

## Southeast Asia Political and Economic Update

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### MALAYSIA

- Anwar Ibrahim keen to project a sense of permanence and direction in his premiership, gives broad hints on reform priorities as he crosses 100 days in office
- Anwar's administration downplays claims by the Opposition of a potential political coup
- Home Minister and Anwar loyalist criticized for use of ministerial discretion to prevent deregistration of UMNO over alleged irregularities ahead of internal elections

**Anwar Ibrahim was keen to project a sense of permanence and direction in his position as Malaysia's tenth premier as he crossed 100 days in office, giving broad hints on intended policy priorities for the next two to three years during his recent Budget 2023 announcement.** These priorities included targeted revenue-raising measures to address wealth inequality via capital gains and luxury taxes, and mechanisms for targeted subsidies to reduce wastage in federal spending. For now, the re-introduction of a Goods and Services Tax (GST) is off the table, largely due to Anwar's lieutenants prioritizing the efficiency and governance structure of existing revenue-raising mechanisms.

**On the political front, Anwar's administration downplayed what were described as outlandish claims by the Opposition alluding to a fresh attempt to oust the current government.** The latest episode stemmed from a statement made by Opposition lawmaker Abdul Hadi Awang last week, when the Malaysian Islamic Party (PAS) president predicted that the current government would collapse soon. He further claimed that the Opposition bloc has a "right" to plan ways to topple the government, whether by pushing a no-confidence vote against the Prime Minister or by enticing elected representatives to defect. While defections are a tall order given the country's new anti-hopping law, there is a loophole — Anwar could lose majority support should a coalition or political party decide to collectively cease their backing of his leadership.

**Meanwhile, Home Minister Saifuddin Nasution Ismail came under heavy fire over his use of ministerial discretion to exempt the Malay nationalist United Malays National Organization (UMNO) party from being deregistered over alleged irregularities ahead of its internal election.** Saifuddin, a key lieutenant to Anwar, invoked Section 70 of the Societies Act to prevent UMNO from being deregistered, following the party's earlier decision to ban any contest for its presidency and deputy presidency posts in January. While the removal of emergent threats to UMNO incentivizes the party leadership to continue supporting Anwar's unity government, the move undoubtedly runs counter to the Prime Minister's promise of good governance and transparency. This issue will likely be used by political opponents as fodder ahead of the upcoming six state elections, which must be held by June this year.

### PHILIPPINES

- Legislators' and local governors' reluctance to support the Marcos administration's military cooperation with the U.S. complicates the Philippines' defense posture

- Congress approves a resolution paving the way for Constitutional amendments, opening the door for economic liberalization, potential term limit removals, and other major changes

**Local government officials remain reluctant to support the Marcos administration's military cooperation with the U.S., thereby complicating the Philippines' defense posture.** Local officials are concerned that the mere presence of U.S. forces in selected Philippine provinces under the Enhanced Defense Cooperation Agreement (EDCA) will turn them into first-strike targets should any regional conflict break out. V&P sources shared that Philippine defense officials, citing EDCA, are considering hosting non-nuclear U.S. missiles on Philippine bases in addition to rotating U.S. troops, a move that would be sure to incite even more vehement opposition from local government leaders.

Regardless of the level of U.S. military presence in the country, it remains highly unlikely that any violent conflict involving Taiwan or the South China Sea would not involve the Philippines —the country is the nearest point of evacuation for anyone fleeing Taiwan, and Philippine forces and fishermen are heavily invested in the South China Sea flashpoint.

**Meanwhile, Congress this week (March 6) approved a resolution paving the way for Constitutional amendments, opening the door for economic liberalization and concerningly, potential removal of term limit restrictions for elected officials.** An overwhelming majority of the Lower House voted to call for a convention to amend constitutional provisions restricting foreign business ownership in the country. While the President has said charter change was unnecessary for attracting foreign investment, it is doubtful the Lower House would have pushed this measure through without the Palace's tacit approval — the Lower House has traditionally served as a rubber stamp for the President's legislative priorities, especially now that it is led by the President's cousin, Speaker Martin Romualdez.

