

Southeast Asia from the Corner of 18th & K Streets

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Indonesia's Economic Inflection Point

ERNEST Z. BOWER

Ernest Z. Bower is senior adviser and director of the Southeast Asia Program at the Center for Strategic and International Studies in Washington, D.C.

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Indonesia is at an economic inflection point, which was dramatically underlined this week as two stories broke on the same day. First, Indonesia reported that it set a historic record of \$5.7 billion in foreign direct investment in the first quarter of 2012, an increase of 30 percent over the same period in 2011. The second story: Standard & Poor's announced it was sustaining its rating of "junk" status for Indonesian debt based on the country's trade and subsidies policies. At the same time that the world has found Indonesia and wants to buy in, Indonesian policymakers have become ambiguous about whether they want to let the world in and under what conditions. To counter this, U.S. companies and policymakers need to go to a new level of engagement to find alignment with their Indonesian counterparts. The fact is, both sides are interested in the same things, and a paradigm shift could offer relief, prevent counterproductive policies from being implemented, and spur sustained historic new investment and growth levels.

THE WORLD FINDS INDONESIA

Indonesia's economic situation is draped in a certain irony. The country worked hard for many years to get the attention of companies looking for an Asian base outside of China. The proud archipelago of more than 17,000 islands had a certain allure as the largest country and largest economy in the 10-country Association of Southeast Asian Nations (ASEAN), hulking over its regional siblings with a GDP more than twice

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the size of Thailand's. As Soeharto fell, the country was focused on political reforms, not business and economics, becoming the world's third-largest democracy. In addition, seemingly endemic problems ranging from lack of infrastructure to corruption to political risk assessments kept many potential investors at arm's length. Even the world's largest companies, those deploying proactive regional strategies in Southeast Asia, found that their market penetration and sales in Indonesia underperformed globally and relative to other ASEAN countries.

The macroeconomic situation has changed. Indonesia is now bounding forward as a large economy with a GDP of approximately \$1 trillion that grew by 6.5 percent last year. The World Bank projects GDP growth will continue at 6.1 percent this year. Politics are relatively stable. Indonesians are looking to move ahead, make money, and invest in the future. They are innovators and social media mavens, creative and open to new ideas.

Governments and companies from around the world have taken notice. Indonesia is now a member of the G20 and for all practical purposes a BRIC (Brazil, Russia, India, China) economy—bigger and faster-growing than the B and the R in that grouping. It will host one of the most important annual meetings of leaders in Asia in 2013, the APEC Economic Leaders' Meeting. What's more, investors are flying in from everywhere to figure out how to be part of the Indonesia growth story.

IS POLICY ALIGNED WITH OBJECTIVES?

Here is where the story takes a turn. As investors press their noses against the proverbial shop-front window of Indonesia, peering in at the multitudinous opportunities on display, they are becoming more and more frustrated with a set of policies that smack of economic nationalism. These policies appear to want to force investors to do what investors would prefer to do without a regulatory gun to their head—namely, invest in the country. In that sense, such policies are counterproductive.

Indonesia's proposed new Trade Law offers many relevant examples. Armed with the country's strong macroeconomic performance, consumer-fueled growth, and over-confidence borne of an economy that has arrived, Indonesian policymakers have tabled a dizzying array of new regulations. These seek to protect local companies, implement old-fashioned import-substitution requirements, and require foreign companies to give up control, equity, and the power to distribute their goods while demanding that they invest.



Indonesia's government has proved unwilling to cut fuel subsidies in the face of popular protests, which was an important factor in Standard and Poor's recent decision to keep the country's credit rating at "junk" status. <http://www.flickr.com/photos/henri-ismail/2519041772/>

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These policies do not appear to be coordinated, but instead are the response of a bureaucracy under enormous pressures from a few well-resourced local interests focusing on aspects of the economy they hope to protect. There is also an ideological dimension, namely a long-standing skepticism about capitalism and the market, which is particularly embedded in some parts of the bureaucracy. These factors are combined with an entirely rational desire to ensure Indonesia is involved in making value-added products, not just supplying raw materials for more-developed economies to turn into higher-value products. However, the bureaucracy does not have the experience and level of coordination needed to marry these objectives with incentives that will result in attracting the desired value-added investment. To do so requires a careful linkage between line ministries, investment promotion, and finance. Lastly, Indonesia's constitution promotes a defensive ideology by emphasizing that natural resources belong to the state. In the end, these factors combine and the result is that many of the proposed new regulations affect other ministries and are inconsistent with Indonesia's laws and its international commitments.

There is no clear direction from President Yudhoyono on what Indonesia wants from its engagement in trade and economic development. The last trade minister was removed from her position based on what most agree was a backlash to Indonesia's negative experience with the results of the ASEAN-China free trade agreement. Chinese goods flooded into the country, hurting local manufacturers. As a result, Indonesia has been reluctant to engage in new trade agreements and has remained aloof in the face of encouragement to join the nine-country Trans-Pacific Partnership (TPP) negotiations.

A NEW PARADIGM

The current policy dynamic needs to shift. It has set Indonesian policy and investors on opposite sides of the table, and this does not need to be the case. In fact, U.S. companies and trade policy officials should proactively work to change the paradigm.

