

MONITOR

A BI-MONTHLY SURVEY OF SOUTHEAST ASIA

ISEAS MONITOR is a socio-political survey of Southeast Asia which examines current events to identify trends in specific countries and in the wider region. E-mail: monitor@iseas.edu.sg

THE REGION: Geopolitical Overview

Hectic domestic politics, governments' need to face up to the extent of their economic integration with China, ASEAN's position relative to the South China Sea issue and Japanese engagement with the region will merit attention in the months ahead.

The national congress of the Communist Party of Vietnam, the unveiling of yet another draft constitution for Thailand, continuing political turbulence in Malaysia and Cambodia, the seating of a new parliament in Myanmar, a potential crisis concerning corruption in Indonesia and the approach of presidential elections in the Philippines mean that the opening months of 2016 will keep observers of Southeast Asian politics busy.

The IMF's addition of the Chinese yuan as a reserve currency signals China's future role in a global economy long accustomed to US, European and Japanese leadership. Nevertheless, as recent fluctuations in the value of the yuan have sent flutters through regional markets, Southeast Asian governments need to reassess the extent of their reliance on that currency in their domestic economies. This reassessment may bear on regional responses to plans for a China-driven single "belt" connecting countries.

Tensions in the South China Sea over territorial claims and differing positions on what constitutes freedom of navigation and the rule of law in maritime security will continue to stoke angst among members of ASEAN. They may cast a shadow over the Association's determination to assert a central role in regional affairs, and bring into sharper focus outside powers' influence over those affairs. Preoccupation in the US with the 2016 presidential elections and with tackling extremism in the Middle East and on home ground

may leave Southeast Asia feeling neglected in 2016, despite reassurances on Washington's commitment to strategic rebalancing. Particularly in the perceived peripheral states of Southeast Asia like Myanmar, but also Thailand, the most important balancing act will involve finding footing between China's ascendance and Japan's arrows of engagement.

THE REGION: Economic Overview

Weak demand in China despite some positive economic data, and the United States Federal Reserve's interest rate hike suggest that the economies of Southeast Asia are unlikely to make gains in the coming months. Negotiations on the Regional Comprehensive Economic Partnership (RCEP) are expected to be given higher priority.

