.

Investors' ambivalence to political events has much to do firstly with the sound economic fundamentals that also enabled Thailand to weather the global financial crisis, and secondly with the consistency of policy with respect to trade and foreign capital in the face of political turbulence. Partly, too, it is because protests have typically taken place away from Thailand's economically critical trade infrastructure and industrial estates. Investors' ambivalence to political events and perceptions of economic resilience in themselves drives stability, and in this respect Thailand appears to be in a virtuous cycle.

#### *Constraints on growth*

Although the Thai economy has proved resilient to both international shocks and political instability, there is little doubt that, following a period of 'miracle' growth in the late 1980s and early 1990s (between 1986 and 1996 the Thai economy grew at the third-fastest rate in the world), it has entered a period of more subdued expansion: the phenomenon is familiar to many countries at this stage of development and is commonly termed the 'middle income trap'. Growth slowed from an average of 9% per year between 1986 and 1996 to an average of 4% during the 2000s, even as it accelerated in the rest of the world. This 'middle income blues' is common to many countries at Thailand's stage of development, and is partly due to lower levels of investment, as rising incomes make Thailand less attractive as a productive base in comparison with poorer neighbours such as Vietnam. Risk aversion among investors following the Asian financial crisis, perhaps exacerbated by Thailand's political instability, may also have contributed to this slowdown.

Another critical factor in Thailand's slowdown is the failure to cultivate domestic consumer markets as a source of growth: export dependency has increased substantially since the Asian financial crisis, whilst domestic consumption as a proportion of GDP has stagnated. The role of domestic markets as a source of growth has been limited by natural downward pressure on wages, in turn driven by a shift to more capital-intensive production (electronics and cars, rather than textiles), combined with rural-urban migration.

Another factor constraining domestic consumption is geographic income inequality, which increased during the 1990s and 2000s as new production clustered in Bangkok and the eastern region. Despite populist measures under the Thaksin government to lower the cost of living for the rural poor, outside Thailand's centres of production, individuals have struggled to secure the purchasing power necessary to drive rising consumption: average

wages are three times higher in the capital than the rest of the country. Nor does Thailand's banking system help to cultivate a thriving regional economy: IMF research suggests it is harder for Thai firms to access credit than in Korea, Malaysia and Taiwan; small and medium-sized enterprises find accessing bank credit particularly difficult, meaning it is very unusual for SMEs in Thailand to graduate to the stock market.

#### *Economic plans*

The Yingluck government came to power pledging to increase the minimum wage by 40% to \$10 per day, double salaries for new civil servants, and engage in extensive public investment in agriculture and transport infrastructure.<sup>150</sup> Together, the measures comprise a balance between the sort of vote-winning 'current-spending' commitments beloved of Yingluck's older brother (among the more populist proposals are credit cards for farmers and free tablet computers for every Thai student), and long-term 'capital-spending' investments. Public investment in infrastructure has been on a declining path since 1997; whether this will be reversed will depend on which type of spending takes priority and gains support among the five-party coalition government.

#### *Development aid*

Since graduation to middle-income country status, Thailand is no longer a major recipient of aid; indeed, since 2003 net official development assistance flows have been negative due to Thailand's repayment of concessional loans. Japan has been Thailand's most significant aid partner, although its contributions have declined in recent years too, from \$1 billion in 2004 to \$115 million in 2009. The UK has not had a significant aid relationship with Thailand since the early 1990s.

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<sup>150</sup> The links between business and politics in Thailand were made abundantly clear when the election win saw shares in construction and infrastructure companies connected with the Shinawatra family rise dramatically.

## 2.6 Vietnam

### Key facts and figures

Vietnam has borders with China, Laos and Cambodia and a 1,000 kilometre coastline along the South China Sea. Following French colonial rule, the country was divided into two countries, with North Vietnam adopting Communism and the South closely allied to the US. The division came to an end in 1975 with the victory of North Vietnam. Its capital, Hanoi, became the capital of the reunited country. However, Ho Chi Minh City (formerly Saigon), is the largest city. The south is more heavily populated and more urbanised. However, 70% of the population continues to live in the countryside. The majority Vietnamese are closely related to the southern Chinese, including with regard to language. The main minority groups are the Tai in the north, the Hmong and the Montagnards in the Central Highlands, and Cambodians in the southwest. The dominant religion is Buddhism but there is a significant Christian minority, mainly concentrated in non-Vietnamese groups.

A history of war and economic mismanagement has severely hindered Vietnam's past development, and it remains one of the region's poorer countries. In the period leading up to 1986, it suffered thirty 'lost' years characterised by low levels of productivity, the continued dominance of small-scale production, and economic underdevelopment. Following this, Vietnam's transition to a more market-orientated economy under its 'doi moi' (renovation) policy has coincided with a rapid growth and a convergence in standards of living towards the regional average.

Vietnam's main natural resource is agriculture, with rice production traditionally the means of livelihood for the bulk of the rural population. It also has a range of metallic ores, including anthracite, some coal reserves and a growing oil industry. Vietnam has become an important exporter of oil to the rest of Southeast Asia. High levels of economic growth over the last decade have placed growing strains on the environment in terms of land degradation and pollution. Some fear that this could hamper future development.

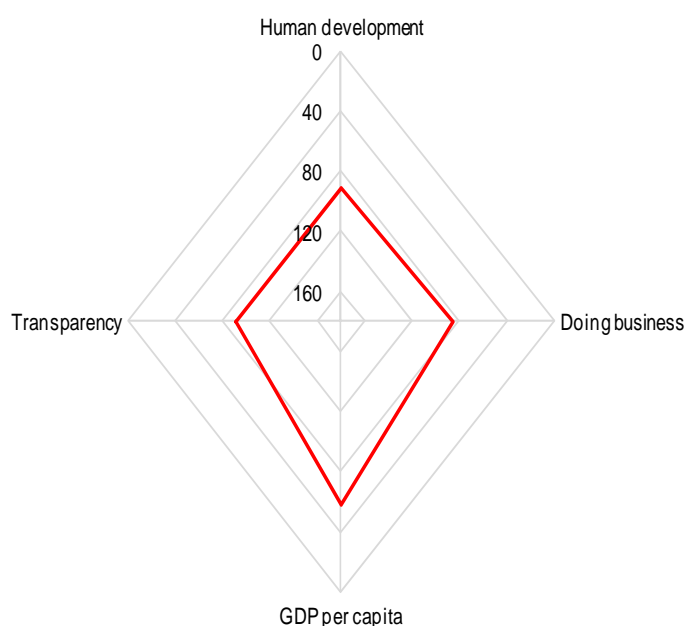
### Vietnam in 2010: fast facts

GDP, \$bn	104
Annual average change, %, 2000-10	7.3
Population	88.3
Annual average change, %, 2000-10	1.3
Inflation, %	11.8
Unemployment, %	5.0
Current account balance, % GDP	-3.8
Poverty (% <\$2 per day)	48.4
Adult literacy, %	92.5
Under-five mortality, per thousand	23.6
Life expectancy, years	74.4

Note: charts show trends since 1980

### Key rankings

Chart shows ranking against 181 countries, with '0' being the top/most favourably-assessed country



## **History**

Vietnam was ruled by China for over 1,000 years. Between the 10<sup>th</sup> and 19<sup>th</sup> century, while often in a tributary relationship with its giant neighbour and with close cultural links, its rulers worked hard to prevent the re-imposition of formal Chinese rule. While the French succeeded in colonising the whole of Vietnam by 1885, the Vietnamese already had a long established sense of common nationhood that ultimately it proved impossible to suppress. France merged Vietnam with Laos and Cambodia to form an Indochinese Union. Under colonialism, there were major social and economic changes – some industrialisation, a growing landlord class and rising peasant hardship, and the waning of Confucian ideology. The bulk of Vietnamese benefitted little from these changes. While there was anti-colonial resistance to French rule from the start, by the 1930s communism was the dominant ideology of resistance, with particularly strong support amongst the peasantry. France retained formal sovereignty over Indochina during World War II and no strong anti-communist nationalist movement emerged during this period in Vietnam, unlike in Burma and Indonesia. When Japan unilaterally declared Vietnam independent in March 1945, it was the communists who moved quickly to fill the vacuum.

