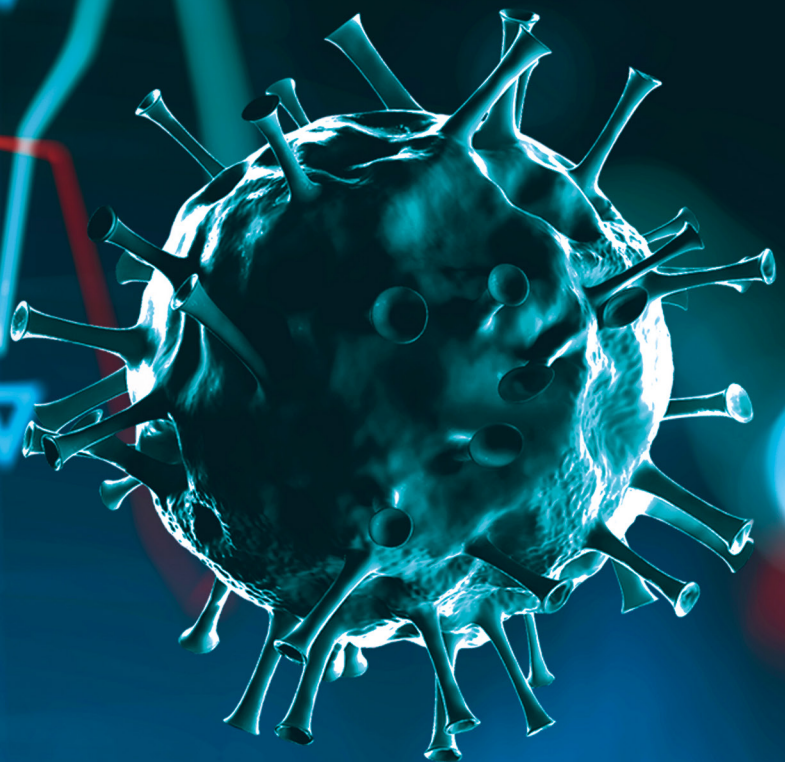


# Renewed Concerns in Key ASEAN Economies

Politics and Growth Prospects After the First COVID-19 Wave



August 2020

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## Introduction

This Special Report by the Singapore Institute of International Affairs (SIIA) will examine how key Association of Southeast Asian Nations (ASEAN) economies – Indonesia, Malaysia, Thailand and Vietnam – are emerging after the first wave of the COVID-19 pandemic. From June 2020, these four countries announced the end or easing of their lockdown measures and began to reopen their economies and business sectors. Their prospects matter not only to their own citizens but to the region and to Singapore as a hub, partner and investor. These four key economies represent over 70 per cent of overall ASEAN gross domestic product (GDP).<sup>1</sup>

This report will consider pre-existing economic and political challenges and how some of these have either stabilised or been sharpened and aggravated by the pandemic. The focus on the pandemic has generally meant that political developments have been muted in the first half of 2020. But as each country emerges from restrictions, political contestations and economic challenges are restarting; there are trends and risks emerging that may well move more quickly in the coming months.

In our analysis, there were important differences in the degree, timing, and capacity of COVID-19 measures. Vietnam acted early on and effectively controlled the health situation, although a second wave in end July will test its efforts. While delayed, Malaysia and Thailand seem to have been eventually and relatively effective. Concerns are however that Indonesia acted late and has yet to control the effects of the pandemic, even as the economy begins to re-open.

What of their politics and economic prospects? Recovery is critical and possible but the path for each country will differ given the varied prospects for key sectors, such as manufacturing, resources, and tourism. As for politics, the lockdown witnessed something of a hiatus. With the end of the lockdown, it is not just business but politics that resumes. The next few months could see a flurry of developments and these can be destabilising, especially if any country suffers a second wave of infections and economic prospects do not pick up.

## Summary of COVID-19 in Four Key ASEAN Economies

	Vietnam	Malaysia	Thailand	Indonesia
Pre COVID-19 Economy and Politics	<ul style="list-style-type: none"> <li>• Strong GDP growth rates of 6-7 per cent</li> <li>• Influx of investment as an alternative to China</li> <li>• Weak finance and limited budget</li> <li>• Upcoming Party elections</li> <li>• Push against role of China</li> <li>• ASEAN Chairman for 2020</li> </ul>	<ul style="list-style-type: none"> <li>• Weakening economy</li> <li>• Prosecution of 1MDB Scandal</li> <li>• Intra- and inter-party politicking</li> <li>• Rising racial tensions</li> <li>• Fall of incumbent Pakatan Harapan government</li> </ul>	<ul style="list-style-type: none"> <li>• Reluctant acceptance of government and weak coalition</li> <li>• Prominent Opposition and rise of youth protestors</li> <li>• Severe drought affecting economic growth</li> <li>• Challenging to value-add to supply chains</li> <li>• Overdependence on tourism</li> </ul>	<ul style="list-style-type: none"> <li>• Weakening economy</li> <li>• Reliance on commodities and resources</li> <li>• Managing financial position, budget constraints</li> <li>• Reform through omnibus laws</li> <li>• Forming and managing a broad coalition</li> </ul>
Responses to COVID-19	<ul style="list-style-type: none"> <li>• Effective and aggressive lockdown measures</li> <li>• Low number of cases and zero death rate until July</li> <li>• Strong tracing capabilities and adequate medical facilities</li> </ul>	<ul style="list-style-type: none"> <li>• Slow initial response but later improved by relying on Civil Service</li> <li>• Extended 7-week lockdown</li> <li>• Increased testing</li> <li>• Limited control of Ramadan gatherings</li> </ul>	<ul style="list-style-type: none"> <li>• Slow initial response and lack of coordination, but later managed to strengthen measures</li> <li>• Low numbers of people infected but also low levels of testing</li> </ul>	<ul style="list-style-type: none"> <li>• Slow initial response, low testing rate</li> <li>• Lockdown was voluntary and uneven</li> <li>• Problems with enforcement of loose Idul Fitri policies</li> <li>• Business pressure to reopen</li> </ul>
Emerging Concerns in Economy and Politics	<ul style="list-style-type: none"> <li>• Dependent on exports and limited domestic consumption</li> <li>• Need to shift towards high value-added supply chains</li> <li>• Strain on financial system</li> <li>• China's influence and South China Sea dispute</li> <li>• Jobs and social stability</li> <li>• Battling its second wave of infections</li> </ul>	<ul style="list-style-type: none"> <li>• Weak oil, gas and palm oil prices</li> <li>• Questions about fiscal position</li> <li>• Return of inter-coalition politics and Return of UMNO</li> <li>• Race and religion in politics</li> <li>• Snap elections likely but continuing political instability</li> </ul>	<ul style="list-style-type: none"> <li>• Impact on exports and supply chains</li> <li>• Low tourism levels</li> <li>• Volatile Baht</li> <li>• Bickering within the ruling Phalang Pracharat party (PPRP) and coalition</li> <li>• Legitimacy of leadership</li> <li>• Rise of Opposition and youth protestors</li> <li>• Increasing public debt and corruption</li> </ul>	<ul style="list-style-type: none"> <li>• President Joko Widodo's ability to accommodate coalition partners</li> <li>• Derailing of ambitions to attract investors and build infrastructure</li> <li>• Questions about fiscal position</li> <li>• Pressure to reopen economy</li> <li>• Jobs and social stability</li> </ul>