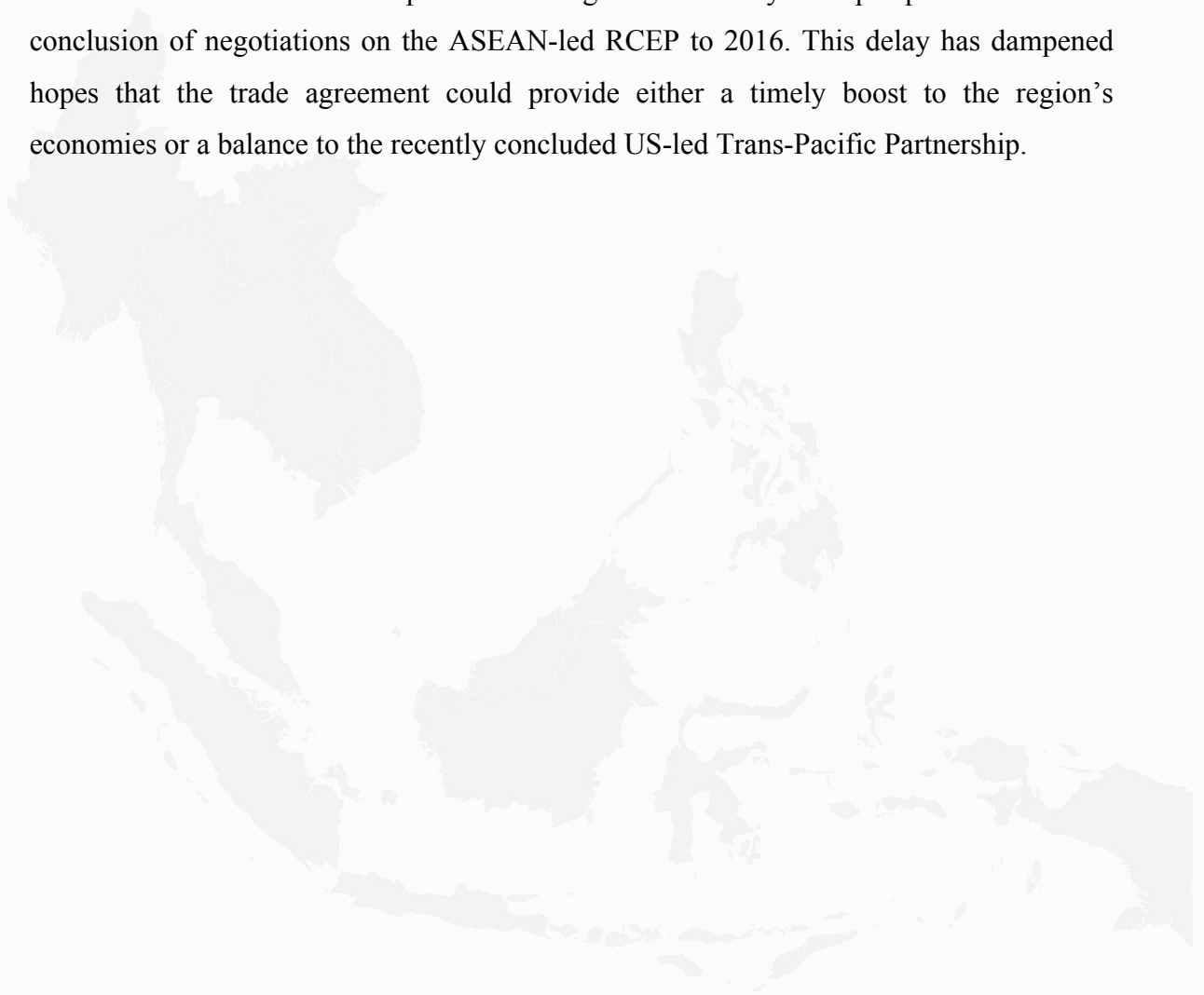
The first interest rate hike by the Federal Reserve in nearly a decade spells trouble for the emerging economies of Southeast Asia. Combined with a stronger US dollar, rising American interest rates are likely to depress the region's currencies and thus reduce export earnings at a time when weak Chinese demand has diminished growth rates.

China's economy seems to be stabilizing, suggesting that Beijing's stimulus measures may be working. Strong growth in factory output, fixed-asset investment and retail sales indicates that the slowdown in the world's second largest economy may have bottomed out. However, China still has to cope with feeble domestic and foreign demand, factory overcapacity and broader effects of its economic restructuring. It is too early to tell whether the Chinese economy will continue to steady. Even if it does, the positive effects will take time to trickle down to the economies of Southeast Asia.

The region will continue suffering from weak Chinese demand and from political instability closer to home in the coming months. The manufacturing sectors in Malaysia and Singapore have contracted, and the Asian Development Bank has cut growth forecasts for Indonesia and the Philippines. Oil-exporting Malaysia and Brunei will remain exposed to the slump in oil prices, which tumbled to a seven-year low in December. This economic turbulence is despite the launch of the ASEAN Economic Community—meant to

inaugurate a stronger and more integrated regional economy. Private-sector economists predict that any recovery in 2016 will be dependent on the visible hand of the state for a boost in spending, such as through the large infrastructure projects planned in Indonesia and Thailand. Only Vietnam seems to be weathering the present downturn well, with its strong export performance, robust domestic demand and vigorous growth rates.

There remains another dark spot for the regional economy: the postponement of the conclusion of negotiations on the ASEAN-led RCEP to 2016. This delay has dampened hopes that the trade agreement could provide either a timely boost to the region's economies or a balance to the recently concluded US-led Trans-Pacific Partnership.