In September 1945, Ho Chi Minh, the leader of the communists (known as the Viet Minh), declared an independent Republic of Vietnam. The response of post-war France was to embark upon an attempt to resurrect its colonial power in Indochina. It sponsored non-communist Vietnamese allies, which turned the conflict into a civil war. Then, in 1950, France persuaded the US, at the height of the Cold War, to support its war effort, beginning a gradual process by which the US was drawn into the conflict. In May 1954, the Viet Minh won a major military victory at Dien Bien Phu, which led the French to accept internationally-sponsored negotiations to agree the future of Indochina. Vietnam's unity and independence were accepted by all parties in the course of these negotiations, which led to a ceasefire agreement and the Geneva Declaration in July. The French role in Vietnam came to an end at this point. However, the next step – a full peace agreement -- did not materialise and in practice Vietnam became partitioned between north and south, with a pro-US government in the south, led by Ngo Dinh Diem, repudiating the Geneva Declaration and launching attempts to destroy the Viet Minh in the south, whose cadres joined with allies in forming the National Front for the Liberation of South Vietnam (NLF). Diem was heavily reliant on US support but in 1963 a group of South Vietnamese generals overthrew him, leading to a succession of unstable military governments. In 1964, an alleged attack on US ships by the North Vietnamese navy (later shown never to have occurred) paved the way for direct military involvement in Vietnam. By 1968 there were over 500,000 US troops in Vietnam. North Vietnamese forces began direct operations in the south, receiving aid from China and the Soviet Union.

The 1968 Tet offensive by the NLF was a military failure but, following the My Lai massacre involving US forces, in which over 500 civilians died, the anti-war movement in the US gained rapid momentum. Ho Chi Minh died in 1969, but his successors agreed to join talks with the US as the Nixon administration sought to extricate itself from the war. A ceasefire agreement was eventually signed in January 1973. By the end of March, the US had withdrawn all its troops. Despite the fact that a range of proposals for a political settlement had also agreed, they were rapidly superseded by intensified fighting. The North Vietnamese and NLF steadily advanced and took Saigon on 30 April 1975. Nearly 2 million Vietnamese and 55,000 Americans were killed during the war.

Vietnam had been reunified and was now entirely under the rule of the Communist Party (CP). The CP had a long-established tradition of collective leadership, rather than personality cults, and this continued. The party wasted no time in establishing its control over politics and the economy in the south, permitting only small enterprises to be privately owned and prohibiting foreign banks and companies from operating. The south was initially described as going through a 'national democratic' revolution, while the north was already embarked upon a socialist phase of development. However, in 1977 there was a sudden shift to collectivise

the southern economy that the party later acknowledged had been a serious mistake. There was a degree of resistance from the peasantry that reflected the fact that, in its last years, South Vietnam had belatedly introduced land reforms that had proven popular. In 1978, Vietnam invaded Cambodia in order to destroy and replace the hostile and destabilising neighbouring Khmer Rouge regime. It succeeded, but this move put Vietnam at loggerheads with China, the US and ASEAN until it withdrew from the country in 1989. Longstanding territorial disputes in the South China Sea have continued to complicate relations since then.

By 1982, Vietnam's economy was in a parlous state. However, in 1986, despite poor relations with China, Vietnam began a comparable process of economic reform, or *doi moi*. At the same time, a new generation of party leaders took office, with technocrats and provincial cadres working together to push ahead with greater economic (and, to a lesser degree, political) decentralisation, including encouraging private enterprise and foreign direct investment. Nguyen Van Linh, a reformer who had been removed from the Politburo in the early 1980s, became General Secretary of the party. The new formulation was 'market orientation under state guidance'. It marked the end of Vietnam's centrally-planned economy, if not the party's monopoly over political power. The Tiananmen Square massacre in China and the collapse of the Soviet Union during the following year strengthened the party's resolve to place severe limits on political pluralism. In 1991, after a number of articles criticising the government and the socialist system were published, conservative forces within the party engineered the replacement of Nguyen Van Linh as General Secretary. His successors during the 1990s were of a more cautious inclination. Nonetheless, over that decade a wider range of candidates were permitted to stand for the National Assembly and the party explicitly accepted that it was subject to the law. State institutions gained greater influence and some autonomy. Diplomatic relations with the US were restored. Economic links were cemented by a 2000 bilateral trade agreement. However, Vietnam's poor human rights record remained a point of contention between the two countries. More broadly, Vietnam took a range of steps to end its international isolation, including joining ASEAN in 1995. Vietnam chaired ASEAN in 2010.

By the beginning of the new millennium, a new problem was coming to the fore: official corruption and abuse of power. They have remained high on the party's agenda ever since. A certain tolerance developed over time of media articles exposing both, although it was still a risky course for a journalist to take. Pro-democracy activists were even more vulnerable and member of the Bloc 8406 movement, named after the online manifesto published by founder members on 8 April 2006, were tried and sentenced to prison. There were also protests by the Montagnards, composed of at least ten tribes, many of whom complained of land confiscation. Following violent clashes with the authorities in 2004, the authorities made efforts to strengthen minority rights and protection. The last ten years has also seen substantial progress towards genuine religious freedom. But debates about allowing for direct local elections have not yet led to concrete action. Tensions between economic conservatives and reformists within the party (its General Secretary for most of the decade was Nong Duc Manh) and the government occasionally flared during the first decade of the new century. Overall, the last decade has seen high annual growth. The global financial crisis in 2008-09 briefly slowed growth but by 2010 it had recovered. Economic reform has continued. In 2006, the 10<sup>th</sup> Party Congress decided that the state-controlled sector would no longer have favoured status and that party members could in future engage in private sector activity.

In January 2011, the party held its 11<sup>th</sup> Congress. A new leadership was elected, with Nguyen Phu Trong becoming General Secretary. Targets for the economy were also agreed. The aim is for Vietnam to become a "modern industrialised country" by 2020, with per capita national income tripled by that date. Relations with China deteriorated dramatically during the first half of 2011 over disputes in the South China Sea, with Chinese patrols allegedly harassing Vietnamese fishing vessels. Anti-Chinese protests were tolerated for a period by the authorities. Tensions reduced during the second half of the year and in October the two

countries agreed a series of confidence-building measures – but they could easily flare up once again.

Most observers expect that the coming decade in Vietnam will broadly follow the pattern of the last. The party leadership will remain pragmatic but cautious in its approach. There will be continued reform, particularly in the economic sphere, provided that it does not threaten stability. Political liberalisation is highly unlikely, as demonstrated by the re-arrest and detention in mid 2011 of an elderly Catholic priest and pro-democracy campaigner, Father Ly, who has already spent over 20 years in prison. However, the Communist Party faces significant economic challenges, including high inflation and debt levels, rising levels of domestic inequality, anger at corruption and growing impatience, particularly on the part of urban youth, about the lack of political freedoms. 2011 has seen a marked increase in strikes and land protests. Any of these factors, particularly in combination, could generate greater political turbulence than analysts currently predict.

### **Key economic issues**

Economic activity in Vietnam held up during the global recession, with a fiscal stimulus package worth 5% of GDP and loose monetary policy compensating for the decline in investment and trade that occurred during 2009. More recently, Vietnam has been suffering from a cycle of high inflation, driven by rapid credit growth and a widening trade deficit. Accession to the World Trade Organisation in 2007, and the consequent openness to capital flows have made the economy more vulnerable to such developments; inflationary pressures are not helped by the government's wavering commitment to containing price rises when doing so conflicts with its ambitious growth targets.