# 1. Vietnam

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## 1.1 Response and Handling of COVID-19

- a) **Timeline of Infections:** Vietnam, which shares a border with China, recognised its vulnerability from the onset of the outbreak. The country's first COVID-19 case was confirmed on 23 January, and the government declared a public health emergency on 1 February. It moved to ban all flights from China, and later halted entry from the United Kingdom (UK) and Schengen Area countries in Europe on 15 March. While these and other domestic measures appeared to bring Vietnam's outbreak under control, a health scare at Hanoi's Bach Mai Hospital led to fears of a more extensive outbreak, triggering the decision for a large scale lockdown.
- b) **The National Isolation Order:** The Vietnamese government instituted a "National Isolation Order" from 1 April, "with the principle of every household, village, commune, district, and province going into self-isolation".<sup>2</sup> At one point in early May 2020, over 70,000 people were either quarantined or being monitored. These stringent measures raised Vietnam's profile as having one of the most effective responses to the pandemic. Public opinion surveys reveal popular satisfaction, with the government's handling of COVID-19 instilling a sense of national pride.<sup>3</sup>
- c) **Provider of Aid:** Overcoming the outbreak freed Vietnam to become a source of aid to others. It was able to produce its own test kits approved by the World Health Organization (WHO) and exported to Iran, Finland, Malaysia, and Ukraine. Vietnam has also shipped hazmat suits to the United States (US), and hundreds of thousands of antibacterial cloth masks to Japan, France, Germany, Italy, Spain, and the UK.
- d) **Towards Reopening and Concerns:** As one of the first countries to begin reopening in late April 2020, hopes remain that Vietnam will emerge out of the COVID-19 pandemic better off than its Southeast Asian counterparts. Through "travel bubbles", the government is considering reopening select international flight routes. Business experts have been allowed to fly into Vietnam and authorities are in discussions to resume commercial flights to China. However, there are concerns about Vietnam's reopening given its relatively low testing rate of 2,826 per million people. New community infections in Danang and Quang Nam province in late July highlights the ever present risk of another outbreak. There are also limits to the transparency of the situation on the ground as the media is still controlled closely by the state.

## 1.2 Economic and Political Situation

- a) **Supply Chain Shifts:** Pre-pandemic Vietnam was experiencing a boom in its manufacturing sector, with 2019 foreign direct investment (FDI) flows rising 6.7 per cent compared to 2018. Rising wage costs had encouraged many companies to implement “China plus one” strategies and the US-China trade war accelerated this trend; Vietnam gained from these factors. Apple, Nintendo, Samsung, and others moved some production capacity to Vietnam. Major export clusters in electronic equipment and textiles were quickly built up to attract multinationals, and industrial zones boomed. The COVID-19 has accelerated this process and the Vietnamese government has established a taskforce to seize this opportunity.
- b) **Limited Capacity and Value Added:** Challenges, however, remain. Vietnam’s port and transport infrastructure are still underdeveloped, while power generation is a recurrent problem. Industrial parks and export processing zones lack drainage systems, and some wastewater treatment facilities no longer meet environmental norms. Another key challenge is that Vietnamese companies are often not major players in the global value chains and consequently, Vietnamese workers have not been able to upskill. Without this, while foreign investment comes into the country, the danger is that Vietnam is primarily a location and labour provider and will not move up the global value chain.
- c) **Re-Sizing Economic Expectations:** While handling health issues well, Vietnam did not emerge from COVID-19 unscathed – 2020 economic growth slowed to a decade-low of 3.82 per cent in Q1 and 0.36 per cent in Q2, year on year. Trade and investment fell in line with declines in the global markets on which Vietnam depends, especially with the slowdown in Korean and Japanese manufacturing. Up to 7.2 million workers might lose their jobs in the worst-case scenario for 2020.<sup>4</sup> The impact is especially hard for private sector small and medium enterprises (SMEs) and for local entrepreneurs and workers. Overall, however, the government announced in May that GDP growth targets this year will be around 4 per cent. The Asian Development Bank (ADB) also predicts that Vietnam would grow 4.1 per cent in 2020. The research hailed positives in the improving business environment, the growing middle class and a dynamic private sector.<sup>5</sup>
- d) **Foreign Investment:** Much depends on Vietnam’s ability to attract foreign investment, and less on domestic factors – and this is one reason why government stimulus support during COVID-19 has been marginal. The Prime Minister has set up an FDI taskforce to promote investments, but how much FDI can be attracted? Between 2014 and 2019, FDI nearly doubled to US\$38 billion. Given global economic conditions, that level may be difficult to match.