Real GDP Growth in Southeast Asia and Selected Asian and Developed Economies
(year-on-year percentage changes)

| | 2012 | 2013 | 2014 | 2015 | 2016 |
|-----------------------------|------|------|------|------|------|
| Brunei | 0.9 | -2.1 | -2.3 | -1.2 | 3.2 |
| Cambodia | 7.3 | 7.4 | 7.0 | 6.9 | 7.2 |
| Indonesia | 6.0 | 5.6 | 5.0 | 4.6 | 5.1 |
| Lao P.D.R. | 7.9 | 8.0 | 7.4 | 7.5 | 8.0 |
| Malaysia | 5.5 | 4.7 | 6.0 | 4.7 | 4.5 |
| Myanmar | 7.3 | 8.4 | 8.5 | 8.5 | 8.4 |
| Philippines | 6.7 | 7.1 | 6.1 | 6.0 | 6.3 |
| Singapore | 3.4 | 4.4 | 2.9 | 2.2 | 2.9 |
| Thailand | 7.3 | 2.8 | 0.9 | 2.5 | 3.2 |
| Vietnam | 5.2 | 5.4 | 6.0 | 6.5 | 6.4 |
| ASEAN-10 Average | 5.8 | 5.2 | 4.8 | 4.8 | 5.5 |
| China | 7.7 | 7.7 | 7.3 | 6.8 | 6.3 |
| India | 5.1 | 6.9 | 7.3 | 7.3 | 7.5 |
| United States | 2.2 | 1.4 | 2.4 | 2.6 | 2.8 |
| Japan | 1.7 | 1.6 | -0.1 | 0.6 | 1.0 |
| European Union | -0.4 | 0.2 | 1.5 | 1.9 | 1.9 |
| World Average | 3.4 | 3.3 | 3.4 | 3.1 | 3.5 |

Source: IMF, World Economic Outlook Database, October 2015.

Manufacturing Purchasing Managers' Indices of Key Economies (2015)

| | September | October | November |
|----------------------|-----------|---------|----------|
| Australia | 52.1 | 50.2 | 52.5 |
| China | 47.2 | 48.3 | 48.6 |
| Euro Area | 52.0 | 52.3 | 52.8 |
| India | 51.2 | 50.7 | 50.3 |
| Indonesia | 47.4 | 47.8 | 46.9 |
| Japan | 51.0 | 52.4 | 52.6 |
| Singapore | 48.6 | 48.9 | 49.2 |
| South Korea | 49.2 | 49.1 | 49.1 |
| Taiwan | 46.9 | 47.8 | 49.5 |
| United States | 50.2 | 54.1 | 52.8 |
| Vietnam | 49.5 | 50.1 | 49.4 |

Sources: Australian Industry Group, Hongkong and Shanghai Banking Corporation, Markit Economics, and Singapore Institute of Purchasing & Materials Management. The Purchasing Managers' Index (PMI) is a leading economic bellwether. Based on surveys of selected companies on five indicators – employment environment, inventory levels, new orders, production, and supplier deliveries – it is an indicator of the manufacturing sector's health. Because of the world's highly connected value chains, the PMI performance of advanced countries provides a good forecast of Southeast Asia's economic health. A PMI reading over 50 indicates an expansion in the manufacturing sector from the previous month. A reading under 50 indicates a contraction, while a reading at 50 represents no change.

CAMBODIA

Strongman politics will continue, and political tension may worry major investors.

The politics of the strongman will prevail in Cambodia during the first two months of 2016 and in the medium term thereafter. The recent electoral victory of the opposition in Myanmar has increased Prime Minister Hun Sen's nervousness about losing power and left him determined to destroy the opposition Cambodia National Rescue Party (CNRP) in his own country.

As part of this clampdown, the prime minister's Cambodian People's Party (CPP) government is unlikely to drop various politically motivated charges against opposition leader Sam Rainsy, an opposition senator or a dozen other opposition activists without strong pressure from the international community and from donors, above all the United States. The CPP seeks to send the clear message to its opponents that it intends to keep the CNRP's influential leader, Sam Rainsy, in exile and thus unable to strengthen his party and mobilize supporters in the two critical years preceding the national elections of 2018.