#### *Inflation*

High inflation and tight monetary policy have resulted in pressure being placed on the authorities from Vietnamese businesses to reduce interest rates, and from workers to increase minimum wages. In succumbing to these, there is a risk that Vietnam becomes locked in an inflationary spiral. This fear is exacerbated by the downward pressure that inflationary expectations place on the *dong* (and hence Vietnam's foreign currency reserves, since the dong is fixed against the dollar) as residents hoard foreign currency and gold in anticipation of a devaluation (there were four such devaluations between Oct 2010 and Feb 2011). Devaluations push up import prices, driving inflation still higher.

Inflation is not a new problem for Vietnam; periods of rapidly rising prices occur regularly, driven by economic overheating and rapid expansion of credit, and exacerbated by uncertain policy responses and exchange rate effects. 'Stop-go' monetary policy cycles are common, whereby the government reduces interest rates to stimulate economic growth, only to belatedly raise them again as credit expansion and resultant inflation put pressure on the fixed exchange rate between the dong and the dollar.

#### *Policymaking and stability*

A high-inflation environment, along with concerns about the sustainability of government spending and a rapid growth in credit, have led to questions about Vietnam's economic stability. In particular, Vietnam's banks are seen in some quarters to be heavily exposed to an overheated property market and to dysfunctional state-owned enterprises. The problems are undoubtedly made worse by the reputation the Vietnamese authorities have acquired for

**Cycles of high inflation are commonplace in Vietnam, but recent bouts have been particularly severe**  
Consumer prices, % change over previous year, 1996-2011





unpredictable, and at times unintelligible policymaking. The government's commitment to stability has often been undermined by a desire to meet its ambitious growth plans.

In an effort to reassert its control, the Government's issued *Resolution 11* in February 2011, which contained six sets of policy measures to restore stability: tightening monetary and fiscal policy, containing the trade deficit, increasing electricity prices while shielding the poor from the effects, strengthening social security, and improving the dissemination of policy information. But shortly afterwards, in July, the monetary policy commitment was broken when the central bank reduced interest rates, ostensibly to support growth.

### *State-owned enterprises (SOEs)*

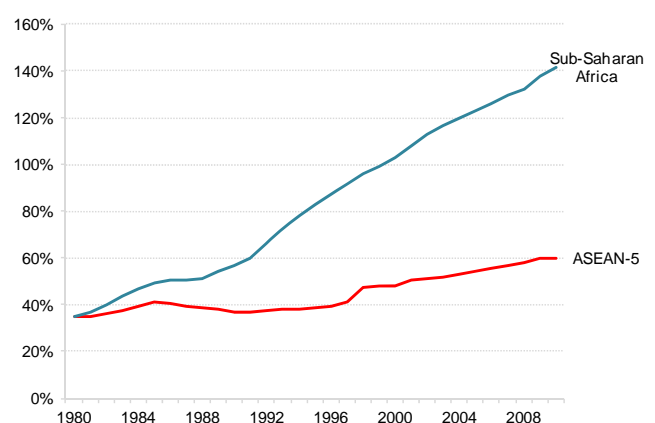
Despite its transition to a market-based economy, around a third of Vietnam's economy remains controlled by 4,000 state-owned enterprises. Their core business is typically in industries deemed of critical economic importance, such as mining, oil and shipbuilding; but, encouraged by a government eager to see them become global powerhouses, many have expanded their reach into tourism and other sectors. The profitability and efficiency of Vietnam's SOEs has, predictably, been called in to question by the IMF, as has their expansion into other areas: this, it is contended, has the potential to crowd-out private sector activity.

Leaving aside the questions over the competitiveness of Vietnam's SOEs relative to the private sector, they pose a risk for the Vietnamese government. Many have indicated plans to undertake large investments over the next few years, much of which will be debt financed. The shipbuilding firm Vinashin was brought to the brink of bankruptcy when, having amassed debts of over \$4 billion, it defaulted in late 2010 on a \$60 million loan repayment. Although the government has indicated that it will not bail out debt-stricken SOEs, Vietnam's credit rating was downgraded following the Vinashin default, with ratings agencies citing the government's contingent liabilities through SOE ownership as a reason.

### *Development challenges*

Vietnam has made significant progress in reducing poverty and improving standards of living over the past two decades. Comparisons with the other ASEAN nations are perhaps unfair, and its success is better-evidenced by looking to Sub-Saharan Africa, which it lagged behind in development terms twenty years ago, and which it has now definitively overtaken. Health and education expenditure, in relation to economic size, exceed the regional average, meaning despite being poorer according to more traditional economic measures, Vietnam's citizens are generally healthier (child mortality is lower and life expectancy higher) and as well educated as the rest of the region. Nonetheless, in the future, high inflation has the potential to erode the standard of living of large sections of the population, and economic instability to limit the growth that has to date contributed to such positive development outcomes for the country.

**From a lower starting point, living standards in Vietnam have surpassed those of Sub-Saharan Africa and converged towards the average for the ASEAN countries**  
GDP per capita, purchasing-power parity, Vietnam as % of selected regions, 1980-2010



### 3 Key regional questions

#### 3.1 Is democracy advancing or on hold?

##### *Differing analytical approaches to the question*

Many argue that, over the last 25 years, there has been significant – if often painful – progress towards greater democracy in a number of important Southeast Asian countries, citing any or all of Indonesia, Malaysia, the Philippines and Thailand. However, the region is also home to several countries whose democratic credentials, whatever the incumbents might claim, are widely accepted to be somewhere between weak and non-existent; cases in point are Burma or Vietnam. However, even these countries are members of an intergovernmental organisation, the Association of Southeast Asian Nations (ASEAN), which has given undertakings – however weak and vague critics might consider them to be – to the people of the region about democracy and human rights.<sup>151</sup>

David Martin Jones has recently claimed:

[...] Southeast Asian states possess all the appearances of democracy – parliaments, judiciaries and multimedia hubs – but lack institutional substance. Ultimately they remain imitation democracies.<sup>152</sup>

This leads him to declare that democracy is “on hold” across the region.

The complex situation across the region today has led some analysts to assert that the best framework for understanding the political trajectory of Southeast Asia is provided by the concept of ‘hybridity’. This draws on the argument that all the states of the region, to different degrees at different points in time, have combined “authoritarian and democratic elements” since the end of World War II.<sup>153</sup> Such an approach is consistent with two important observations that have been made about the region. Firstly, that the linkage often made between economic development and greater democracy is not really supported by the experience of Southeast Asia. Secondly, and related, that the middle classes have not always been the strong supporters of democracy which much conventional thinking suggests that they ought to be; indeed, at numerous points they have been willing to sacrifice much of its substance to ward off more radical challenges to the prevailing order, making alliances instead with traditional elites, including the military. In both regards, the wider context of the Cold War, with East and West intervening to support local allies and undermine local enemies, also played a very important part until it came to an end in 1989.

A crucial legacy of struggles past and present across Southeast Asia is that the forces for genuine, deep-rooted democracy are often relatively weak. As a consequence, many of those challenging incumbent regimes wrap themselves in the cloak of democracy for reasons of political mobilisation, rather than abiding conviction. Jayasuriya and Rodan argue that many incumbent regimes across the region are becoming increasingly sophisticated at constructing “modes of political participation”, often technocratic and administrative in character, which in practice limit “the channels for political contestation”. Such modes of political participation tend to involve a significant weakening of the role and importance of formal representative institutions, including parliaments.