## 1.3 Key Considerations Going Forward

In the first half of the year, Vietnam was poised to bounce back faster than others from the pandemic. Being able to quickly control infections, the country had a head start in re-opening its domestic economy.

Growth will still be dependent on upgrading infrastructure and labour skills, and undertaking further reforms to improve the ease of doing business. Vietnam will also seek to attract investor interest but this will depend on the state of the global economy. With second waves of infections popping up around the world, the recovery process will prove to be challenging.

- a) **Dependence on External Economic Partners and the West:** Vietnam’s exports and overall outlook will be closely linked to the performance of its external partners. The US, in particular, is Vietnam’s largest export market and, if the US does not recover strongly, this will limit prospects. The same is true for the EU, another significant investor and export market. In 2019, the EU accounted for 15.7 per cent of Vietnam’s exports, while the US accounted for 23.2 per cent. Escalating tensions in the US-China relationship will bring another complex challenge for Vietnam.

- b) **Complex Ties with China:** China is another major export market, and Chinese investments grew sharply in the pre-COVID-19 period. Vietnam sources 30 per cent of its manufacturing components from China, and there was an observable decline in manufacturing output in the early stages of the COVID-19 outbreak. Ties with the giant neighbour are however complex. The South China Sea will remain a flashpoint and public sentiment in Vietnam continues to be a factor in bilateral ties. Large scale protests in June 2018 against the government's law on special economic zones turned violent when many felt their land was being given away to China. Recent actions by China to establish the Xisha and Nansha districts in contested waters are also raising tensions. There is speculation Vietnam might launch an arbitration case in response.
- c) **Party Politics to Take Centre Stage:** Vietnam continues to depend on the leadership of the Communist Party of Vietnam (CPV). Support for the CPV has increased by their effective response to fighting corruption and the pandemic. National pride seems bolstered. The internal politics and differences of personality within the CPV are often opaque to the outsider and, while generally stable, can have considerable impacts. The CPV is gearing up for a leadership transition in January 2021. The current CPV General Secretary Nguyen Phu Trong is also President but his health has been a subject of concern and he is not expected to keep these top posts. It remains unclear who will emerge to form the next leadership and this could impact investor sentiment. It is also unclear whether reform and infrastructure improvements can and will be pushed through before the CPV elections.
- d) **Stability and Accountability:** As the CPV moves forward with its renewal in the post-COVID-19 context, several factors regarding social stability will bear attention. The first is how the government addresses the impacts on jobs and welfare, and on SMEs. As noted, budget and stimulus spending have not been large and the government will need to show it is doing enough to help and protect the people if, as expected, recovery and job creation are slow. Another factor for stability is anti-corruption. Many expect efforts to continue and strengthen. President Trong spearheaded the campaign in 2017 and renewed his pledge to fight corruption in the time before the 13th National Party Congress. Several high profile officials have already been disciplined including former party boss of Ho Chi Minh City, Le Thanh Hai, and former Party chief of Hanoi, Hoang Trung Hai.
- e) **Reform and Political Push:** Before the pandemic, as Sino-American trade tensions rose, Vietnam welcomed a considerable amount of investment outflow due to the trade war. New incentives now aim to attract higher value-added parts of the regional and global supply chains. Prime Minister Nguyen Xuan Phuc announced plans to attract multinational corporations (MNCs) with "high, modern and environmentally-friendly technologies". But underlying issues remain. Chief amongst these involves the urgency to upgrade the country's infrastructure to support manufacturing and imports/exports. Reform and strengthening of the financial sector is also necessary to support and enable growth. These reforms beg the issue of political agreement and commitment, and may be in abeyance pending the CPV's elections and renewal of leadership.

**Growing in the Next Normal:** Vietnam dealt impressively with the first wave of the pandemic, and there is a strong narrative of national pride and confidence in the authorities. But a second wave has hit the country at the end of July that will likely stall the process of economic recovery. Furthermore, the external environment and global export markets remain weak. While the CPV leadership makes its next transition, it remains to be seen if there will be enough political will to reform and adjust to the next normal to push the country forward to a further stage of growth.



## 2. Malaysia

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### 2.1 Response and Handling of COVID-19

Malaysia experienced a change of government during the COVID-19 pandemic. Prime Minister Muhyiddin Yassin took office on 1 March 2020, with an entirely new cabinet representing a wholly new coalition of Malay-based parties appointed on 10 March. The government's handling of the outbreak was initially delayed but was eventually successful in flattening the curve of infections.