The fact is that U.S. companies want the same things that Indonesians want: they want Indonesians to have more equity in their companies and growth in their economy; they want to create jobs and invest in training, education, and communities; they want to bring money and technology to Indonesia and implement nationwide business plans. U.S. companies are well poised—and eager—to support the Indonesian



Indonesia's economy is booming and foreign investors are paying attention. But recent policy decisions have some worried about the country's protectionist streak. <http://www.flickr.com/photos/yakobusan/4496912897/>

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government's ambitious new Master Plan for the Acceleration and Expansion of Economic Development (MP3Ei). In short, U.S. companies and their Indonesian counterparts should be on the same side of the table. The same is true for trade and economic officials. For instance, the U.S. trade representative just announced a new innovative model for bilateral investment treaties, commonly known as BITs, with adjustments to seek progress in large developing economies like China and India. That new model should be tabled with Indonesia as soon as possible.



Investors have been shaken by recent Indonesian regulations capping foreign ownership in the mining sector. <http://www.flickr.com/photos/jaundicedferret/2093175186/>

The barriers to alignment of goals on trade and investment are surmountable with leadership and a policy reset. In practice, these barriers include protectionist interests that are pressing a thinly staffed bureaucracy in Jakarta to implement shortsighted and parochial policies. Such policies will rob the majority of Indonesians of new jobs, sustained growth, training and educational opportunities, and investment in their communities. Well-intentioned policymakers end up promulgating regulations that have the opposite effect. An example is the obsession about achieving food self-sufficiency through import substitution schemes. Instead of self-sufficiency, the result has been soaring food prices, increased inflation, and a decrease in needed higher-protein products that would be available with a more open agricultural trade policy.

Americans need to be humble in pointing out these concerns and should offer the United States' own experiences as a lesson. In the 1990s, there was vocal opposition to Japanese investment in the U.S. automotive sector. Two decades later, workers and communities in states like South Carolina and Tennessee consider companies like Toyota and Honda to be local companies, providing high-paying jobs and buoying their communities with economic dynamism. Innovative companies working in Indonesia are starting to get this "global but local" space right and are seeing tremendous expansion, profitability, and stability as a result.

History shows that protectionist policies can push countries into a middle-income trap, unable to invest in infrastructure and missing the ingredients of long-term growth and innovation. Indonesian policymakers are right to be deeply concerned about Indonesia becoming "stuck." However, allowing laws that force divestment or localization kills investment and exploration and creates the equivalent of regulatory extortion. The proposed Indonesian mining law, for



Indonesia's Economic Inflection Point *(continued)*

example, contains policies that will force divestment, limit future exploration, and undercut stated goals of enhancing investment in valued-added development of metals and energy in Indonesia.

A BRIGHT FUTURE

Good leaders can and should change the dynamic that currently discourages investors from providing what Indonesians want and need to partner with them in developing the economy.

One such leader is Indonesian trade minister Gita Wirjawan. He has world-class capabilities and experience, and can be credited for marketing Indonesia's impressive growth and bringing in a record amount of foreign investment. However, he has been deployed to play the equivalent of a defensive role. This is like asking football superstar Lionel Messi, the planet's premier goal producer, to play goalie, and it begs the question of what Indonesia's economic growth numbers could be if leaders were empowered to make new deals and coordinate policies that brought investment and international standards to Indonesia. Growth rates of 6.5 percent could be closer to 8 or 9 percent.

- **Indonesia faces a key decision point.** Should it use this time, when the world wants to participate and invest in Indonesia's growth, to put in place forward-looking policies that encourage investors and empower local companies? Or should it play defense and protect a near-term opportunity for large domestic companies to dominate their respective sectors and soak up the benefits of the current growth cycle? Building a world-class economy takes leadership and requires defining the country's long-term goals so as to build a strong, long-term foundation. Indonesia has the vision to make that determination, and good partners should support and encourage that strategy. ■

The Week That Was

MYANMAR



Myanmar's capital, Naypyitaw. Aung San Suu Kyi and the NLD have opted to boycott their parliamentary seats due to the wording of the swearing-in oath. <http://www.flickr.com/photos/utenriksdept/5736301259/>

- **More countries ease sanctions against Myanmar.** Britain, Australia, Norway, Canada, and the European Union announced between April 13 and 24 that they would ease existing economic sanctions against Myanmar. British prime minister David Cameron April 13 called for suspending sanctions during his visit to Myanmar, the first by a major Western head of state since 1962. Opposition leader Aung San Suu Kyi backed his call. The U.S. Treasury Department April 17 announced it was relaxing restrictions on financial services and transfers to Myanmar for humanitarian, religious, educational, and other nonprofit activities in the country.
- **Newly elected opposition members boycott parliamentary seats.** Aung San Suu Kyi and her National League for Democracy (NLD) said April 17 said the party's 43 new members of Parliament would not take up their seats until the government changes the swearing-in oath, which includes a pledge to "safeguard" the current military-drafted constitution. The opposition campaigned for the April 1 by-elections on a pledge to amend Myanmar's constitution, which gives overwhelming power to the military, but the authorities have so far refused to do so. Separately, the NLD announced April 18 that Suu Kyi plans to travel to Britain and Norway in June on her first trip abroad in 24 years.
- **Japanese firms to help Myanmar develop securities exchange.** Myanmar has enlisted the help of the Tokyo Stock Exchange and Daiwa Securities to develop a securities exchange, according to the *Financial Times*. The two Japanese groups confirmed that they had signed a memorandum of understanding with the Central Bank of Myanmar to provide expertise to build and operate a securities market.
- **Asian Development Bank calls Myanmar's economy a potential "gold mine."** Myanmar's economy could boom on an anticipated influx of foreign investment, Craig Steffensen, the Asian Development Bank's country manager for Myanmar and Thailand, told Reuters. Economic growth is expected to hit 6 percent this fiscal year and 6.3 percent for 2013-2014. But Steffensen said growth will surpass that estimate if Western sanctions are rolled back and investment and assistance floods in from foreign companies and governments. Myanmar is a "huge market waiting to happen and growth will come from everywhere, not one specific sector," he told Reuters.