Those analysts focusing on modes of political participation claim that the concept of ‘hybridity’ referred to earlier does not help us to identify the “definitive features of a political

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<sup>151</sup> [ASEAN Charter](#)

<sup>152</sup> David Martin Jones, “Democracy doubts: Political stability in Southeast Asia”, *The World Today*, July 2010

<sup>153</sup> K. Jayasuriya and G. Rodan, “Beyond hybrid regimes: More participation, less contestation in Southeast Asia”, *Democratization*, Vol. 14, No. 5, December 2007, p773

regime”, which are to be found in the “institutional structures and ideologies that shape the inclusion and exclusion of individuals and groups in the political process”.<sup>154</sup>

In essence, these incumbent regimes are seeking to promote forms of political activity that do not fundamentally threaten the economic and social *status quo* in their countries. Jayasuriya and Rodan go so far as to contend that:

The emergence of such modes of participation is also related to neo-liberal globalization and late industrialization, which have been more hostile to collective class-based political mobilization than was true of the experience in Western Europe when representative democracy consolidated.<sup>155</sup>

### ***Impact of monarchy, religion, ethnicity and class***

Several Southeast Asian states are monarchies. Their democratic impact varies significantly. Brunei, the smallest state in the region, has an extremely strong monarchy. In some ways, its circumstances are analogous to those of the Arab Gulf States, where democratic institutions are weak or non-existent and, where they exist, have done so almost entirely at the grace and favour of the monarchy. The Thai monarchy has considerable symbolic power and is an asset to those elite interests that use it to legitimise their actions, but it does not enjoy much independent authority. It has coexisted over the decades, if at times uneasily, with democratic institutions. However, closely linked to the army, it has sometimes intervened in politics even as it seeks to portray itself as above the fray. Some believe that its lustre has been tarnished by the events since the 2006 coup, potentially storing up trouble for the institution in the future. There is a growing republican tendency amongst Thailand’s ‘Red Shirts’. Cambodia’s monarchy today is weak and plays little autonomous role in politics.

Two further considerations when assessing Southeast Asia’s democratic prospects are the religious and ethnic cleavages that affect many of the countries of the region. Religious divisions often overlap significantly with ethnic cleavages. Islam is discussed in more detail in the next section. In terms of ethnic cleavages, all Southeast Asian countries have majority or near-majority ethnic groups – for example, the Javanese in Indonesia, the Burmese in Burma and the Malay in Malaysia). But across the region there is a complex mosaic of ethnic minority populations, often straddling border regions (for example, the Acehnese in Indonesia, the Karen in Burma and the Hmong in Vietnam). These minorities often complain, many would say with justification, that they are politically and economically marginalised.

The contrasting trajectories of Southeast Asian countries shows that it is unwise to assume that the more complex the ethnic mosaic, the more fragile democracy is likely to be. Although Thailand is affected by an insurgency in the south which has an ethnic component, its recent democratic crisis owes little directly to ethnicity. The main political struggle today is within the majority Thai ethnic group, although the conflict has often been played out through divergent strategies in the south. Equally, however, few dispute that recent relative ‘success stories’ like Indonesia remain vulnerable to democratic reversals in which revived ethnic rivalries could play an important role.

A final point to consider is whether the rise of a substantial urban middle class in parts of Southeast Asia has coincided with shifts towards democracy:

It is increasingly apparent that the middle class beneficiaries of regional growth and development consider the experience of democracy unsatisfactory. Indeed, the urban middle classes have proved something of a disappointment for democracy advocates [...] In the 1990s, incentives to democratisation might have appealed to an emerging

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<sup>154</sup> K. Jayasuriya and G. Rodan, “Beyond hybrid regimes: More participation, less contestation in Southeast Asia”, *Democratization*, Vol. 14, No. 5, December 2007, p773-9

<sup>155</sup> Ibid

generation of western educated technocrats as no alternative to liberal democracy seemed in sight [...] But the inexorable connection between markets modernisation and democratic freedoms now seems somewhat passé.<sup>156</sup>

Minority sections of the urban middle class in countries like Indonesia, Malaysia and the Philippines do appear still genuinely committed to democracy. But there is strong evidence that the majority are best understood as “contingent democrats”, as Bellin has described them.<sup>157</sup> Bellin claims that:

[...] the peculiar conditions of late development often make capital and labour much more ambivalent about democratization than was the case for their counterparts among early industrializers.<sup>158</sup>

David Martin Jones argues that the country towards which both elites and the wider middle class of Southeast Asia now instinctively look is China, although this attitude is combined with a degree of ambivalence and mistrust rooted in long-running territorial disputes and perceptions of a growing regional assertiveness on the part of Beijing. For a period, it did look to some observers as if the US, by far the most influential Western power in the region, had lost interest in it. A 2010 article in the *Financial Times* claimed that “for many, America’s south-east Asia policy has been in a torpor for almost two decades.”<sup>159</sup> However, the Obama Administration is now trying to change that situation.

If it is true that significant parts of the Southeast Asian middle class have ceased to be ‘true believers’, then democracy advocates might consider giving stronger support to movements that represent the poor and disempowered across the region, which may be more highly committed to the cause. However, some might assert that the picture is complicated by the fact that these movements are often simultaneously antagonistic towards the type of ‘neo-liberal’ economic policies still being advocated by Western donors, who remain the main funders of ‘democracy promotion’ around the world.

## **Case studies**

### *Indonesia*

The first phase of the post-Suharto era, 1998-2000, saw a strengthening role for the military, in part to counter a proliferation of competing “power centres”, prominent amongst which were diverse Islamist and ethnic separatist interests. This was a period within which the very survival of Indonesia appeared to be in question. The second phase, 2001-2004, while also a period of considerable instability, saw a partial withdraw of the military from politics and the introduction of significant reforms, not least on devolution. There was also growing popular commitment to democracy and the emergence of middle class, urban voters as an important electoral constituency. The political influence of Islamists at the national level waned somewhat.

The most recent phase, 2005 to the present, has seen much greater political stability under a former military man with a populist touch, President Yudhoyono – the first Indonesian head of state to be directly elected. Islamists have been relatively marginal and the resolution of the conflict in Aceh in 2006 has done much to douse the momentum for separatism across the country.

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<sup>156</sup> David Martin Jones, “Democracy doubts: Political stability in Southeast Asia”, *The World Today*, July 2010

<sup>157</sup> E. Bellin, “Contingent democrats: Industrialists, labour and democratization in late developing countries”, *World Politics*, Vol. 52, No. 2, 2000, p178. As the title suggests, the same can arguably also be said of the working class across the region.

<sup>158</sup> *Ibid*, p179

<sup>159</sup> “A wider radius”, *Financial Times*, 28 January 2010

Optimists assert that Yudhoyono currently enjoys sufficient power and authority, despite Indonesia's diversity and complexity, to 'hold the ring' politically and move key reform processes, if sometimes haltingly, in the right direction. Many point to his successes in tackling corruption as an indicator of progress. Writing in 2008, Benedict Anderson claimed that Yudhoyono had made significant progress towards democratic consolidation compared with most other countries in the region, while noting that the "competition was not heavy".<sup>160</sup> There has, according to Sukma, been a "breakdown of patrimonial and traditional authority in politics", including religious authority, over the past decade.<sup>161</sup> Caballero-Anthony has argued that since the fall of Suharto in 1998, political developments have involved "not merely a replacement of a regime but more an extrication of a regime."<sup>162</sup>

But some scholars are sceptical that any such 'extrication' has really taken place, arguing that beneath the surface, much of the Suharto-era political and economic order has survived, adjusting itself where necessary to a new institutional context. They also challenge Sukma's claim that patronage politics has been on the wane.<sup>163</sup> For example, Vadiz argues that the introduction of the policy of decentralization has led to a "localization of power" which has largely benefitted "a range of predatory local elites".<sup>164</sup> They go on to assert that democracy is still relatively weakly institutionalised and may prove difficult to sustain after Yudhoyono departs, threatening a potential political reversal. Others also point out that, whatever small successes there may have been in terms of tackling corruption, the equally entrenched problem of impunity, whether in relation to human rights abuses committed during the Suharto era or since it ended, has barely been addressed at all.