- a) **Timeline of Infections:** Malaysia's first COVID-19 case was confirmed on 25 January, but numbers remained mild throughout February. After the Tablighi Jamaat religious event was held in Kuala Lumpur with 16,000 attendees, case numbers spiked sharply from March. In May, infections traced to this source represented about 48 per cent of overall cases.<sup>6</sup>
- b) **A Strict Movement Control Order:** Malaysia put limited travel bans in place but the government's key policy responses took effect on 18 March with the Movement Control Order (MCO). The MCO included common policies such as school and border closures, work-from-home policies for non-essential businesses and the banning of mass events. Overall, the MCO was one of the stricter movement restriction regimes in the region.
- c) **Leadership:** Throughout this period, observers described Malaysia's government as running on "autopilot". Given the sudden change of government, much of the responsibility of implementing COVID-19 policies was delegated to senior civil servants such as Director General of Health Dr Noor Hisham Abdullah; in comparison, critics felt that the Health Minister Dr Adham Baba was prone to gaffes and unusual comments. Similarly, while PM Muhyiddin discharged his duties, he was seen to be highly reliant on the civil service.
- d) **Complaints About Inconsistency:** Concerns and criticisms remain, including on the question of inconsistency. Many Malaysians noted that over 20,000 Malaysians were arrested by the end of April for violating the MCO, with a default sentence of one month's jail. But, in contrast, only light fines were imposed in cases involving politicians and their relatives. This was seen in cases involving Deputy Health Minister Noor Azmi Ghazali and the daughter of UMNO President Ahmad Zahid Hamidi.

- e) **Catch Up and Caution in Re-Opening:** Malaysia can be credited for utilising the time under MCO to upgrade its capacity in testing. By 13 July 2020, Malaysia emerged with one of the higher testing rates in ASEAN at 26,176 per million people, and most economic sectors in the country have reopened. Malaysia is also implementing a reciprocal green lane for cross border travel with Singapore and is in talks with other countries such as Brunei and Australia for similar arrangements.

## 2.2 Economic and Political Situation

While Malaysia managed the first wave of the pandemic fairly well, questions about political developments remain unsettled. These were largely dormant at the flurry of responses against COVID-19, but have resurged as the MCO eased. Economic issues have also arisen from the impact of the MCO.

- a) **Change and Uncertainty:** It is a time of unprecedented political change for Malaysia. The Pakatan Harapan (PH) coalition was elected in a surprise win after 61 years of rule led by the United Malays National Organisation (UMNO). Less than two years later, the PH government led by Dr Mahathir Mohamad collapsed in February 2020 with the withdrawal of Parti Pribumi Bersatu Malaysia (PPBM). The PH government had become increasingly unpopular during its final months in power, driven in part by questions of race and religion – PH was a multiracial coalition with more high profile, non-Malay officeholders. In response, UMNO and Parti Islam Se-Malaysia (PAS) gained support from Malays who feared that Bumiputra rights might be revoked.
- b) **Succession Problems:** Underscoring the uncertainty are personalities with ambitions to be the next PM. Within PH, tensions between Dr Mahathir and Parti Keadilan Rakyat (PKR) President Anwar Ibrahim often took the form of proxy contests. The competition between PKR Vice President Azmin Ali and Anwar led to the fracturing of PKR. Malay-majority parties then coalesced to form a new alliance, Perikatan Nasional (PN). Yet, tensions are already emerging within PN.
- c) **The Next Economy:** Growth has not been strong in recent years. The problems of 1MDB were a major part of the reason the PH won the last elections, and efforts were needed to address the issues of debt and governance, as well as to try to prosecute the cases. Trade and economic performance were affected. Malaysia's exports stagnated in 2019, despite some boost from investment relocation because of the US-China trade war.
- d) **Economic Impacts from Pandemic and Responses:** The pandemic and MCO have impacted these expectations. Exports contracted 4.7 per cent and factory output fell 4.9 per cent immediately after MCO restrictions. Penang's electronics cluster was affected, with companies unable to meet orders due to a shortage of components from China. The global slowdown also impacts Malaysia, especially in the resource sector with slumping oil and palm oil prices.



- e) **Questions About the Sufficiency of the Stimulus Packages:** The new PN government unveiled four stimulus packages for a grand total of roughly US\$68.2 billion. This represents 18.4 per cent of their GDP, proportionally higher than all others considered in this Special Briefing. The aim is to generate up to 2.8 per cent GDP growth.<sup>7</sup> Despite the size, however, controversies have arisen. Closer analysis shows the large total number includes a number of pre-committed and non-cash items. SMEs are reportedly struggling to retain workers despite cash handouts. There are also questions about how Malaysia will fund these large packages, given budget and financial limits. Pressures on the government's fiscal position are rising.

**Table 2.1: Malaysia's COVID-19 Stimulus Packages (February – June 2020)**

Country	28 Feb	27 Mar	6 Apr	5 Jun	Total (Approx)	
Malaysia	RM20 billion	RM250 billion	RM10 billion	RM35 billion	RM315 billion	18.4% of GDP
	US\$4.8 billion	US\$52.9 billion	US\$2.3 billion	US\$8.2 billion	US\$68.2 billion	

### 2.3 Key Considerations Going Forward

Malaysia appears to have eventually dealt with the health impacts from the first wave of pandemic quite well. But there are economic impacts and uncertainties. Malaysia's central bank is predicting that GDP could range from growth of 2.0 per cent to a contraction of 0.5 per cent; a considerable variance that underscores uncertainty.<sup>8</sup> The situation is being compounded by political contestations.

- a) **Oil Price and Fiscal Health:** The global slump in oil prices is a significant concern; the sector accounts for around 20 per cent of total government revenue and the Malaysian Budget 2020 had assumed an oil price of US\$62 per barrel.<sup>9</sup> With global prices for oil well below that level, the question arises of how the government will pay for the large-size stimulus promised.
- b) **Government Instability:** The current government has only a slim majority in Parliament, and has avoided any vote of confidence. A snap election is being talked up, perhaps before the end of the year or after the next Budget. Yet, short of a landslide victory for either side, competing interests and issues will continue to cause instability for the foreseeable future. The political contestation within each coalition is also a factor. Defections and backroom deals point to continuing instability.
- c) **End of Reforms:** PN as a Malay-led coalition is pushing against reform to Bumiputra rights. The business community complains about uncertainties caused by changeovers in government, on top of bureaucratic red tape and differences between the Federal and State governments. While the Muhyiddin government wishes to remain business-friendly, these factors might deter some foreign investors.