Hun Sen is likely to continue to keep the UN-backed Khmer Rouge Tribunal under control. The purpose of this tribunal was to bring top Khmer Rouge officials to justice. The international co-investigating judge on the tribunal has officially charged a middle-level Khmer Rouge official, former navy commander Meas Muth, and three others. However, the foreign judge's Cambodian counterpart has disagreed with this decision. These individuals are thus unlikely to face arrest.

For large investors with long-term plans in Cambodia, the recent political turmoil has given rise to concerns. These concerns will persist, even though the economy remains largely unaffected by the political situation. At the same time, questions about the extent to which Cambodia will gain and lose from the inauguration of the ASEAN Economic Community loom large.

INDONESIA

The next two months may see a high-profile corruption and rent-seeking case adding to the unravelling of elite political networks in Indonesia. President Joko Widodo's economic policies are showing signs of delivering, despite continuing concerns over economic nationalism.

The election of more than 260 heads of government at the sub-national level was the most important development in Indonesian politics in the last two months. Although the results, which largely favoured incumbent politicians, are unlikely to affect government at the national level, local elections offer a good measure of the state of Indonesian democracy. Preliminary data suggest a record number of invalid votes, often used by voters to express dissatisfaction with politics. This sentiment, together with corruption and vote buying, may pose further challenges to Indonesia's democratic institutions.

Meanwhile, a high-profile corruption scandal involving House Speaker Setya Novanto, caught in an audio recording asking for shares in a foreign mining company in exchange for help in extending its mining license, has been in the spotlight. This case is unfolding against the background of proposed legislation that, according to critics, would substantially weaken the powers of the Anti-Corruption Commission (Komisi Pemberantasan Korupsi). The ability of Indonesian policy-makers to design effective policies to curb corruption will be a critical factor to watch over the next two months. Domestic security will also merit observation, as law enforcement agencies are currently engaged in operations against domestic terrorist groups and a growing number of supporters of ISIS.

On the economic front, after two quarters of sluggish growth, some signs show that the Indonesian economy picked up in the third quarter of 2015. Infrastructure spending grew from 10.9 per cent in June to 33.8 per cent in September. According to the Investment Coordinating Board (Badan Kordinasi Penanaman Modal), as of September Indonesia had recorded Rp 400 trillion (around US\$28.8 billion) in investment, a 16.7 per cent increase from last year's Rp 342 trillion. The economy grew by 4.73 per cent in the third quarter,

slightly better than the 4.67 per cent in the second quarter. For 2015 as a whole, Indonesia is likely to grow by 4.7 per cent, lower than the official target of 5.0 per cent.

In response to the slowdown, President Joko Widodo will continue his efforts to revitalize the economy. These may include another round of economic liberalization, as well as sector-specific measures in industries such as the extractive sector. The president's focus will be on supporting businesses and popular welfare, and also accelerating regulatory reform and reducing red tape involving investment and exports. However, market reaction to previous reforms has been subdued. Investors are waiting for effective implementation of various other measures that have been promised. Many are doubtful that Jokowi can move away from nationalistic protectionist tendencies and toward greater openness to foreign direct investment in the face of widespread resistance. This resistance comes not just from politicians but also from segments in the wider Indonesian society, such as labour unions and local businesses.

MALAYSIA

Prime Minister Najib Razak and the United Malays National Party (UMNO) confront internal opposition and economic and social discontent. Their weakness is likely to have implications for relations between central government and state governments, and for ethnic harmony.

The National Security Council (NSC) Bill 2015, which parliament passed on a voice vote late in the evening of 3 December, gives Prime Minister Najib Razak the authority to declare “security areas” and to conduct arrests, searches and seizures without warrants. But, while the recent, almost completely staged UMNO General Assembly, has strengthened Najib’s power, mounting division within the party has weakened UMNO.

With the NSC bill, Najib now has at his disposal a new coercive tool to curb public debate on —and public rallies in response to—the political and socio-economic scandals besieging him and his administration. Social discontent may also worsen as the frustrated urban population, and fresh graduates in particular, experience both difficulty in finding gainful employment and hardship resulting from stagnating incomes and the escalating cost of living.