Yudhoyono's second term has undoubtedly been a more chequered affair. Indeed, Martin Jones, writing in 2010, goes so far as to claim that "Indonesia's democratic transformation [...] has also run out of steam."<sup>165</sup>

### *Malaysia*

Malaysia has experienced a troubled decade. The long reign of Dr Mahathir Mohamed until 2003 was never seriously threatened by his toleration of opposition parties. The political system was structured to ensure that the Malay majority called the tune, with the Chinese and Hindu minorities expected to keep a low political profile. However, the power and reach of Mahathir's political creation, the United Malays National Organisation (UMNO), under his successors – first, Abdullah Ahmad Badawi and, since 2009, Najib Tun Razak – has been somewhat weakened since his departure, with parts of the Malay majority shifting allegiances. In elections in 2008, the coalition which it dominates, the Barisan Nasional (BN), lost its two-thirds majority in the federal parliament and ceded control over five of Malaysia's 13 states. This was despite the fact that the electoral playing field remained far from level.

Abdullah promised to clean up Malaysian politics and improve respect for human rights. He largely failed in both regards and the economy also lost momentum during his tenure, leading the *Economist* to wonder whether he was "South-East Asia's Gorbachev".<sup>166</sup> Abdullah was unable, and perhaps insufficiently willing, to challenge the Malay business elite and middle classes, which had benefitted most from the ethnically-based political arrangements first established at independence in 1957. His was fundamentally an attempt at internal reform that was always likely to be defeated. His political affiliations ruled out alliances with opposition forces. Not that these would have guaranteed success either. So

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<sup>160</sup> B. Anderson, "Exit Suharto: Obituary for a mediocre tyrant", *New Left Review*, March/April 2008, p58

<sup>161</sup> R. Sukma, "Political transition and democratic resilience in Indonesia", in Caballero-Anthony, pp16-31

<sup>162</sup> Ibid, p9

<sup>163</sup> R. Robison and V. Hadiz, *Reorganizing Power in Indonesia* (London and Hong Kong, 2004)

<sup>164</sup> V. Hadiz, "the localization of power in Southeast Asia", *Democratization*, Vol. 14, No. 5, December 2007, p874

<sup>165</sup> David Martin Jones, "Democracy doubts: Political stability in Southeast Asia", *The World Today*, July 2010

<sup>166</sup> "Malaysia: South-East Asia's Gorbachev?", *Economist*, 5 July 2008

far, the opposition parties have been unable to overcome their ethnic differences for long, or build enough support amongst disaffected Malays, to really challenge the BN.

Najib has sought to combine stronger more effective government with continuing liberalisation. He faces the same challenge that ultimately defeated Abdullah: how to change the system without losing too much political support, in particular amongst the powerful Malay business elite. The majority of observers predict that Najib has done enough to ensure that the BN will win the next elections, which are due in 2012 but which could be brought forward to this year if the omens look positive. But his promises to reduce the salience of the communal principle in public life have so far produced little of substance and relations between the Malay elite and the “politically excluded Chinese and Indian minorities” remain poor.<sup>167</sup> There could be renewed political turbulence ahead.

### *Thailand*

Caballero-Anthony has written that, after 2006, Thailand returned to its “chequered past of elections, coups and constitutions” as a result of growing competition between “old political players opposed to social and economic change, and emerging actors”.<sup>168</sup> The ‘old players’ in this case are the business elite and the army, allied with the vast majority of the urban middle class; the ‘emerging actors’ are the poor and the rural majority, especially in the north of the country, for many of whom the populist tycoon Thaksin Shinawatra, Prime Minister between 2001 and 2006, was their hero.

It can be argued that Shinawatra mobilised the rural population partly for his own ends, as part of a wider struggle for power *within* the business and political elite. Many have criticised Shinawatra’s record while in power – not without justification, given that his government was often authoritarian, corrupt and committed human rights abuses against Muslim rebels in the southern provinces. However, this government did deliver on its promises of welfare and economic assistance to the poor and to rural areas.

However, there is no denying that the rural majority, allying itself with a small but radical section of the middle class that is genuinely committed to change, is now demanding that it be meaningfully included in the country’s democratic deliberations, having in the past been largely passive bystanders, or even ‘vote banks’. Their mobilisation may have contributed to a more unruly, vernacular type of politics, but one which arguably is more genuinely ‘democratic’ in character.

Thailand’s domestic politics since World War II have customarily been turbulent. There have been 18 military coups. Generals and civilians alike – whether under variations on authoritarianism or democracy – have usually found it difficult to construct coherent and long-lasting power blocs. The failure of the Democratic Party and its allies to prevent yet another electoral victory in July 2011 by the latest incarnation of the movement created by Thaksin, now led by his sister Yingluck, while he remains in exile, suggests that the old way of doing politics cannot be stitched back together again. But, to paraphrase the poet William Yeats, just because the old is dying, it may not yet be the case that the new is ready to born. Time will tell whether Yingluck’s victory can usher in a durable resolution of Thailand’s deep political crisis. Despite a hopeful start, plenty of obstacles remain to be overcome.

### *Singapore*

Singapore is, in many ways, unique in the region. For decades there has been a dominant party in Singapore, which has overwhelmingly won election after election – although the May 2011 elections saw the strongest opposition performance since World War II, raising doubts about whether this hegemony will continue indefinitely. This dominance has been based on –

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<sup>167</sup> David Martin Jones, “Democracy doubts: Political stability in Southeast Asia”, *The World Today*, July 2010

<sup>168</sup> Caballero-Anthony, “Introduction”, p10

and, through various feedback mechanisms, contributed to – a certain degree of responsiveness to ordinary people’s interests and concerns. Jayasuriya and Rodan characterize this form of government as an experiment in a “technocratic politics of administrative participation”, in which public consultation exercises become the main expression of political accountability and basis for policy-making, rather than formal representative institutions.<sup>169</sup> The fact of major obstacles to genuine electoral competition means, for most observers, that Singapore cannot be considered a democracy. However, government has an “open and connected” character that leads one analyst to describe Singapore’s political system as a “networked autocracy”.<sup>170</sup>

#### *Vietnam*<sup>171</sup>

Finally, Vietnam remains unapologetically an authoritarian one-party state. Vietnam’s model is the People’s Republic of China, in which a Communist Party oversees a particular form of capitalist development – one that involves no political liberalisation, as Westerners would understand it. The Communist Party permits no independent political opposition whatsoever. The only form of democracy allowed is the ‘democratic centralism’ of the party and the only form of criticism permitted is ‘loyal criticism’, although the party would claim that, through its structures (and those of the state), the ruling elite is genuinely attentive to ordinary people’s interests and concerns. Like Singapore, technocratic modes of participation are being trialled in Vietnam.

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<sup>169</sup> Singapore created a ‘Feedback Unit’ within the Ministry of Community Development, in 2006. It is now called the ‘Reaching Everyone for Active Citizenry @ Home (REACH)’. See Jayasuriya and Rodan, “The technocratic politics of administrative participation: Case studies of Singapore and Vietnam”, *Democratization*, Vol. 14, No. 5, December 2007

<sup>170</sup> C. George, “Networked autocracy”

<sup>171</sup> Laos, which is also a Communist state, is the other country in the region where similar circumstances to those in Vietnam prevail.

### 3.2 How serious is the threat from Islamist terrorism?

#### Overview

There are about 250 million Muslims in Southeast Asia. The vast majority are Sunnis, although there is a small number of Shia – for example, in Malaysia. Islam is the official religion in Malaysia and Brunei.

The 2002 Bali bombing raised the public profile of the region as an important site of Islamist terrorism and ‘global *jihād*’. Transnational groups such as Jemaah Islamiyah (JI) and Abu Sayyaf, which have been operating across Indonesia, Malaysia and the Philippines, have become well-known. Linked to al-Qaeda, these groups envisaged the creation of an Islamic caliphate comprising Indonesia, Malaysia, Muslim parts of the Philippines, Thailand, Cambodia and Brunei. So, what is the current threat from Islamist terrorism activity in the region? Is it on the increase, or is it in decline?