- **U.S. business groups call for further easing of Myanmar sanctions.**

Thirteen U.S. business associations April 23 issued an [open letter](#) to President Barack Obama urging him to “open the door to further involvement of the U.S. business community” in Myanmar. The Business Roundtable, National Association of Manufacturers, U.S. Chamber of Commerce and others called on the administration to ease restrictions on private investment across all sectors and establish the same rules for all businesses. They also urged “lifting of financial services facilitation and transactions sanctions,” which they said is essential to the development of Myanmar’s economy. These moves, they said, are vital in enabling U.S. businesses to work in Myanmar.

TIMOR-LESTE

- **Taur Matan Ruak elected Timor-Leste’s next president.** Former guerrilla leader Taur Matan Ruak defeated Francisco “Lu-Olo” Guterres 61 percent to 39 percent in Timor-Leste’s April 16 presidential run-off election. Ruak is the former head of the armed services and retired in October 2011 to run for president. He will replace current president José Ramos-Horta May 20. Voter turnout for the election was estimated at about 73 percent.

- **Timor-Leste to preside over Community of Portuguese Language Countries in 2014.** Minister of Foreign Affairs Zacarias Albano da Costa announced that Timor-Leste will preside over the Community of Portuguese Language Countries (CPLC) beginning July 2014. The CPLC is an eight-member organization formed in 1996; Timor-Leste joined in 2002. The goal of the CPLC is to promote cooperation and friendship among Portuguese-speaking nations. Portuguese and Tetum are the official languages of Timor-Leste, while English and Indonesian are working languages.

- **Government will send attaché to United Kingdom to support Timor workers.** The director general of Timor-Leste’s Secretariat for Professional Development and Employment announced April 19 that it will send Maria Guterres to the United Kingdom as a work-attaché for Timorese workers in the United Kingdom and Ireland. Guterres will work out of the Portuguese embassy in London. The government will urge Timorese workers, estimated to number about 8,000 in the United Kingdom and Ireland, to provide contact information so that Timor-Leste can provide assistance and information to them.



Taur Matan Ruak was elected the next president of Timor-Leste in run-off elections April 16. http://www.flickr.com/photos/un_photo/4005954355/in/photostream/



INDONESIA

- **New election law sets election threshold at 3.5 percent for parties.**

Indonesia's House of Representatives (DPR) passed a new election law April 12 that increases the electoral threshold for gaining seats in the DPR from 2.5 percent to 3.5 percent. The increase, which will make it difficult for small new parties to gain a foothold in the legislature, was supported by parties with large, nationwide followings like President Susilo Bambang Yudhoyono's Democratic Party and Golkar. The law makes it likely that only the nine parties currently in the DPR will win seats in the 2014 legislative elections.

- **Aceh elects former separatist leader governor in peaceful election.**

Former Free Aceh Movement (GAM) official Zaini Abdullah defeated incumbent Irwandi Yusuf in the April 17 election for Aceh's governor. Yusuf did not receive the backing of GAM's old guard leadership and lost 29.2 percent to 55.8 percent. Zaini was the foreign and health minister of the GAM's government in exile until the group reached a peace deal with the Indonesian government in 2005. The election proceeded peacefully despite fears that violence would flare between each candidate's backers.

- **Quake near Aceh tests tsunami alert system.** A magnitude 8.6 earthquake struck the Indian Ocean near Sumatra's Aceh province April 11 but did not result in injuries or major damage. It was the first real test for a \$100 million tsunami warning system put in place after the December 2004 quake and tsunami that killed 230,000 people. The system worked, broadcasting tsunami warnings via loudspeaker, text message, television, and radio in countries around the Indian Ocean until the threat had passed.

- **Ban on export of unprocessed ore might push up world nickel prices.**

Russia-based Norilsk Nickel said April 18 that Indonesia's planned ban on the export of unprocessed mineral ores might cause shortages that could push the market price of nickel above \$22,000 per ton. The company said that if that happened, several idle mining operations around the world could be restarted. In February, Indonesia pushed the planned ban, which mandates domestic processing of ores, forward from 2014 to May 2012.