**The main concern now lies in whether Marcos's allies will actually keep their word and limit themselves to the economic provisions of the Constitution.** Once convened, delegates will have the power to make far-reaching amendments, including changing the form of government to a federal model and removing term limits for elected officials.

## INDONESIA

- Jakarta district court orders General Elections Commission (KPU) to restart all election preparations following controversial ruling, but decision widely expected to be overturned in higher court
- Presidential decree in lieu of the omnibus law on Job Creation remains stalled in Parliament, discussions expected to resume next week amid uncertainties over its legality
- Bank Indonesia launches term deposits for foreign currency export earnings in a bid to stabilize the rupiah and increase foreign exchange reserves

**The Central Jakarta District Court last week (March 2) ordered the General Elections Commission (KPU) to restart all ongoing preparations related to the 2024 General Elections, though the controversial decision is widely expected to be overturned upon appeal to a higher court.** The suit was filed by the relatively obscure and recently established Partai Prima party, which argued it suffered from unfair treatment by the KPU after it was disqualified from participating in the upcoming elections for not meeting certain electoral requirements. Many have called for investigations into possible misconduct by the judges presiding over the case, amid concerns that the ruling was politically influenced and handled unprofessionally. Both the executive and legislative branches have agreed to ignore the ruling and support the KPU's upcoming appeal, with President Joko Widodo himself publicly casting support for KPU.

**The presidential decree in lieu of the omnibus Law on Job Creation remains stalled in Parliament, with discussions expected to resume when the legislative body returns from recess next week (March 14).** There are certain uncertainties around whether the decree is even legally valid, given that it failed to get ratified in the parliamentary plenary session immediately following its issuance in December 2022, but the Palace and pro-Jokowi policymakers remain confident the decree will be voted on in March or April. In the meantime, technical ministries such as the Ministry of Industry and the Ministry of Trade are already moving forward with revising implementation regulations to the 2020 Job Creation Law to accommodate the 2022 presidential decree.

**On the economic front, Bank Indonesia (BI) launched term deposits for foreign currency export earnings to encourage commodity exporters to cycle their foreign currency earnings in local banks, though it remains to be seen how effective the tool will be.** Separately, the government is also drafting a regulation that would require exporters of natural resources and derivative products to keep 30 per cent of proceeds in a domestic Indonesian account for 90 days. The latest policies are intended to help stabilize the rupiah and increase foreign exchange reserves, and have been viewed positively by industry, but the effectiveness of the instrument ultimately still remains dependent on other factors such as global interest rates changes, and how investors respond to them.

## THAILAND

- Elections imminent as Prime Minister Prayut looks to dissolve parliament in the next two weeks
- Political parties ramp up efforts to build support and undercut competition ahead of the elections
- Thailand faces one of the worst seasons of haze in recent memory

**Prime Minister Prayut has all but declared that he will dissolve parliament in the next two weeks, tipping Thailand toward a hotly contested election.** Still, a ruckus over constituency boundaries may delay the vote by a few weeks past the target date of May 7. Anxiety over the vote is noticeable, though the highly charged post-election period of government coalition building may be even more politically sensitive.

**Political parties are reaching deep into their respective bags of tricks to build their own support and undercut their competitors.** The Bhumjaithai Party, which has been one of the political high-fliers, currently faces ill-timed accusations that have led to the suspension of its Secretary-General, who concurrently serves as the Transport Minister. The Opposition claims that he illegally concealed shares in a construction company, the same business which also won a few major government projects. At the same time, the party is seeing pushback against its cannabis policies and involvement in questionable activities, which only adds to its wheeler-dealer image.

**Meanwhile, in a surprising shift, Deputy Prime Minister and leader of the Palang Pracharath Party Prawit Wongsuwon has centered his party's campaign around his purported capacity to bridge Thailand's different political camps.** Prawit used a series of ghost-written open letters to pledge to bridge Thailand's "authoritarian" and "liberal" camps and bring both under the fold of liberal democracy, in a clear strike at his ally-turned-adversary PM Prayut. However, the letters avoided any mention of DPM Prawit's own role in the 2014 coup.