Before seeking to address these questions, it is important to caution against conflating Islamist terrorism and the broader movement known as ‘political Islam’ in Southeast Asia, which is essentially a peaceful movement espousing conservative religious values, which enjoys significant minority support in some Muslim parts of the region. There is no doubt that each of them has an impact on the other, or that moderate Islamists are sometimes ‘radicalised’. But the relationship between Islamist terrorism and political Islam across the region has overwhelmingly been one of tension and antagonism.

Writing in 2010, Eric Brown, writing for *Jane’s*, argues that the Islamist terrorist threat remains real but has changed in character:

Despite the region’s reputation for religious moderation and pluralism, the Indo-Malayan archipelago is also home to a dynamic and entrenched constellation of extremist Islamist trends and movements [...] Al-Qaeda’s regional affiliates are shifting their doctrines and strategies in an effort to develop a base of support and amass a political following within the region that is capable of mounting revolutionary action.<sup>172</sup>

Brown summarises what is happening as a deliberate process of “going native”, or “indigenisation” – that is, putting down deeper roots within host populations as part of a strategy of “decentralisation”. He concludes:

Foreign observers tend to equate the localised agendas and targeting of vigilante Islamist movements with less jihadist ambition and argue they are characteristically different from transnational movements such as al-Qaeda. This would be a mistake.<sup>173</sup>

Others would view such claims as empty scare-mongering, claiming that the threat, such as it is, is currently very small and isolated from the mainstream. This is certainly the view of John Sidel. Writing in 2008, he argues that there is “a tendency towards exaggeration in terms of how much terrorism there is”, going on to note that in Indonesia, “the single largest majority Muslim country in the world, we have seen essentially one bomb a year in 2002, 2003, 2004, 2005 and 2006. And nothing at all since then.”<sup>174</sup> Arguing that the overall trend is “one of decline”, he adds that there is:

An excessive narrowness in the sources on which the so-called terrorist experts and others draw and these sources overwhelmingly lead back, directly or indirectly through various feedback loops or otherwise, to governments themselves, to the security

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<sup>172</sup> E. Brown, “Going native: Al-Qaeda’s indigenisation in Southeast Asia”, *Jane’s Security and Military Intelligence Consulting*, October 2010

<sup>173</sup> Ibid

<sup>174</sup> J. Sidel, “The Islamist threat in South East Asia: Much ado about nothing?”, *Asian Affairs*, Vol. 34, No. 3, November 2008, p339



services, with very little questioning of the basis on which the information is gathered.<sup>175</sup>

Sidel concludes:

[...] is there much ado about nothing? Well here I would say yes and no. No in the sense that the notion of an Islamist threat has served as an effective justification for a restoration of influence, resources and insulation from public scrutiny for the military, police and intelligence services of the region.<sup>176</sup>

The absence of significant links between Islamist terrorism and political Islam is also demonstrated, according to Sidel, by the fact that the high water-mark of political Islam in Southeast Asia was during the 1990s, prior to the attacks on the US by al-Qaeda on 11 September 2001. During this period, and to a lesser extent since, political Islamists sought to build support by offering social welfare provision that the state was failing to provide, often supported by Islamic charities with bases in the Arabian Gulf.<sup>177</sup> However, over the past decade, the electoral dividends have not been as great as might have been hoped.

Charles Tripp makes an important point more generally about Western attempts to understand the relationship between politics and Islam:

One should not rely only on the players' descriptions of themselves. Yet this is precisely what has happened to the effort to understand the role of religion in shaping the political lives of Muslims. Many members of the Western media, and even many Western academics, have pointed to the most extreme of Muslim political tracts and suggested that these are what Islamism, or even Islam, is really about.<sup>178</sup>

Tripp, referring approvingly to the work of Gilles Kepel, then goes on to make the case for "[G]rounding Islamist organizations and their sympathisers in a local political reality shaped by the histories, predicaments and preoccupations of the people they seek to mobilize [...]"<sup>179</sup>

### ***Indonesia, Malaysia, Philippines and Thailand: A brief survey***

#### *Indonesia*

Sidel notes that since 1999, political Islam has been in retreat in Indonesia. President Abdurrahman Wahid (1999-2001) represented an Islamist tradition of cross-faith cooperation. Ecumenical parties strengthened their performance during his brief period in power. In 2001, Megawati, a secular nationalist, then took over as President. A crackdown on armed Islamist paramilitaries gravely weakened them. According to Sidel, the 2002 Bali bombings, in which over 200 died and for which JI claimed responsibility, were predominantly a response to these developments, rather than a conscious follow-up to 11 September 2001:

[...] the bombing campaign against foreign targets can be understood as an extrusion, or externalisation, of internal contradictions and limitations of the Islamist project itself in Indonesian society at this time.<sup>180</sup>

Brown is less sure, noting the leadership role in JI during this period of Abu Bakar Basyir, who explicitly linked its activities and objectives with those of al-Qaeda in his public statements.<sup>181</sup>

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<sup>175</sup> J. Sidel, "The Islamist threat in South East Asia: Much ado about nothing?", *Asian Affairs*, Vol. 34, No. 3, November 2008, p340

<sup>176</sup> Sidel, p349

<sup>177</sup> J. Kurlantzick, "Back to the graft", *London Review of Books*, 3 March 2011

<sup>178</sup> C. Tripp, "All (Muslim) politics is local", *Foreign Affairs*, September/October 2009

<sup>179</sup> Ibid

<sup>180</sup> , E. Brown, "Going native: Al-Qaeda's indigenisation in Southeast Asia", p344

Moving towards the present day situation, according to Joshua Kurlantzick:

Yudhoyono and members of his government have made speeches criticising Jemaah Islamiyah and other terrorist groups [...] but he has resisted the temptation to suspend the rule of law. He has set up a counter-terrorism force, which has successfully rounded up many JI cells, but Indonesia does not indefinitely detain suspects. According to the International Crisis Group, Jemaah Islamiyah is now splintered and largely ineffective.<sup>182</sup>

In 2010, the International Crisis Group reported that there had been a failed militant attempt to establish an 'Al-Qaeda Indonesia in Aceh'. It foundered following forceful action by the security forces and because "their ultra-puritan, anti-Western rhetoric of violence drew little sympathy in an area recovering from three decades of conflict."<sup>183</sup> Brown claims that the cell was preparing to attack government officials and international hotels in Jakarta in a way similar to the 2008 Mumbai attacks launched by the Pakistan-based Lashkar-e-Taiba. Its commander, Dulmatin, was killed as a result of the operations of the security forces against the cell. He is believed to be one of the masterminds behind the 2002 Bali bombings. Attempts over the last decade by the Indonesian authorities to convict Abu Bakar Basyir on terrorism charges had limited success until June 2011, when he was finally imprisoned for 15 years for providing support to this cell, later reduced on appeal to nine years (see also section 4.2 below).

Kurlantzick argues that Yudhoyono has not done enough to provide protection either for Muslim groups that the others view as 'heretical', such as the Ahmadiyya, many of whose mosques have been attacked and destroyed by mobs, or for the Christian minority, whose churches and organisations have been attacked.<sup>184</sup> Kurlantzick also claims that:

Islamist radicals may not be able to force through illiberal legislation at the national level, where they have to contend with moderate, secular, Christian and Hindu opposition, but they have at times been able to dominate local law-making. In Aceh, a version of sharia law now operates, and religious police roam the beaches, looking for young couples holding hands<sup>185</sup>

He also quotes another expert, who argues that "Indonesia might well be vulnerable to a type of creeping Islamic extremism" at the provincial level, through "the exploitation of political democracy and freedom of expression to pursue anti-democratic ends."<sup>186</sup> Brown notes that in 2008 Abu Bakar Basyir established a political 'front' organisation called Jamaat Ansharut Tauhid (JAT), which simultaneously operated in the political sphere while acting as a conduit for funds and support to Al-Qaeda Indonesia in Aceh.<sup>187</sup> The ICG has in recent months claimed that the strategy of decentralisation is now extending in Indonesia as far as "individual jihad" attacks against local targets by small groups that are acting independently of larger organisations which nonetheless are sometimes providing support and encouragement.<sup>188</sup> The ICG claims: "The last two years have seen an increasing merger of

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<sup>181</sup> E. Brown, "Going native: Al-Qaeda's indigenisation in Southeast Asia", *Jane's Security and Military Intelligence Consulting*, October 2010

<sup>182</sup> J. Kurlantzick, "Back to the graft", *London Review of Books*, 3 March 2011. JI was badly damaged by the killing in a police raid in central Java in September 2009 of one of its most senior figures, Noordin Mohamed Top.