- **Former Democratic Party treasurer sentenced to five years for taking bribes.** Former Democratic Party treasurer Muhammad Nazaruddin was convicted and sentenced to five years in prison April 20 for accepting kickbacks and rigging bids related to preparations for the 2011 Southeast Asia Games. The sentence was criticized as too lenient by Indonesian



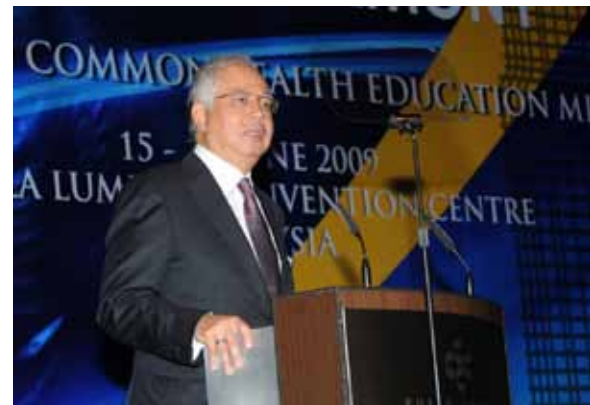
The ban on exporting unprocessed ore will go into effect in May, but Indonesia might not have enough ore processing facilities similar to this one. <http://www.flickr.com/photos/tfarrell/2413875426/>

Corruption Watch. Prosecutors had originally sought a seven-year sentence.

- **China Railway Construction Corporation to invest in bridge linking Java and Sumatra.** An Indonesian consortium, Graha Banten Lampung Sejahtera, and the China Railway Construction Corporation have announced plans to begin construction in 2014 of a 19-mile, \$10.9 billion Sunda Strait Bridge linking the islands of Java and Sumatra if an ongoing feasibility study returns positive results. The concept has existed for decades but is only now becoming economically feasible. The design has received the go-ahead from engineers analyzing the 260-foot-tall structure's resilience to earthquakes and volcanic eruptions.

MALAYSIA

- **New Security Offences Bill replaces Internal Security Act.** Malaysia's Parliament April 17 passed the much-anticipated Security Offences Bill to replace the country's 52-year-old Internal Security Act. The new law, unlike its predecessor, does not allow for detention based on political beliefs and stipulates that anyone who is detained cannot be held for longer than 28 days without formal charges.
- **Najib pledges reform of Printing Presses and Publication Act, review of Sedition Act.** Prime Minister Najib Razak said April 16 that he would seek to reform Malaysia's Printing Presses and Publication Act (PPPA) and review its Sedition Act. The prime minister the same day tabled a bill to reform the PPPA by ending the annual renewal of printing licenses and removing government ministers' discretion in granting or denying licenses. The reform measure would also establish a media council to self-regulate the industry.
- **Head of Malaysia's Performance Management and Delivery Unit hails progress toward high-income status.** Minister Idris Jala, the head of the government's Performance Management and Delivery Unit, said April 18 that Malaysia is on its way to achieving high-income status by 2020. Idris Jala said that Malaysia's 19 percent increase in private investments in 2011 was a clear sign that the government's Economic Transformation Program (ETP) is working and indicated progress toward the government's goal of national per-capita income of \$15,000. The ETP is a set of initiatives that seeks to channel private investment into high-growth sectors.



Malaysian prime minister Najib Razak has pledged to follow up on the replacement of the country's Internal Security Act by reviewing his country's Printing Press and Publication Act and Sedition Act. <http://www.flickr.com/photos/comsec/3631440779/>



- **Malaysia and China sign agreement on agriculture products.** Malaysia's Federal Agriculture Marketing Authority and China's National Agriculture Wholesale Market Association April 16 signed a memorandum of understanding in Beijing to increase the volume of Malaysian fruit entering the Chinese market. Mohd Hashim, secretary general of Malaysia's Ministry of Agriculture and Agro-based Industry, said the agreement is necessary because the supply of Malaysian fruit entering China has not kept pace with growing demand.

THAILAND

- **Yingluck makes first official visit to Beijing.** Prime Minister Yingluck Shinawatra traveled to China on her first official visit April 17–20, with a focus on trade and strengthening bilateral ties. Thailand and China issued a joint statement April 19 stating their intention to establish a Comprehensive Strategic Cooperative Partnership. Yingluck's delegation, which included several ministers and executives from 100 private firms, focused on trade and potential technological exchanges. Bilateral trade was valued at \$64.7 billion in 2011. Yingluck also traveled to Japan to attend the Japan-Mekong Summit April 21.
- **Thaksin visit to Laos and Cambodia stirs tensions in Bangkok.** Ousted former prime minister Thaksin Shinawatra made high-profile appearances in Vientiane April 12 and Siem Reap April 14, reportedly to celebrate the Thai New Year and reach out to supporters. One thousand supporters traveled from Thailand to see Thaksin in Laos, while the crowd in Siem Reap numbered several thousand, including high-ranking members of the Thai parliament. Separately, a controversial reconciliation bill that would include an amnesty for Thaksin was shelved by the Pheu Thai Party April 18 due to disagreements about the extent of the amnesty provisions.
- **Court to rule on lèse-majesté case under Computer Crimes Act.** The Bangkok Criminal Court will rule April 30 on the controversial lèse-majesté case against Chiranuch Premchaiporn, a manager of the message board for the news website Prachatai. Chiranuch was arrested March 6, 2009, for comments that were made by users on the website. This is the first case in which a person is being held responsible for user-generated content deemed to violate lèse-majesté on a website. Chiranuch is charged under the Computer Crimes Act. Numerous human rights and free press organizations have criticized Thailand for her arrest.