**Finally, a surge in nationwide air pollution has put pressure on political parties to take action on the issue, with some parts of Thailand ranking as the worst in the world for smog this week.** The northern half of Thailand is seeing one of the worst seasons of haze in recent memory, fueled by farmers burning cropland and forests, along with continuous emissions from the transportation and

energy sector. In response, political parties have made various promises to tackle the pollution, though the extent to which they will be willing to push farmers — given the latter’s importance as a voting constituency in the forthcoming election — remains to be seen.

## MYANMAR

- Nationwide census to take place in Q4 2024, further extension of the State Administration Council’s rule likely
- Myanmar remains on the Financial Action Task Force’s blacklist despite Central Bank efforts to improve its standing
- Targeted sanctions against Myanmar continue, though unlikely to influence domestic politics

**The regime’s Ministry of Immigration and Population announced that a nationwide population census will be conducted in October 2024, subtly hinting at an extension of the State Administration Council’s (SAC) rule until then.** The election could also be further postponed, given Min Aung Hlaing’s statement that the completion of a nationwide census is required to produce an accurate voter list. Regardless, the reliability of the final statistics remains doubtful anyhow, given the ministry’s probable inability to gather data in conflict-ridden areas.

**Myanmar remains in the Financial Action Task Force’s (FATF) blacklist, despite the Central Bank’s efforts to improve its standing.** A lack of a finalized action plan to tackle anti-money laundering deficiencies and unaddressed action items were cited as reasons for keeping the country in the blacklist. The Central Bank has opted to lay low and not make a statement on the matter. For now, difficulties surrounding transnational financial transactions in and out of Myanmar are expected to persist, though they are unlikely to intensify.

**Meanwhile, both the U.S. and the EU continued to implement targeted sanctions against Myanmar.** One of the latest developments is the inclusion of three Myanmar entities – one of which is a ministry – in the U.S. “entity list,” which is essentially equivalent to an export ban. The latest rounds of sanctions mainly serve as a political message, and targeted sanctions will likely continue to be applied unless Myanmar’s ousted government is restored into power, though the regime is unlikely to be pressured into change.

## SINGAPORE

- Singapore’s Budget 2023 focuses on social concerns and domestic priorities to mitigate concerns over the rising costs of living
- Feud between Prime Minister Lee Hsien Loong and his siblings back in the spotlight amid speculation that Lee Hsien Yang will run for President
- Government acknowledges COVID-19 slip-ups in White Paper review

**Parliament approved the Government’s SGD 123.7 billion (USD 91 billion) Budget for the upcoming year on Monday, which places an increased focus on social concerns and domestic priorities to mitigate concerns over the rising cost of living.** There are also moves that will impact corporates: large multinationals face the prospect of higher corporate taxes by 2025 to meet the OECD-led global tax minimum, while Employment Pass (EP) applicants will be subject to new verification requirements for educational qualifications from September. In addition, SGD 4 billion (USD 3 billion) has been set aside for a fund that will aim to promote investments, while plans to attract investors and tap opportunities in sustainability and digitalization were also introduced.

**Meanwhile, an ongoing feud between Prime Minister Lee Hsien Long and his siblings came under the spotlight again amid speculation that his estranged younger brother, Lee Hsien Yang, may**

**attempt to contest the upcoming Presidential Election due by September.** A Parliamentary statement recently issued by a senior minister noted that Hsien Yang and his wife are being investigated by the police for possible offences of lying under oath, essentially ruling out Lee Hsien Yang's eligibility as a Presidential candidate.

The timing of the move – only three months before the election window officially opens in mid-June – has prompted questions of whether the police investigation is politically motivated. For his part, Lee Hsien Yang, who has left Singapore, continues to maintain that he is being persecuted by his elder brother and the Singapore government. The latest developments threaten to cast a pall over the government's plans to commemorate the late Lee Kuan Yew's 100<sup>th</sup> birth anniversary in September, and will almost certainly stoke further controversy during the election itself.