<sup>183</sup> International Crisis Group, "Indonesia: Jihadi surprise in Aceh", April 2010

<sup>184</sup> J. Kurlantzick, "Back to the graft", *London Review of Books*, 3 March 2011

<sup>185</sup> Ibid

<sup>186</sup> J. Kurlantzick, "Back to the graft", *London Review of Books*, 3 March 2011, quoting Robert Pringle, *Understanding Islam in Indonesia: Politics and Diversity* (Hawaii, 2010)

<sup>187</sup> E. Brown, "Going native: Al-Qaeda's indigenisation in Southeast Asia", *Jane's Security and Military Intelligence Consulting*, October 2010

<sup>188</sup> ICG, "Indonesian Jihadism: Small groups, big plans", 19 April 2011

violent and non-violent extremist agendas in Indonesia [...] Counter-radicalisation programmes need to move beyond law enforcement to stop extremism at the source.”<sup>189</sup>

Benedict Anderson has claimed that “Islamic extremism is a spent force” in Indonesia, and notes of the Javanese, who are a near-majority of the population, that:

Even today the Javanese are divided between (mostly urban) ‘modernist’ Muslims who have no patience with syncretism and superstition, ‘traditionalist’ Muslims (mostly rural) whose outlook is both nationalist and syncretic, and ‘statistical’ Muslims who are circumcised, married and buried according to Muslim rites, but whose real faith still shows strong traces of Old Java’s religious outlook.<sup>190</sup>

That ‘Old Javanese’ religious outlook included elements of Buddhism, Hinduism and animism. This is what the term ‘syncretism’ – the attempt to unify or reconcile different systems of belief – means in the Indonesian context.

Sidel argues that while there have been moments over the past decade when religiously influenced ‘culture wars’ have broken out within Indonesian politics (for example, over the closure of the Indonesian version of *Playboy*), overall the trend has been one of “rising pluralism, the loosening of boundaries, hierarchies and identities of the faith in recent years, within Islam and more generally.”<sup>191</sup>

Despite the fact that nobody in Indonesia uses the term, secularism does appear to have put down deep roots in Indonesian society. This is so even amongst those parties with links to mass Muslim social organisations, which have joined their straightforwardly secular political competitors in espousing the doctrine of *Pancasila*, a Sanskrit word meaning ‘Five Principles’, the first of which is “belief in the one high God”. The *Pancasila* is enshrined in the preamble of the Indonesian Constitution. The Partai Kebangkitan Nasional (PKB, the National Awakening Party) and the Partai Amanat Nasional (PAN, National Mandate Party) are linked to the traditionalist Nahdlatul Ulama (NU, Awakening of the Traditional Religious Teachers and Scholars), with an estimated 30 million adherents, and the Muhammadiyah (Followers of Mohammed), with an estimated 40 million followers. Yet neither the PKB nor the PAN wants to see an Islamic state in Indonesia. Despite this apparent moderation, their recent electoral performance has been far from stunning, with even more strongly secular parties eclipsing them. But they have just about held their own against the two explicitly Islamist parties that currently exist, the Partai Persatuan Pembangunan (PPP, Development Unity Party) and the Partail Keadilan Sejahtera (PKS, Prosperous Justice Party).<sup>192</sup>

### *Malaysia*

A brief glance at Malaysia appears to confirm that the resonance of global *jihad* and anti-Western Islamist terrorism across Southeast Asia today is limited. While Jemaah Islamiyah (JI) was actually founded in Malaysia, its founders were two Indonesian exiles and it is there that the group has had more impact. Similarly, while Abu Sayyaf has on occasions extended its field of operations to Malaysia, its roots are in the Philippines. The greatest concern in recent years has been over the use of Sabah state as a transit point or safe haven for JI and Abu Sayyaf. There are a reported half a million Filipinos and Indonesians living illegally in the state. There are undoubtedly Malaysian sympathisers there and in other parts of Borneo, but they are a tiny minority. Malaysia has been co-operating closely with Indonesia and Singapore, particularly in the Straits of Malacca.

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<sup>189</sup> ICG, “Indonesian Jihadism: Small groups, big plans”, 19 April 2011

<sup>190</sup> B. Anderson, “Exit Suharto: Obituary for a mediocre tyrant”, *New Left Review*, March/April 2008, pp58, 50-51

<sup>191</sup> *Ibid*, p345

<sup>192</sup> S. Mujani and R. William Liddle, “Muslim Indonesia’s secular democracy”, *Asian Survey*, July/August 2009, p576-583

The Party of Islam in Malaysia (PAS) is the main expression of political Islam in the country, but it is not a major force. Political Islam appears largely conservative and state-centric and more likely to reduce than open up space for armed militancy. While some non-Muslim critics argue that there has been a process of creeping 'Islamisation' over the past two decades – they point to the demolition of 'unauthorised' Hindu Temples by local governments – overall, such claims are not convincing.

### *The Philippines and Thailand*

Islamist terrorism appears to have only a tiny constituency in the Philippines and Thailand, countries with small but nonetheless significant Muslim minority populations. The continuing insurgencies amongst Muslims in the south of both countries have little to do with Islam and much more to do with marginalisation.

Abu Sayyaf, a violent *jihadi* group with links to al-Qaeda, emerged in the southern Philippines after Joseph Estrada, who was elected President in 1998, embarked upon a 'total war' against the remaining Muslim insurgents in that part of the country, an onslaught which contributed to a revival of the insurgency rather than its eradication. There is little firm evidence of links between the two phenomena. The insurgency is rooted overwhelmingly in local struggles for power and resources, rather than ideology of any kind. Besides, some view Abu Sayyaf today as more a criminal gang than a group motivated by jihadist ideology.<sup>193</sup>

In Thailand, similarly, Thaksin Shinawatra, who became Prime Minister in 2001, launched a major offensive in 2004 against what had until then been a largely residual Muslim insurgency in the south of the country, again contributing to its revival. Over 3,900 people were reportedly killed between then and the end of 2009, according to the International Crisis Group.<sup>194</sup> Thaksin's main motivation for the crackdown, according to Sidel, was the fact that local Muslim power-brokers in the south were strongly linked to his political enemies in the Democrat Party.<sup>195</sup> Joshua Kurlantzick argues that Thaksin wasted no time on coming to power in dissolving the local council through which southern grievances had until then been successfully mediated. Here too, then, the insurgency appears to be driven overwhelmingly by local, rather than by international or ideological, factors.