The weakness of the prime minister and UMNO will further embolden the sultans to expand their authority, and the autonomy of their states. Sabah and Sarawak are demanding, among other things, larger royalties for the oil and gas extracted from their territory. In the upcoming Sarawak state elections, probably in March 2016, Chief Minister Adenan Satem will make demands for more state autonomy as an electoral inducement.

UMNO dissidents, led by the party’s Deputy President Muhyiddin Yassin, former Prime Minister Mahathir Mohamad, and party Vice President Shafie Apdal, will persist in canvassing the 30,000 branch chiefs and rank-and-file members to abandon Najib Razak. If the dissidents gain momentum in seeking support for the premier’s removal, the likelihood of their expulsion from the party will increase.

The impasse in UMNO could trigger social tension and political volatility, as Najib and his supporters resort to racialist rhetoric, religious appeals and other theatrics in order to shore up their support among Malays. Uncivil groups, in most cases led and funded by UMNO, will stage inflammatory actions to champion *ketuanan melayu* (Malay dominance) and *ketuanan agama* (the centrality of religion).



MYANMAR

The world will be watching Aung San Suu Kyi and the National League for Democracy (NLD) in their early days in government. The new administration will be able to move forward if it succeeds in obtaining the cooperation of the Myanmar military and other influential blocs, institutions and actors. Where sustainable and equitable development is concerned, the NLD has its work cut out for it.

Having won a supermajority in the two houses of the Union parliament in November's general election, the NLD under the leadership of Aung San Suu Kyi will begin its rule at the end of January. Aung San Suu Kyi's game plan at the moment appears to centre on reconciliation, moral responsibility and accountability.

National reconciliation is at the top of the agenda. This goal includes conciliatory talks with the military and the Union Solidarity and Development Party as well as with other crucial and symbolic actors on the Myanmar political landscape. Furthermore, Aung San Suu Kyi has announced that the new cabinet will include members from ethnic political parties. This decision bodes well for nationwide peace negotiations. There are fears that, since the nationwide peace process was built on personal relationships involving members of the outgoing government, maintaining momentum toward a settlement will be difficult. Another challenge that the NLD faces in its effort to bring lasting peace to Myanmar is its lack of control over the military. Be that as it may, the new government aims to forge ahead by bringing more armed groups into the negotiations.

On the economic front, the NLD inherits a patronage system in which military conglomerates control a substantial proportion of the country's economy, natural resource extraction agreements made with China prior to 2010, and a fragmented economy. Local communities and grassroots organisations affected by natural resource extraction were vocal in their opposition to the previous government because of the latter's ties to the military. How they will respond to the NLD and how the NLD will deal with conflicts over resources will bear watching.

THE PHILIPPINES

Four months before the 2016 presidential election, uncertainty reigns in the Philippines, and tens of millions of voters face disenfranchisement. Election-related risks are high and rising.

The 2016 presidential election, just four months away, has emerged already as the most complicated and the riskiest in the post-Marcos era. The ballot will likely have five presidential and six vice-presidential candidates, with three of the latter coming from the same party. In the Philippines, votes are cast separately for the president and the vice president, rather than for tickets.

More worryingly, the two leading presidential candidates, Rodrigo Duterte and Grace Poe, face the possibility of being ruled ineligible after ballots have been printed and of the annulment of votes for them. Duterte topped the latest poll with 38 per cent support, while former frontrunner Poe garnered 21 per cent. Two divisions of the Commission on Elections have already ruled against Poe's candidacy, on grounds relating to residency requirements; the issue is likely to end up in the Supreme Court. Likewise, Duterte's late filing of candidacy papers is being challenged and could also end up in the Supreme Court. It is possible that a majority of votes cast in the 9 May election will be annulled, if both Duterte's and Poe's names appear on the ballot and both candidates are ruled ineligible to run. Duterte has already raised the spectre of his supporters on the militant left and in Muslim Mindanao not accepting this outcome quietly.