- **Songkran's "seven dangerous days" more deadly this year.** Thailand's New Year celebrations, or Songkran, were more deadly this year than last, with 320 people killed and 3,320 injured. The celebrations, which ran from April 11 to 17, are termed the "seven dangerous days" due to the high number of traffic accidents caused by drinking and driving and the increased volume of cars on the road. According to Thailand's Road Safety Center, there were fewer traffic accidents this year than in 2011, but the number of fatalities increased 18 percent.
- **Government establishes new agency for flood monitoring.** Prime Minister Yingluck Shinawatra April 16 ordered the creation of a new flood information center under the National Water Resources and Flood Policy Committee. The center will compile information on flooding from sources such as the Royal Irrigation Department and meteorological agencies, and distribute it clearly and concisely to the general public. Committee member Anond Snidwongs, who announced the order, said that many of the country's current flood prevention projects are behind schedule.



A 2006 celebration of Thai New Year in Pattaya, Thailand. This year's celebrations saw a drop in traffic accidents, but an uptick in fatalities. <http://www.flickr.com/photos/eprivass/532673926/>

PHILIPPINES

- **Left-wing activists attack U.S. embassy in Manila.** Left-wing Philippine demonstrators April 16 attacked the U.S. embassy in Manila in protest against the annual U.S.-Philippine war games near disputed waters in the South China Sea. Roughly 70 protesters surprised embassy security when they proceeded to splatter paint on the seal of the embassy, chip the bronze signage, and burn a mock U.S. flag. The protesters chanted "U.S. troops out now" and demanded the withdrawal of the United States from the annual military exercise.
- **Scores wounded as violence rocks southern Philippines.** A string of bombings in the southern Philippines April 10-14 left seven dead and scores wounded. A powerful explosive booby trap planted by Abu Sayyaf militants hit an army patrol on the southern island of Basilan April 10, killing one soldier and wounding 27 others. Suspected extortionists bombed a bus in North Cotabato province April 11, killing 3 passengers and wounding 16 others. A grenade attack April 14 killed 3 people and injured 33 others at a cockfighting ring in central Mindanao.
- **Philippines, Qatar establish joint \$1 billion investment fund.** The Philippine government agreed April 11 to create an investment fund with Qatar worth \$1 billion for prospective projects in the Philippines. The joint investment fund would be coordinated between the Philippine Department



of Trade and Industry and the investment house Qatar Holding LLC. The creation of the fund comes after Philippine president Benigno Aquino and Qatar emir Sheikh Al-Thani signed a bilateral memorandum of understanding April 20. Qatar has expressed particular interest in tourism, energy, and infrastructure projects in the Philippines.

- **MILF casts doubts on likelihood of peace pact agreement with Philippine government.** More than 200 political officers of the Moro Islamic Liberation Front (MILF) signed an April 8 statement expressing doubt about the prospects of a comprehensive peace agreement within President Benigno Aquino's presidential term, which ends in 2016. The statement came ahead of another round of peace negotiations between MILF and government representatives in Kuala Lumpur April 24-26. The Philippine government remains optimistic that an agreement can be reached and hopes that negotiations will be bolstered by the inclusion of representatives from the Organization of the Islamic Conference.
- **Philippine vice president warns of inevitable split ahead of elections.** Philippine vice president Jejomar Binay declared during an April 17 interview that a split is "unavoidable" between himself and President Benigno Aquino in the lead-up to the 2016 presidential elections. President Aquino has denied the inevitability of a split and praised Binay's service record in his administration. Binay, who chairs the PDP-Laban party, is a presidential hopeful in the 2016 presidential election and is aiming to distinguish himself and his party's policy platform from Aquino's Liberal Party ahead of legislative elections in 2013.

SOUTH CHINA SEA

- **United States, Philippines begin two-week joint military exercises near disputed waters.** The United States and the Philippines April 16 launched annual joint military exercises, termed Balikatan (shoulder-to-shoulder) and involving 7,000 military personnel, near disputed waters in the South China Sea. The annual war games will run until April 27 and include 4,500 U.S. personnel and 2,300 Philippine troops in 60 training exercises. The exercises are taking place in and around Palawan and Luzon.



U.S. ships and personnel are currently conducting joint naval exercises with the Philippine military. <http://www.flickr.com/photos/usnavy/5471752270/>

- **China, Philippines in standoff over Scarborough Shoal.** Chinese and Philippine maritime surveillance ships remain locked in a two-week standoff at the disputed Scarborough Shoal. The incident began April 10 when Chinese surveillance ships intervened to prevent the Philippines' flagship, the *Gregorio del Pilar*, from arresting Chinese fisherman



for illegal fishing near the shoal. Most vessels, including those of the fishermen, have since left the area, but one Philippine and one Chinese patrol boat remain at the scene. Both sides have reiterated their territorial claim to the shoal and China has rejected a Philippine call to bring the dispute to the International Tribunal on the Law of the Sea for resolution.