2004-07 was a period of intense violence in the south, with some Buddhists in the area also setting up state-sponsored paramilitary groups for their 'protection'. After the military coup in September 2006, efforts were made to calm the situation but they had little effect. The situation in recent years has been characterised as "neither war nor peace".<sup>196</sup> Kurlantzick says: "Bangkok still refuses to consider any form of real autonomy for the region, although many southerners agree that this would be the only solution."<sup>197</sup> He cites another expert, who is strikingly pessimistic about the future, claiming that

In some areas [of the south] movement sympathisers constitute more than half or two-thirds of the population, though some of these are passive sympathisers who are playing along largely as a survival strategy. In many parts of the three provinces, the Thai state has little real authority [...]<sup>198</sup>

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<sup>193</sup> Sidel, p348

<sup>194</sup> International Crisis Group, "Southern Thailand: Moving towards political solutions?", December 2009

<sup>195</sup> Sidel, p348

<sup>196</sup> M. Askew, "Insurgency and the market for violence in Southern Thailand", *Asian Survey*, Vol. 50, No. 6, 2010, p1107

<sup>197</sup> "Red v. Yellow", *London Review of Books*, 25 March 2010

<sup>198</sup> "Red v. Yellow", *London Review of Books*, 25 March 2010, quoting Duncan McCargo, *Tearing Apart the Land: Islam and Legitimacy in Southern Thailand* (Cornell, 2008)

More contentiously, Kurlantzick also claims that, under the cover of the wider 'War on Terror', the government crackdown in Thailand has helped to bring into existence what it was officially seeking to prevent: the transformation of

a local conflict into one with international ties [...] The Thai army's response to the crisis in the south attracted the interest of Arab satellite TV stations, Islamist websites, charities and foreign militant groups, to whom southerners may have looked for guidance.<sup>199</sup>

However, there is no concrete evidence that any international or regional *jihadi* groups are currently operating in southern Thailand.

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<sup>199</sup> "Red v. Yellow", *London Review of Books*, 25 March 2010

## 4 Select bibliography and useful web sources

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[ASEAN Charter](#)

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***Statistics and economic indicators***

[ASEAN statistics](#)

[IMF \*World Economic Outlook\* database](#)

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***Other sources***

[Europa World Plus](#)

[CIA World Factbook](#)

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[Amnesty International](#)

[Human Rights Watch](#)

[International Crisis Group](#)



## Appendix 1 Demographic and Development Indicators

		Brunei	Cambodia	East Timor	Indonesia	Laos	Malaysia	Burma	Philippines	Singapore	Thailand	Vietnam
<b>Population</b>	Total	0.4	14.1	1.1	232.5	6.4	27.9	50.5	93.6	5.1	68.1	88.4
	% Men	51.6	48.9	50.9	49.9	49.9	50.8	48.8	50.4	50.2	49.2	49.4
	% Women	48.4	51.1	49.1	50.1	50.1	49.2	51.2	49.6	49.8	50.8	50.6
<b>Dependency ratio</b>	Total <sup>a</sup>	43.2	58.1	92.1	49.2	70.0	52.0	47.6	61.5	35.3	41.4	47.2
	Old-age <sup>b</sup>	4.8	5.5	5.7	8.9	6.2	7.2	8.1	6.8	13.2	10.7	9.3
	Youth <sup>c</sup>	38.4	52.6	86.4	40.3	63.8	44.8	39.6	54.7	22.1	30.7	37.9
<b>Fertility rate (births per mother)</b>		2.1	2.9	6.4	2.1	3.4	2.5	2.3	3.0	1.2	1.8	2.0
<b>Religion (% popn)</b>	Buddhist	13	96	0	0	67	19	89	0	43	95	9
	Muslim	67	2	1	86	0	60	4	5	15	5	0
	Christian	10	0	99	9	2	9	4	88	15	1	7
	Hindu	0	0	0	2	0	6	0	0	4	0	0
	Unspecified/other/none	10	2	0	3	32	5	3	8	24	0	83
<b>Life expectancy</b>	Total	77.5	61.5	61.6	71.2	65.4	74.6	62.1	72.1	81.3	69.1	74.6
	Men	75.2	59.7	60.7	69.2	64.0	72.3	59.9	69.9	79.0	66.1	72.7
	Women	80.0	63.4	62.5	73.3	66.9	77.0	64.4	74.4	83.7	72.2	76.6
<b>Under-5 mortality (per 1,000)</b>		6.7	87.5	56.4	38.9	58.6	6.1	71.2	33.1	2.8	13.5	23.6
<b>Literacy (% popn)</b>	Adult (16+)	95.3	77.6	50.6	92.2	72.7	92.5	92.0	95.4	94.7	93.5	92.8
	Youth (15-24)	99.7	87.5	n/a	99.5	83.9	98.5	95.7	97.8	99.8	98.1	96.9
<b>Primary school completion (%)</b>		100.0	83.2	79.8	100.0	74.7	97.3	98.9	93.7	100.0	100.0	100.0
<b>Lifetime risk of maternal death (1 in...)</b>		2000	110	44	190	49	1,200	180	320	10,000	1,200	850
<b>HIV prevalence (15-49, % popn)</b>		n/a	0.5	n/a	0.2	0.2	0.5	0.6	0.1	0.1	1.3	0.4
<b>Malnutrition prevalence (%)</b>		5	22	31	13	23	5	16	15	n/a	16	11
<b>Access to improved water source (%)</b>		99	61	69	80	57	100	71	91	100	98	94
<b>Access to improved sanitation (%)</b>		n/a	29	50	52	53	96	81	76	100	96	75
<b>Poverty (% &lt;\$2 per day)</b>		n/a	56.5	72.8	50.6	66.0	2.3	n/a	45.0	n/a	26.5	38.5
<b>Bilateral development assistance (\$m)</b>		0	722	217	1,049	420	144	357	310	0	47	3,744

<sup>a</sup> Population aged under 16 and 65+ as % of population aged 16-64

<sup>b</sup> Population aged 65+ as % of population aged 16-64

<sup>c</sup> Population aged under 16 as % of population aged 16-64

Sources: World Bank *World Development Indicators 2011*; IMF *World Economic Outlook*

## Appendix 2 Economic Indicators

		Brunei	Cambodia	East Timor	Indonesia	Laos	Malaysia	Burma	Philippines	Singapore	Thailand	Vietnam
<b>GDP</b>	\$bn	13.0	11.6	0.6	706.8	6.5	238.0	45.4	199.6	222.7	318.9	103.6
	world ranking	114	120	174	18	137	37	78	47	40	30	59
	annual average growth, % 2006-10	1.0	6.3	6.7	5.7	7.9	4.5	7.8	4.9	6.5	3.6	7.0
	per capita, PPP	48,892	2,118	2,869	4,347	2,449	14,744	1,256	3,920	56,694	9,221	3,143
<b>Investment</b>	% GDP	13.0	18.5	n/a	32.5	n/a	21.4	15.2	20.5	23.8	25.9	38.1
<b>Inflation (%)</b>	annual average, 2006-10	n/a	7.8	5.9	6.6	4.6	2.6	18.3	4.7	2.8	2.7	11.5
<b>Unemployment (%)</b>		3.7	n/a	n/a	7.1	n/a	3.3	4.0	7.2	2.2	1.0	5.0
<b>Current account balance</b>	\$bn	5.6	-0.5	1.4	5.6	-1.2	27.4	-0.6	8.5	49.5	14.8	-3.9
	% GDP	42.8	-4.1	227.1	0.8	-18.2	11.5	-1.4	4.2	22.2	4.6	-3.8
<b>Public sector balance</b>	\$bn	1.0	-0.3	1.5	-8.6	-0.3	-12.1	-1.8	-6.9	11.6	-8.6	-5.9
	% GDP	3.9	-2.9	238.6	-1.2	-4.4	-5.1	-3.9	-3.5	5.2	-2.7	-5.7
<b>Public sector debt</b>	\$bn	n/a	3.5	n/a	193.9	4.0	129.0	19.4	89.2	214.4	140.5	54.7
	% GDP	n/a	29.9	n/a	27.4	62.0	54.2	42.8	44.7	96.3	44.1	52.8
<b>Business environment</b>	World Bank Doing Business 2011 ranking, out of 183	112	138	168	129	165	18	n/a	136	1	17	98
<b>Foreign direct investment</b>	\$bn	n/a	6.0	0.3	121.5	2.1	101.3	8.3	24.9	469.9	127.3	65.6
	% GDP	n/a	51.2	54.5	17.2	32.3	42.6	18.2	12.5	211	39.9	63.3

Sources: IMF *World Economic Outlook* database; UNCTADstat; World Bank *World Development Indicators 2011*