Up to 2.5 million voters, more than 4 per cent of all registered voters, have already been disenfranchised, after being unsuccessful in having their biometric data recorded prior to the October deadline. A challenge before Supreme Court to the new "no bio, no boto" rule, one that is aimed at cleansing the electoral roll of ghost voters, failed on 16 December. The head of the Commission on Elections publicly stated that its success would have resulted in postponement of the election.

SINGAPORE

Singapore is carefully maintaining balance in its relations with China and the U.S. It has agreed to a third government-to-government economic project with China and an enhanced Defence Cooperation Agreement with the US. The latter allows the deployment of P-8 Poseidon reconnaissance planes to Singapore.

The Eighth S. Rajaratnam lecture on 27 November 2015 saw Prime Minister Lee Hsien Loong outline Singapore's foreign policy direction for the years ahead. He placed his remarks in the context of Singapore being a small state with limited resources working to punch above its weight to protect its national interests. He outlined four strategies, namely actively seeking to add value to interactions with other states with the objective of making Singapore relevant to them, having "common cause" with neighbouring countries, succeeding as a nation so as to be able to exert influence among other countries, and staying united as a country. These statements show continuity with Singapore's practice of seeking to balance ties with major powers to advance national interests. Recent moves to enhance economic ties with China and to develop strategic ties with the United States exemplify this practice.

Singapore's third government-to-government project with China was announced in Chongqing on 7 November. Later, on 8 December, Singapore signed an enhanced Defence Cooperation Agreement with the United States. This agreement includes cooperation on policy, strategy and technology, as well as in non-traditional areas of security like terrorism and piracy. Specific areas of greater cooperation are to include humanitarian assistance and disaster relief, cyber security, biosecurity and public communications. In the most widely noted outcome of the agreement, the US deployed a P-8 Poseidon reconnaissance aircraft to Singapore from 7 to 14 December and plans continuously to deploy such reconnaissance planes to Singapore in the future. This move to monitor Chinese activity in the South China Sea is vital to Singapore's trade as, according to observers, the sphere most affected by that activity is maritime Southeast Asia.

Singapore has proved willing to take steps to protect its interests despite the risk of the presence of P-8s on its soil evoking strong reaction from China. The latter has decried this deployment as an American move to militarize the region. Singapore will strive to maintain friendly ties with all the major powers, while preserving its own freedom of action.



THAILAND

Thailand will continue to stagnate and drift under military rule. The release of a new draft constitution is likely to bring few surprises. The junta's panicky repression shows little sign of easing. Economic doldrums will continue, though the state of Thai-Chinese and Thai-Japanese economic relations bears watching.

December saw General Prayut Chanocha, the leader of Thailand's National Council for Peace and Order (NCPO) junta, proclaim that the military dictatorship imposed on the country in May 2014 was entering its "second phase". Such pronouncements do little, however, to hide the fact that, like many military dictatorships in the region in the past, Thailand under the NCPO has fallen into a period of stagnation and drift.

The commission charged with preparing a new constitution will unveil its draft at the end of January. Neither the document's intended effect of depoliticizing Thailand nor how the document will pass a popular referendum have attracted much interest, however. The same is true of the work of the junta's National Reform Steering Council to prepare the country for the end of NCPO rule in mid-2017.

In the meantime, the junta continues to use the law on lèse majesté and other measures to suppress criticism and dissent. Its handling of allegations of corruption in the construction of the Ratchaphak Park reaching into the Thai military establishment will serve as a clear indicator of its confidence in its hold on power and in its project to reshape the Thai political order.

Further contributing to the sense of drift are Thailand's economic doldrums. Private-sector debt, a looming water crisis, declining exports during much of 2015, weak domestic demand, and concerns about the impact on the seafood export sector of reports of labour abuses have undermined confidence in the NCPO and its economic team.