- **China warns India, Russia over resource exploitation in South China Sea.** India rejected an April 5 warning by China not to develop oil and gas blocks in the South China Sea. India asserted April 11 that no nation has “unilateral control over” the sea and it will continue oil exploration and investment opportunities with Vietnam. China also requested that Russia avoid getting involved in the sea after Russian gas giant Gazprom April 10 signed an agreement with Vietnam to develop two blocks off the country’s coast.
- **Vietnam lends support to Philippine multilateral approach to resolve dispute.** Vietnam April 9 voiced its support for a Philippine proposal to resolve the South China Sea dispute through multilateral mechanisms within ASEAN. The Philippines made the proposal to fellow South China Sea claimants during the 20th ASEAN Summit in Cambodia April 3-4. China has said it prefers to resolve disputes bilaterally. Both Vietnam and the Philippines are looking to draft a binding code of conduct within ASEAN before inviting China to participate in the discussions.
- **International Crisis Group releases report on South China Sea conflict.** The International Crisis Group published a report April 23 titled “Stirring up the South China Sea.” The report examines the policy shifts and reasons for diplomatic failure in the South China Sea, noting that China continues to benefit from ambiguity about its intentions. It concludes that long-term prospects for resolution depend on China developing a consistent South China Sea policy throughout the government and reining in the diverse Chinese actors that are pursuing their own interests on the issue.

VIETNAM

- **U.S. expresses concern over Internet freedoms in Vietnam.** The U.S. government has expressed alarm over increasing restrictions on Internet activity in Vietnam following the April 16 arrest of three bloggers charged with creating propaganda against the state. The charge is punishable by up to 20 years in prison. The U.S. State Department called the arrests part of a “disturbing pattern” of restricting Internet speech in Vietnam, where



media are heavily controlled and sites like Facebook are often blocked. Reporters without Borders labeled Vietnam an “enemy of the Internet” in its 2011 report.

- **Vietnam surprises investors with second interest rate cut in just over a month.** Vietnam’s central bank April 10 cut interest rates by a full percentage point for the second time in just over a month. The State Bank of Vietnam hopes to encourage investment after Vietnam’s growth rate fell to 4 percent in the first quarter of the year, the lowest level in three years. The move surprised investors because it came so soon after the last rate cut in March.
- **Vietnamese and Chinese militaries strengthen ties.** The militaries of Vietnam and China reaffirmed close ties during an April 16 meeting in China between Vietnamese Lieutenant-General Do Ba Ty and Commander-in-Chief Chen Bingde of the Chinese People’s Liberation Army. Both sides agreed to implement the contents of a 2003 protocol and work together closely at the ASEAN Defense Ministers’ Meeting Plus, and they arranged for the their navies and border guards to conduct joint patrols and rescue missions. They also agreed to abide by basic principles guiding the settlement of sea-related issues.
- **U.S. and Vietnam hold five-day naval exchange.** The United States and Vietnam held five days of naval exchange activities to “focus on non-combatant events and skills exchanges in areas such as navigation and maintenance,” according to a U.S. embassy statement. The U.S. 7th Fleet Flagship USS *Blue Ridge*, the guided missile destroyer USS *Chafee*, and the rescue and salvage ship USNS *Safeguard* arrived in Danang April 23. The last U.S. port call to Vietnam was in July 2011.
- **Vietnam asks WHO for help with mystery disease.** Vietnam has sought assistance from the World Health Organization to investigate an unknown disease that has caused 19 fatalities and sickened another 171 people as of April 20. Symptoms include high fever, a rash on hands and feet, and eventual organ failure. The disease was first discovered in 2011 and most cases have come from one impoverished village in central Vietnam.

ASEAN

- **Vikram Singh named deputy assistant secretary for defense for South and Southeast Asia.** Vikram Singh was named the new U.S. deputy assistant secretary for defense (DASD) for South and Southeast Asia April

20. Singh takes over the position from DASD Robert Scher, who became DASD for planning under the deputy secretary of defense for policy. Singh was formerly senior defense adviser to the special representative for Afghanistan and Pakistan, senior adviser for counterinsurgency at the Pentagon, and fellow at the Center for New American Security.

- **The International Monetary Fund lowers ASEAN-5 growth projections for 2012.** The annual *World Economic Outlook* of the International Monetary Fund (IMF), released April 17, reduced its 2012 growth projections for the ASEAN-5 (Thailand, Malaysia, the Philippines, Indonesia, and Vietnam) from 5.6 percent to 5.4 percent. A number of factors influenced the reduced growth projection, including the ongoing low demand for imports in Europe and the United States. The IMF projected that economic growth for the five countries would rebound to 6.2 percent in 2013.

- **New Zealand prime minister visits ASEAN Secretariat.** New Zealand's prime minister John Key paid a visit April 16 to the ASEAN Secretariat in Jakarta. Key said ASEAN and New Zealand have made progress in energy, disaster management, agro business, and education cooperation. New Zealand has one of the longest-standing relationships with ASEAN and became the organization's second dialogue partner in 1975.

- **The United States and ASEAN increase ties through humanitarian assistance center.** ASEAN April 12 installed a new disaster monitoring and response system at the ASEAN Humanitarian Assistance (AHA) Center in Jakarta. The system was developed with assistance from the United States and will allow ASEAN to better monitor natural disasters and communicate warnings to member-states. The United States has also agreed to provide capacity training to the AHA. ASEAN secretary general Surin Pitsuwan and U.S. ambassador to ASEAN David Carden were present at the system's unveiling.