**A long-awaited review of the Singapore's response to the COVID-19 pandemic was somewhat surprisingly forthright in its acknowledgment of slip-ups by the government during the crisis, a marked departure from the previous defensive stance held by Cabinet ministers when questioned about the government's handling of COVID-19.** The report highlighted Singapore's strengths in areas such as securing access to vaccines and maintaining the resilience of the healthcare system, but also noted mistakes such as the mismanagement of the outbreak in migrant worker dormitories, as well as the lack of transparency in the use of contact tracing data which had incited a public outcry. This response will likely be well-received by sections of the electorate who wish to see DPM Wong and his 4G leadership team adopt a more open approach to governance, by responding and adapting honestly to public feedback and sentiment.

## CAMBODIA

- Cambodian opposition leader Kem Sokha sentenced to house arrest
- Ruling party clamps down on anti-government voices ahead of 2023 general elections
- Cambodia removed from Financial Action Task Force's (FATF) grey list

**Cambodian opposition leader Kem Sokha was sentenced to 27 years of house arrest for treason and conspiracy with a foreign power, in what is considered to be a politically motivated move orchestrated by the current ruling party to clamp down on opposition voices in the lead up to the 2023 general election.** Foreign embassies, including those of the U.S., Sweden, and the United Kingdom, have issued statements expressing disappointment towards the court's decision, arguing that the move is unjust and undermines Cambodia's constitution.

**The Kem Sokha case coincides with the closure of Cambodia's last independent media outlet, *Voice of Democracy (VOD)*, and allegations of two CIA agents being present in Cambodia a few days before Kem Sokha's final trial – which pro-government media outlets were quick to circulate on social media platforms.** Together, the moves can be viewed as an attempt by the government to highlight the potential consequences of anti-government rhetoric to the public. Thus far, media coverage has largely been limited to press statements released by ministries and government institutions in support of the court ruling, with little to no public backlash on the ruling.

**Meanwhile, Cambodia has been officially removed from the Financial Action Task Force's (FATF) grey list of countries at high risk of money laundering, increasing opportunities for business and foreign investment.** The removal of Cambodia from the grey list was announced a few days before the US-ASEAN Business Council mission to Cambodia, and was viewed as an affirmation of the government's measures to combating money laundering – which include anti-money laundering laws, tighter financial regulations, and cash flow control mechanisms. While this positive development will give investors greater confidence in the stability and security of financial transactions, more needs to be done to strengthen Cambodia's rule of law to increase foreign investors' interest, especially since

Cambodia is still seen by many western countries as an authoritarian country that has significantly deviated from its constitution, and which has grown closer to China in recent times.

## VIETNAM

- Mr. Võ Văn Thưởng becomes Vietnam's youngest President at the age of 52
- Ms. Trương Thị Mai succeeds Mr. Thưởng as the Standing Secretary of the Party Central Committee, vacating politically important position of Head of the Party's Central Organization Commission
- Government leaders to address procurement challenges in the healthcare sector

**Vietnam's National Assembly formally approved the appointment of Mr. Võ Văn Thưởng as President on March 2, elevating him to one of the four pillars at the top of Vietnamese politics.** A career politician, Mr. Thưởng started out in the Communist Youth Union and held various senior Party roles in southern Quang Ngai Province and Ho Chi Minh City. He has had a rapid political climb, earlier becoming the youngest member of the Politburo in 2016, and now the youngest President of Vietnam at the age of 52. Mr. Thưởng's appointment also restores regional balance to the four pillars, which lacked representation from the South since the last Party Congress. However, the President has a limited mandate over policymaking, so Mr. Thưởng's impact on the businesses community and investment landscape will be muted. Moreover, he has also shown little interest in such matters throughout his career and has little experience overseas, which could pose a challenge when he represents Vietnam at international forums.