The guilty verdict in the 1MDB trial against former Prime Minister, Najib Razak, could be seen as a boost for PM Muhyiddin's legitimacy. However, one would need to watch the turnout of events in the appeal process.<sup>10</sup>

- d) **China and Other Countries:** The attitudes and openness to certain foreign investors also fluctuate with changes of government. This applies most visibly to China's investment which was sizeable and welcomed by the Najib administration but scrutinised by Dr Mahathir. While the Muhyiddin government has reopened discussions with China, it remains to be seen how stable the policy will be. Similar cautions apply to relations with other countries, including Japan and Singapore.
- e) **Foreign Investment and Supply Chains:** Malaysia benefitted from the Sino-American trade war in 2019 to an extent, with relocation from China leading to a surge in investments to Penang's electronics cluster. As Malaysia emerges from the first wave of COVID-19 and politicking intensifies, it is unclear how the government can attract more foreign investments and link more to global supply chains. Alongside uncertainty, a weaker fiscal position, and a lack of reforms, the investment landscape does not look promising for Malaysia.

**Does Malaysia Matter Enough:** Attractions remain and its response to the first wave of the COVID-19 pandemic was delayed but laudable. Malaysia is still expected to fare better than many of its neighbours. But questions arise. The lack of a cushion of strong commodity prices and the rising cost of the pandemic response could also weaken fiscal stability. On top of this, there is the added prospect of political contestation resuming and instability continuing in the coming year. Malaysia may well cope but, in the middle to longer-term, may not offer sufficient pull factors to attract investors who are becoming wary and selective in the wake of the pandemic.



## 3. Thailand

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### 3.1 Response and Handling of COVID-19

- a) **Timeline of Infections:** On 13 January 2020, Thailand became the first country outside China to confirm a case of COVID-19. Yet, even in February, the country's borders were still open to Chinese tourists and there were no movement restrictions. Infection numbers began to rise rapidly in mid-March, largely due to an event at Lumpinee Boxing Stadium. This prompted the Thai government to declare a State of Emergency.
- b) **A Military Style Emergency:** From 26 March, the government implemented restrictions such as travel bans, the closure of restaurants, schools and malls. It handled the pandemic as a security crisis. A daily curfew was enforced from 10:00 pm to 4:00 am each day. Security forces were granted immunity from prosecution when carrying out orders to enforce restrictions.
- c) **Towards Reopening and Criticisms:** The country started to ease restrictions six weeks after the State of Emergency was declared and by 17 May, department stores and community malls were allowed to resume operations. On 15 June, Thailand officially lifted its nationwide curfew. Following which, bars, pubs and schools have been allowed to reopen. Despite low to no local infections recorded since the last week of May, the State of Emergency continues and has been extended for the fourth time to 31 August.
- d) **Changing Policies:** Thailand faced criticisms about initial inaction and lack of coordination. In March 2020, Thai nationals were told to obtain a Thai embassy letter to certify their citizenship, while all travellers were required to provide a medical certificate deeming them "fit to fly". Despite these mandated arrangements, the situation on the ground saw many travellers complaining that it was extremely challenging to receive testing for COVID-19. Another example of changing policies was the sudden announcement of land border closures on 22 March that led to an exodus of foreign workers to neighbouring countries. Cross-border traffic with Cambodia alone doubled to 40,000 people that weekend, raising fears of a new wave of infections.
- e) **Timing:** Some question the timing in government actions, especially in the early days of the outbreak. Other countries restricted travel and movement in February but Thailand's borders remained largely open. Many wished the country had imposed travel bans earlier and took to social media to express their frustrations. Provinces such as Uthai Thani, Buriram and Nakhon Ratchasima moved faster than the central government.

- f) **Distrust:** Several controversies arose involving government ministers and policies. Thai Public Health Minister Anutin Charnvirakul was criticised for accusing medical personnel infected with COVID-19 of “not [taking] good care of themselves”.<sup>11</sup> There was also public uproar after millions of Thais were left out of the government’s “No One Left Behind” financial relief scheme due to a classification error. These issues widened the trust deficit between Thais and their government.

### 3.2 Economic and Political Situation

Coming into the pandemic, Thailand’s economic outlook was poor and there were questions about the legitimacy of the government, formed by the Phalang Pracharath party (PPRP) with PM Prayuth Chan-ocha who had first come into power in the coup of 2014. While the PPRP won the most votes in the March 2019 elections, its main rival Pheu Thai party won the most seats, and the Future Forward Party (FFP) rode a wave of youth support to clinch third place.