New Zealand prime minister John Key and ASEAN secretary general Surin Pitsuwan in September 2009. Key recently visited the ASEAN Secretariat and hailed growing cooperation between New Zealand and the organization. <http://www.flickr.com/photos/nznationalparty/3895051939/>

CAMBODIA

- **Deposed Bavet governor charged with causing “unintentional injuries” for factory shooting.** The investigating judge for the Svay Rieng provincial court April 20 charged deposed governor Chhouk Bandith with causing “unintentional injuries” to three PUMA workers in a February 20 shooting. Bandith allegedly drove up to a crowd of factory workers protesting for higher wages and shot at them, hitting one woman in the chest and injuring two others. Bandith was fired as governor and reportedly confessed to the provincial court March 15. Human rights groups both



inside and outside of Cambodia have sharply criticized the charge as too lenient.

- **Cambodia ranks last of 146 countries in Gallup's well-being survey.** Only 2 percent of Cambodians described their lives as “thriving” in a recent Gallup well-being survey, the lowest of 146 countries surveyed. Forty-six percent of respondents in neighboring Thailand and 30 percent in Vietnam answered in the affirmative, while Laos came in just above Cambodia, with 3 percent. The poll surveyed 1,000 people over the age of 15 in each country. Cambodian government spokesperson Ek Tha responded by saying the government is “doing its best” as the country recovers from 30 years of conflict.



Cambodian garment workers in transit. Cambodia's garment industry has been hit by a series of recent scandals, including a shooting at a PUMA factory and mass faintings at a Nike factory. <http://www.flickr.com/photos/wwwes/212164316/>

- **Nike asks International Labor Organization to investigate factory faintings.** Nike April 12 asked the International Labor Organization's industry monitoring body Better Factories Cambodia to investigate two mass faintings the previous week at its Sabrina factory. Nike officials met with Better Factories Cambodia, which is devising an action plan to prevent similar incidents in the future. Mass faintings at factories are not uncommon in Cambodia; more than a dozen factories experienced mass fainting incidents in 2011. Overwork and poor ventilation are believed to be the primary causes.
- **Cambodia signs \$60.3 million loan package from Asian Development Bank.** Cambodia's Ministry of Economy and Finance April 4 signed a loan package for flood relief from the Asian Development Bank (ADB) valued at just over \$60 million. The ADB will provide \$55 million, while the remainder will come from AusAID, Australia's foreign aid agency. The funds will support projects rebuilding infrastructure and encouraging economic growth in areas affected by last year's devastating floods, the worst flooding in a decade.

SINGAPORE

- **Debate heats up over proposal to close wage gap.** Leading economics professor Lim Chong Yah of Nanyang Technological University sparked vigorous debate over the viability of Singapore's growth model in early April when he said that the country needs a “wage revolution” to narrow a widening income gap. Lim recommended a three-year freeze on monthly salaries that exceed \$12,000 a month and a 50 percent increase of monthly salaries less than \$1,200. Government officials and business personalities have criticized the proposal, calling it unrealistic and saying it would render Singapore uncompetitive.

- **Forty-eight charged in underage prostitution scandal.** Forty-eight men were charged April 27 with having paid sex with an underage girl. The high-profile case gained widespread attention for the scale and profile of the men involved. They included nine public servants, a former school principal, a former bank executive, and the grandson of a movie and real estate tycoon. Although prostitution is legal in Singapore, having paid sex with anyone under 18 is an offense that carries a maximum seven-year jail term and a fine.
- **Singapore ranked Asia's most livable city.** A new study by ECA International released April 17 ranked Singapore as Asia's most livable city out of 49 cities surveyed. Japan's Kobe city was in second place, followed by Hong Kong. The study also ranked Singapore the best city globally for Asian expatriates.

MEKONG RIVER

- **Research to develop salt- and flood-tolerant rice under way in Mekong delta.** Vietnamese and Filipino scientists at the International Rice Research Institute in the Philippines are working to develop a strain of rice that can withstand both floods and high saline levels. Almost one-third of the Mekong delta, where nearly half of Vietnam's rice is grown, could be submerged by salt water if there is a one-meter rise in sea levels caused by dams or climate change. The scientists say it may take four or more years to develop a variety of rice that can withstand these conditions.
- **Thailand and China pledge cooperation to boost security along Mekong River.** Thai prime minister Yingluck Shinawatra and Chinese prime minister Wen Jiabao agreed during an April 17 meeting to work together with Laos and Myanmar to maintain joint law enforcement along the Mekong River. Nine Thai soldiers are currently on trial for allegedly killing Chinese sailors in the Golden Triangle region of the Mekong in October 2011. Yingluck promised "severe punishment" if the soldiers are found guilty.
- **Japan pledges \$7.4 billion in aid to Mekong region.** Japan will provide the five Mekong area countries—Thailand, Vietnam, Laos, Cambodia, and Myanmar—with \$7.4 billion in official development assistance over the next three years. Japan's prime minister Yoshihiko Noda made the announcement April 21 during a Mekong-Japan summit in Tokyo with leaders from the five countries. The funds will be earmarked for infrastructure projects.