**In a related development, Ms. Trương Thị Mai, former Head of the Organization Commission of the Communist Party's Central Committee, took over as the new Standing Secretary of the Party Central Committee just a few days after Mr. Thưởng's Presidential appointment.** Ms. Mai now ranks fifth within the Party, and is Vietnam's first female Standing Secretary. Her new appointment leaves open the position of Head of the Party's Central Organization Commission, which has historically been a stepping-stone for ambitious Party figures looking to reach the four pillars – Mr. Phạm Minh Chính previously held this role before becoming Prime Minister in 2021.

**On the healthcare front, Deputy Prime Minister Trần Hồng Hà held a working session with leaders in the Ministry of Health, the Ministry of Planning and Investment, and centrally run hospitals to tackle challenges regarding the procurement of medical products and equipment.** During this meeting, Mr. Hà requested that the ministries amend relevant regulations and decrees to address these issues and submit them to Government leadership for approval. Challenges in procuring medical equipment, testing chemicals, and medicines have led to severe shortages in recent months, with major public hospitals in Hanoi and Ho Chi Minh City being forced to cut back on scheduled surgeries and send patients to private facilities for certain procedures.

## WASHINGTON

- Continued U.S.-China tensions and the likelihood of additional U.S. restrictions on trade and investment to China increase risks and create potential opportunities for Southeast Asia
- U.S. Trade Representative Katherine Tai's visits to Vietnam and Malaysia, and the upcoming IPEF negotiating round in Indonesia, keep the spotlight on regional economic engagement

**A U.S.-China diplomatic détente remains a distant prospect, as both sides continued to trade accusations over various issues in recent weeks.** The U.S. Trade Representative's (USTR) Annual Report on China's World Trade Organization (WTO) Compliance reiterated its criticism of China's non-market trade policies and practices, though USTR Katherine Tai ruled out a complete U.S.-China

economic decoupling. The Department of Energy also concluded that COVID-19 likely stemmed from a lab leak in China. Meanwhile, Chinese President Xi Jinping and Foreign Minister Qin Gang harshly criticized the U.S., with Minister Qin warning the Biden administration of engaging in “new McCarthyism.” At the same time, China’s recent diplomatic overtures toward Russia, including President Xi’s planned visit to Moscow, have been negatively received in Washington. The months ahead will be rocky as both sides pursue initiatives that will likely be unfavorable to the other.

**Washington is considering additional restrictions on trade and investment to China.** The bipartisan consensus to counter China is strengthening, with Republican lawmakers in the new House Select Committee on China leading the push for more strident actions. The Biden Administration will reportedly seek authority and funding from Congress to screen and potentially prohibit outward U.S. investment into semiconductors, quantum computing, and artificial intelligence in China. In addition, draft legislation that will facilitate the banning of foreign technology products in the U.S. – focusing on Chinese tech firms like ByteDance – has been introduced in Congress with the backing of the Biden Administration. The combination of deteriorating diplomatic relations, additional U.S. economic restrictions, and U.S. efforts to bolster supply chain resilience muddies the medium-term trade and investment outlook for Southeast Asia. Southeast Asian economies stand to gain from the supply chain recalibration and selective decoupling, particularly in the critical tech sphere, may force them to make uncomfortable choices with uncertain commercial implications.

**The U.S. government maintained a steady rhythm of economic engagements in Southeast Asia as it seeks to flesh out a commercially impactful regional economic agenda.** USTR Katherine Tai conducted a series of visits in Vietnam and Malaysia from February 13 - 19 to engage key government leaders and raise the profile of the U.S.’ profile in regional economic engagements during its APEC host year, while addressing regional skepticism towards the Indo-Pacific Economic Framework (IPEF). The next IPEF negotiating round will take place next week in Bali, keeping the spotlight on Southeast Asia. The coming eight months offer a window of opportunity for industry stakeholders to align their initiatives with the U.S. government’s priority areas in IPEF, such as clean energy and supply chain resilience, as preparations accelerate for IPEF’s first anniversary and the APEC Trade Ministers meeting in May this year, as well as the APEC Economic Leaders Meeting in November 2023.