- a) **Legitimacy and Governance:** The PPRP only managed to form the government with a slim majority in the 500-member lower house. This was cobbled together by compromising with a slew of small parties. The coalition has been unwieldy and slow to move, and there have been a number of inconsistencies between different ministries.
- b) **Youths and Opposition:** While Thai politics of the past decade centred on the conflict between the red-shirt Pheu Thai and yellow-shirt Royalists, a new third factor has arisen from among Thai youths. They form a significant portion of the support base for the FFP, and have turned up in droves at anti-government events. A protest on 14 December 2019, organised only with a day’s notice, was the biggest street demonstration in Bangkok since the 2014 coup. On 12 January 2020, a “Run Against Dictatorship” event drew nearly 14,000 participants, mainly from youths.
- c) **Economic Doldrums:** Thailand posted a GDP growth rate of 2.4 per cent in 2019, its slowest pace since 2014. This slump was in part brought on by a 2.6 per cent contraction in exports due to the trade war and the soaring value of the Thai baht. A harsh drought and low government spending due to slow disbursement and budget delay also depressed the economy.
- d) **Relocation of Supply Chains:** Rising US-China tensions and shifting supply chains have helped Thailand’s economy, and some notable companies relocated their manufacturing from China to Thailand (e.g. Sony, Sharp Corp. and Harley-Davidson). But strengths in manufacturing have been somewhat eroded with higher costs, labour tightness and increased competition. Thailand is challenged to add more value and move up the production chain. Within ASEAN, Vietnam has emerged as a strong contender, with lower costs and ready labour. In May 2020, Panasonic Corp announced that it will be moving production from Thailand to Vietnam for its washing machines, refrigerators and other white goods.
- e) **Tourism Too Important:** While traditionally important, the tourism industry is now the key driver of Thailand’s economy – perhaps to the point of imbalance. The sector accounts for 18 to 20 per cent of Thailand’s GDP and provides jobs for almost a tenth of Thais.<sup>12</sup> With the onset of COVID-19 and lockdowns worldwide, tourism levels fell sharply and significantly impacted the economy.

- f) **Increasing Public Debt and Corruption:** Like other countries, Thailand committed budgets to offset the impacts of the pandemic. However, the Opposition has continued to raise concerns about government transparency in how these considerable funds will be spent, warning that mainly vested interests will benefit and corruption will fritter the moneys. Associated concerns arose over the high public debt resulting from the stimulus packages. The packages more than double the debt accrued by Thailand from 2014-2019, placing the public debt level just below the current legal limit of 60 per cent of GDP.

**Table 3.1 – Thailand’s COVID-19 Stimulus Packages (February – June 2020)**

Country	10 Mar	24 Mar	7 Apr	Total (Approx)	
Thailand	400 billion baht	117 billion baht	1,900 billion baht	2,417 billion baht	14.2% of GDP
	US\$12.6 billion	US\$3.7 billion	US\$59.6 billion	US\$75.9 billion	

### 3.3 Key Considerations Going Forward

The Thai economy is predicted to be severely affected by COVID-19. Official estimates forecast a GDP contraction of up to 8.1 per cent in 2020, making it one of the worst-hit countries in Asia.<sup>13</sup> With slow recovery being the potential reality for both manufacturing and tourism, many citizens reliant on these sectors will bear the brunt of the impact, especially those in lower-wage jobs. On top of this, negative sentiment with the government and elites is increasing, not only with the Opposition but among the youth.

- a) **Exports and Supply Chains:** With trade and global markets impacted, exports of manufactured goods or agriculture will not recover strongly and quickly. In manufacturing, the search for non-China supply chains can assist but questions about costs and competitiveness remain. In this connection, it is notable that the Thai government has not made a final decision on whether it will join the Comprehensive and Progressive Trans Pacific Partnership (CPTPP). This can increase trade and attract supply chains. But the high standard agreement will require domestic reforms and opening for the Thai economy. The CPTPP is no quick fix. If Thailand is unwilling to undertake these reforms, this will not bode well for future competitiveness.
- b) **Tourism and Restarting Travel:** Given the importance of this sector, the Thai government is making efforts to boost domestic travel, allow entry of essential business travellers and bring back tourists. The government is looking to capture at least 75 per cent of the US\$12 billion that Thai nationals spent abroad in 2019, and in late June approved two stimulus packages worth US\$718 million aimed at boosting domestic travel. However, this would still be a far cry from the US\$64 billion that international visitors bring to the economy annually.<sup>14</sup>

For essential travel, negotiations to form green lanes and travel bubbles are active and as of July 1, eleven categories of travellers have been allowed to enter the country.<sup>15</sup> However, it is likely that it will take a longer time for international and mass tourism to restart. Despite the fall in tourism numbers affecting the economy, a survey conducted in July found that 95% of Thais believe that foreigners should be barred from entering the country to prevent a second wave of the pandemic.<sup>16</sup> This comes after two foreigners, later found to have COVID-19, were exempt from the mandatory 14-day state-supervised quarantine and had exposed themselves to the public during their stay.

- c) **Volatile Baht:** The Baht weakened against the US Dollar in the first quarter of the year, but Thailand's comparative success in containing COVID-19 resulted in inflows to equity and bond markets, leading to the Baht's appreciation in the second quarter.<sup>17</sup> There had been concerns over a strengthening baht as it could potentially expand the country's trade deficit and aggravate its fragile economy. However, following the resignation of six cabinet holders in July, the Baht's value fell again.<sup>18</sup> The increased volatility reflects shifts in investors' confidence in the country.
- d) **Legitimacy of Leadership:** While the Thai government has done moderately well in handling the pandemic, criticism has increased. A poll conducted in April 2020 found that some 87.68 per cent felt the government's handling of the crisis was worrying.<sup>19</sup> This added to questions concerning the government even before the pandemic. Internal division also intensified within the ruling coalition, over roles allocated in dealing with the pandemic, on top of earlier disputes about the distribution of cabinet seats. By early June, within the PPRP, 18 executive committee members resigned, prompting the election of new executives and DPM Prawit Wongsuwan as the new head of the party. A cabinet reshuffle is expected to take place, after DPM and economic czar Somkid Jatusripitak and five other ministers resigned in mid-July.
- e) **Opposition and Youth Protests Likely:** Political opposition parties and youths have not been able to physically protest under the country's extended State of Emergency. But the strength of online activism should also not be underestimated. Although PM Prayuth's government has used sedition, defamation and computer crime laws to try and suppress online criticism, this continues to grow. Thousands took to the streets on 18 July to demand the PM's resignation and several hundreds gathered again a week later to continue pro-democracy protests. As the country re-opens and when the Emergency is lifted, these protests may increase.