Singapore was ranked Asia's most livable city and the best city globally for Asian expatriates in a recent study. <http://www.flickr.com/photos/adforce1/5540425237/>



BRUNEI DARUSSALAM

- **Top Chinese political adviser makes stop in Brunei.** Jia Qinglin, chairman of the Chinese People's Political Consultative Conference's National Committee, visited Brunei from April 18 to 20. Jia held talks with Sultan Hassanal Bolkiah on the bilateral trade relationship, the ASEAN-China trade relationship, people-to-people exchanges, and progress toward a peaceful resolution of the South China Sea disputes. Jia also made stops in New Zealand and Thailand during his trip.

- **Brunei and Turkey strike defense cooperation agreement.** Brunei and Turkey have signed a defense cooperation agreement that includes technology transfer and cooperation in research on weapons platforms and systems. The deal was announced during an April 10 visit to Turkey by Sultan Hassanal Bolkiah aimed at improving the bilateral investment environment and lowering visa requirements.

- **CAE to open \$100 million helicopter training center in Brunei.** Canadian aerospace company CAE announced April 16 that it would create a joint venture with Brunei's Ministry of Finance to establish a helicopter-simulator training facility in Brunei. The facility is slated to have five simulators and several classrooms. CAE also signed a services contract for \$170 million to service several of Brunei's military helicopters.



Brunei recently signed a contract with Canada's CAE to construct a helicopter simulation training center. CAE also holds a maintenance contract for Brunei's helicopters, including Black Hawks. http://www.flickr.com/photos/aus_defence_force/5464001094/

LAOS

- **Walgreens donates flu vaccine to Laos.** U.S. retailer Walgreens announced a donation of 375,000 doses of seasonal flu vaccine worth \$9 million to Laos in a collaboration facilitated by the U.S. Centers for Disease Control and Prevention. The Lao Ministry of Health will launch the campaign April 24, giving priority to high-risk groups. During the 2009-2010 flu pandemic, more than one million Laotians were vaccinated against 2009 H1N1.

APEC

- **Vietnam hosts 45th APEC telecommunications meeting.** Vietnam hosted the 45th APEC Telecommunications and Information Working Group meeting April 9-11 in Danang. Discussions focused on how APEC members can overcome obstacles in information and communication technologies, strengthen Internet security, develop telecom networks, and improve competition in the telecom sector. Participants prepared documents to be submitted to the ninth APEC Telecommunications Ministers' Meeting scheduled for August 6-8 in St. Petersburg, Russia. ■

Looking Ahead

- **Discussion on gender and conflict in Mindanao.** The Asia Foundation will host a panel discussion April 26 on its newly released report *Gender and Conflict in Mindanao*. Panelists will include Leslie Dwyer, assistant professor at the Institute for Conflict Analysis and Resolution at George Mason University; Willy Torres, program officer for conflict programs at the Asia Foundation's Philippines Office; and Steven Rood, the Asia Foundation country representative to the Philippines and senior visiting professor at the Johns Hopkins School of Advanced International Studies. For time and venue, please RSVP to Kate Bollinger at kbollinger@asiafound-dc.org.
- **Discussion on economic and political challenges in the Philippines.** The Carnegie Endowment for International Peace, the Johns Hopkins School of Advanced International Studies, and the Asia Foundation will cohost a panel discussion April 27 on what the current Philippine government needs to do to maintain rapid economic growth while ensuring inclusive governance. Panelists will include the Asia Foundation's Steven Rood, George Mason University's John Nye, and World Bank chief economist Bert Hofman. The event will be from 12:00 noon to 2:00 p.m. at the Carnegie Endowment for International Peace, 1779 Massachusetts Ave., NW. Please RSVP [here](#).
- **Conference on Taiwan and Asia-Pacific economic integration.** The George Washington University's Sigur Center for Asian Studies will host a conference April 30 titled "Taiwan and Asia Pacific Economic Integration: ECFA, TPP and Beyond." Speakers will include William Liu, senior executive economic officer of the Taipei Economic and Cultural Representative in the United States, and Rupert Hammond-Chambers, president of the U.S.-Taiwan Business Council. The conference will take place from 10:00 a.m. to 2:30 p.m. at the Elliot School of International Affairs, City View Room, 1957 E St., NW, 7th Floor. Please RSVP at go.gwu.edu/TaiwanApril30 by April 27.
- **ASEAN defense officials meeting in Cambodia.** Cambodia, as chair of the 6th ASEAN Defense Ministers' Meeting (ADMM), will host the ASEAN Defense Senior Officials Meeting (ADSOM) Plus April 26 in Siem Reap. It will follow the ADSOM held April 24-25. Defense officials from the ASEAN states and their dialogue partners will exchange views on regional security issues, review the frequency of the ADMM Plus, and discuss the draft joint declaration of the ADMM on enhancing ASEAN unity. The meeting will be chaired by Gen. Neang Phat, secretary of state of Cambodia's Ministry of National Defense. The 6th ADMM will be held on May 29 and May 30 in Phnom Penh. ■

SOUTHEAST ASIA FROM THE CORNER OF 18TH & K STREETS

CSIS Southeast Asia Program contributors:

Ernest Bower, Senior Adviser and Director
Murray Hiebert, Senior Fellow and Deputy Director
Gregory Poling, Research Assistant
Sakari Deichsel, Researcher
MeiLee Dozier, Researcher
Blake Berger, Researcher
Kathleen Bissonnette, Researcher
George Gorman, Researcher
Tracy Quek, Researcher

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