Washington sent an assistant secretary of state to Bangkok in mid-December for a round of "strategic dialogue", but continued NCPO repression will prevent any marked improvement in Thai-US relations in the near future. At best, elements in the Pentagon

and the US intelligence community will work behind the scenes to cultivate ties with the Thai military which may prove of value in the post-NCPO period. Noises from senior members of the regime about Thai interest in the Trans-Pacific Partnership will serve as an important barometer of Bangkok's fears of exclusion from regional production chains, above all those on which major Japanese firms depend. The outcome of haggling between Thailand and China over the terms of a Chinese loan to finance a rail link between the Thailand-Laos border and the Gulf of Thailand will serve as an important indicator of the junta's level of comfort with Beijing's economic and political embrace.



VIETNAM

The Central Committee of the Communist Party of Vietnam has met to nominate candidates for the next Politburo, Secretariat, Inspectorate Commission and the top four leadership positions. The country's economy is on track to achieve an annual growth rate of 6.55 for 2015, but state-owned enterprise reform remains a challenge. During President Xi Jinping's visit to Vietnam, China made generous offers to Vietnam, in a renewal of Beijing's "charm offensive" toward Hanoi.

In a meeting with his constituency, Communist Party of Vietnam (CPV) General Secretary Nguyễn Phú Trọng confirmed that the party's twelfth national congress would be held in January 2016, but did not provide the specific date. To prepare for the congress, the CPV Central Committee started its thirteenth plenum on 14 December, focusing again on personnel issues. On the basis of a list proposed in the twelfth plenum, the thirteenth plenum voted on incumbent committee members who would be eligible to retain their seats on the new Central Committee. Committee members also nominated a list of candidates for the next Politburo, Secretariat and Inspectorate Commission, along with a separate list of candidates for the top four positions in the party and government. The fourteenth and final plenum, to be held immediately before the congress, is likely to vote on these candidates. The vote will wrap up the personnel arrangements before they are formally rubber-stamped at the congress.

Just days before the thirteenth plenum convened, 127 intellectuals and retired senior officials sent an open letter to the Politburo, Central Committee and delegates to the twelfth congress. The letter called for the abandonment of Marxism-Leninism, changing the party's and the state's names, and democratization. It is noteworthy that, in an interview with the BBC Vietnamese service, a senior member of the group cited developments in Myanmar as a major source of inspiration for the signatories to the letter. The party is likely to ignore the letter, but its transmission highlights the challenges that the CPV faces in maintaining its political legitimacy.

Addressing an international donor conference in early December, Prime Minister Nguyễn Tấn Dũng stated that Vietnam was on track to achieve annual GDP growth of 6.55 per

cent in 2015, accelerating from the 5.98 per cent growth posted in 2014. In documents prepared for the next congress, the CPV set the target for annual growth at 6.5 to 7.0 per cent for the 2016-2020 period. To achieve this, the government will have to promote further reforms, including those in the state-owned enterprise (SOE) sector. SOE reforms, especially the equitization program, have generally been behind schedule. A government report released in November said that SOEs had accumulated nearly US\$70 billion in debt, further casting doubts on the sustainability of Vietnam's state-owned sector.

Vietnam received Chinese President Xi Jinping on 5-6 November. During the visit, the two sides stressed the need peacefully to manage disputes concerning the South China Sea. They also signed a number of agreements on economic cooperation, covering tourism, energy and infrastructure development. Specifically, China will provide Vietnam with US\$550 million in concessionary and preferential loans for two major infrastructure projects. It also pledged to provide 1 billion yuan (US\$157.43 million) in aid to Vietnam over five years to build schools and hospitals, the biggest grant that China has provided to Vietnam in decades. These offers exemplify Beijing's renewed "charm offensive" to mend relations with Hanoi after bilateral relations turned sour following recent intensification in maritime disputes between the two parties.

Contributors:

Malcolm Cook, ISEAS's Indonesia Studies Programme, Danielle Hong Yuan Hua (editorial assistant), Lê Hồng Hiệp, Lee Hock Guan, Michael Montesano (editor), Moe Thuzar, Veena Nair, Oh Su-Ann, Ooi Kee Beng (editor), Michael Yeo Chai Ming and an analyst in Ontario.