**An Uphill Path to Recovery:** Thailand has dealt moderately well with the first wave of the pandemic. The impacts on the economy, however, are severe. Governance and legitimacy issues have also come under more pressure. There is no path ahead for a quick or strong recovery, and the strains on the current system are increasing.



## 4. Indonesia

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### 4.1 Response and Handling of COVID-19

Indonesia's response to COVID-19 has been panned by domestic and international observers. After repeated denials that the country had any cases, the government's strategy to tackle the spread of the virus was plagued with inconsistencies and poor enforcement. Even as cases continue to increase, the administration of President Joko Widodo "Jokowi" pushed for businesses to reopen.

- a) **Timeline of Infections:** Initially, Indonesia did not significantly move to address the threat of COVID-19 (beyond banning travellers who were from or had been to China on 4 February). Even after the first case was confirmed on 2 March, the government was slow to react. For example, on 15 March, Jokowi called on Indonesians to embrace social distancing practices such as working from home. Yet, significant action was only taken on 31 March through national restrictions (PSBB). By then, Indonesia had already over 1,500 cases.
- b) **Low Testing:** Indonesia has been criticised for its low number of testing rates. Even as of 14 July, Indonesia had conducted over 1,074,467 tests for COVID-19 (amounting to slightly over 3,927 tests per million); a testing rate significantly lower than Thailand (8,648), and Malaysia (26,265). While it has since improved testing capabilities, the WHO is concerned that cases continue to be underreported.
- c) **Large-Scale Social Restrictions (PSBB):** Even when the central government passed the PSBB, provinces were allowed to decide their respective courses of action, and are currently calibrating their reopening policies. But when regional governments proposed movement restrictions this was contingent on the approval of the Health Ministry. For regions that had already imposed their own movement restrictions, the PSBB merely offered post-facto legal support. As such, since the PSBB regulations were voluntary, some provinces avoided them altogether.
- d) **Patchy Implementation:** The government has been criticised for its patchy enforcement and its lack of clarity for the PSBB. When measures first started, many offices still required workers to turn up for work. The biggest concern arose with respect to the Idul Fitri celebrations. Millions travelled to and from their hometowns for this event, and while Jokowi announced a ban on travel on 21 April to take effect on 24 April, many Indonesians had left for their hometowns before the ban took effect. The travel ban was perceived by many to be too little, too late.

- e) **Towards Reopening and Concerns:** At the end of May, Jokowi began to call for an easing of restrictions, with a gradual resumption of socio-economic activities from 1 June leading to a full reopening by August. This was without any clear evidence that infections were contained and levelling off. Even as the country reopens, criticism of the government’s response persists.

## 4.2 Economic and Political Situation

Coming into 2020, President Jokowi had consolidated his electoral victory by forming a “grand coalition” cabinet that included diverse parties, even those who had run against him. A set of key ambitions aimed to improve economic performance. The country’s GDP had only grown 5.02 per cent in 2019, slower than the previous year’s rate of 5.17 per cent, and below the target of 5.3 per cent.<sup>20</sup> This was attributed to falling exports and disappointing investment numbers amid the US-China trade war. It was also becoming clear that Indonesia’s traditional reliance on domestic demand, which accounted for more than half of GDP, was not driving growth as strongly due to the knock-on effect of falling commodity prices. In response, the Jokowi administration aimed to make the country more open and attractive to foreign investors. Measures to do so would include building more infrastructure, reforming labour laws, and upgrading Indonesia’s quality of human resources and level of governance. Drawing on support by diverse parties, Jokowi’s government could count for over two-thirds of legislative seats and aim to potentially push through ambitious reforms.

- a) **More FDI Needed:** Hit by slower growth and low commodity prices, the government aimed to capture more export-oriented FDI. However, Indonesia had failed to latch onto the first wave of manufacturing relocations under the Sino-American trade war and realized that investors would stay away without domestic reforms. To enable this, the Jokowi government put together a series of omnibus bills to amend and update over 1,000 clauses from 80 different laws. This included, for example, curtailing union and employment laws to make the hiring and firing of staff less cumbersome and costly.
- b) **Vested Interests Remain:** Parties in the coalition continued to push for their own political agendas and some reforms were therefore compromised. Consider the Corruption Eradication Commission (KPK). In October 2019, the Indonesian legislature passed a bill that required the agency to obtain permits from an oversight body before conducting wiretapping and asset seizures, leading to a public outcry as observers expressed concerns about the agency’s future.<sup>21</sup>
- c) **Reform Off the Agenda:** The compromises on plans for reform increased as the pandemic hit. This was not only because of a shift in priority and focus. Requiring the support of his coalition, Jokowi agreed to omit portions of the omnibus bills for reform. Labour reforms, considered a key change to attract FDI, were excised. Furthermore, capital expenditures on infrastructure and other areas have come under pressure as with the government shifting its financial capacity towards supporting its stimulus packages. With stability as a focus, aims to promote reform and attract more and higher quality FDI have taken a back seat.

**Table 4.1 – Indonesia’s COVID-19 Stimulus Packages (February – June 2020)**

Country	25 Feb	14 Mar	18 Mar	31 Mar	18 May/ 3 Jun	Total (Approx)	
Indonesia	Rp 10.3 trillion	Rp 120 trillion	Rp 27 trillion	Rp 405 trillion	Rp 695.2 trillion	Rp 1,257.5 trillion	7.4% of GDP
	US\$0.7 billion	US\$8.1 billion	US\$1.8 billion	US\$24.7 billion	US\$49.6 billion	US\$84.9 billion	



- d) **Remain Closed or Reopen, No Easy Decision:** The Jokowi government is caught between a rock and a hard place. Concerns about the pandemic have not ceased, and the number of COVID-19 cases remains high, with 1,282 new cases recorded on 13 July 2020. Yet, the country faces sharp economic hits if businesses do not reopen.

### 4.3 Key Considerations Going Forward

Public perceptions of the government's handling of COVID-19 have been poor, with a poll by Indo Barometer in May finding that 53.8 per cent of respondents expressed dissatisfaction.<sup>22</sup> Yet, Jokowi's own political position has remained stable and he has no direct competitors at present (other than the Jakarta governor Anies Baswedan, who has a limited scope of authority). But while the President's position is stable, the road to move ahead is blocked.

- a) **Stability Concerns First:** Hit by the slowdown globally and especially in China, Indonesia's first-quarter growth rate of 2.97 per cent was already its weakest pace in nearly 20 years, and the second quarter is projected to surpass this with a contraction of 3.8 per cent.<sup>23</sup> For the year, the economy now projected to grow less than 2.3 per cent,<sup>24</sup> and the priority is for stability. This is likely to favour the needs of Indonesian companies.
- b) **Rupiah Fall:** Contributing to concerns is the weak state of the currency. Pre-COVID exchange levels were around IDR 13,600 – 13,800 to 1USD, but the Indonesian rupiah later fell to a low of nearly 17,000:1 with the USD; a rate considerably lower than even during the Asian crisis of 1997-98. The rupiah has recovered somewhat since, but this is traced to a temporary fall in demand for the USD corresponding to drops in external trade and investment. As and when the economy recovers, the currency will face renewed pressure.<sup>25</sup>
- c) **Financial Strain:** Meanwhile, Jokowi's government must face concerns on fiscal health, strained by the implementation of the stimulus packages. While the deficit is usually kept below 3 per cent of GDP, the government removed the ceiling two months ago, and the deficit is now projected to more than double – widening to 6.34 per cent of GDP under the latest stimulus package.<sup>26</sup> These factors raise the danger of downgrades to Indonesia's risk rating.
- d) **Revisiting Reforms:** Stability is the economic focus of Indonesia's leaders at the moment but for stronger growth into the middle term and beyond, there remains a need to attract more and higher quality foreign investments and to improve Indonesia's infrastructure. It remains to be seen if reforms will be revisited and reprioritised by President Jokowi. Specifically, there is uncertainty on whether reforms will be delayed or face complete derailment caused by the political compromises that emerged in the pandemic. Reform efforts will be critical if Indonesia is to try to catch parts of the supply chains that relocate out from China.
- e) **First Wave Peaks Ahead:** Going forward to re-open without a clear containment of the virus, the principal health risk is that the current and first wave of the pandemic will continue to spread and intensify, not only in Jakarta but across provinces, with further peaks. Given limited health care capacity, assistance will be needed from international organisations as well as from countries such as China and regional neighbours.

**A Challenging Path, But Not Without Hope:** Indonesia and Jokowi still enjoy a high measure of international goodwill and support. Given the poor global outlook, there will be real challenges for Indonesia to upgrade and secure foreign investment in manufacturing and key parts of global supply chains, without undertaking reforms. The country's economic growth and fiscal position will also face pressure. The stability of the Jokowi presidency is, however, a positive point and, even with some compromise, it is possible that enough can be done to keep Indonesia afloat and moving forward.

## Conclusion

The four countries surveyed in this Special Briefing represent some 70 per cent of the total ASEAN GDP. What happens to them matters immensely to the region as a whole and to Singapore as a partner, investor, and hub.

At the start of 2020, ASEAN was on track to outperform the global average and even match China's growth rate. While it is still early to be certain, the prospects for ASEAN have eroded. In the pandemic, growth rates for all four countries surveyed have been downgraded.

	2019 GDP Growth Figures	2020 GDP Growth Forecasts (Pre-COVID)	2020 GDP Forecasts (Post-COVID)
Indonesia	5.02%	5.2%	Range: Contraction of 0.4% to growth of 2.3% (MOF)
Malaysia	4.3%	4.3%	Range Contraction of 2.0% to growth of 0.5% (BNM)
Thailand	2.4%	3.3%	Contraction of 8.1% (BOT)
Vietnam	7.02%	6.8%	Growth of 2.7% (IMF) to 4% (PM of Vietnam)

Vietnam is expected to emerge from the pandemic relatively well, having dealt with the health issues early on. If the country can manage the second wave effectively, it will be better poised for recovery and growth. Other countries relatively less so. Thailand's economy especially is heavily impacted while growth prospects for Malaysia and Indonesia have softened considerably. There are also considerations of political infighting and potential instability. This is clearest in Malaysia and Thailand. For Indonesia, the pandemic was not well handled and while there is continued support for Jokowi as president, vested interests have reasserted themselves. Compromises will limit reform and prospects for new growth, even as the existing economy weakens.

Changes in these four key countries were emerging even before the pandemic and a number of them have accelerated and worsened in these short but intense months. Looking beyond the first wave and at the contours of a new post COVID-19 world, new challenges are emerging. These relate not only to the national governments and their responses surveyed in this Special Briefing but also to changes in the international order, slower global growth, and more inward-looking mind-sets, as well as shifts in technology and in the Sino-American conflict.

In this new landscape, interdependencies within ASEAN are even more important and the progress towards deeper integration should be a priority. Singapore will need to refresh its role as a hub and consider measures to provide assistance, push for open trade and increased investment, and also work on "bubble" arrangements for travel. Such cooperation helps each country and ASEAN as a whole.

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