
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.

THE REGION: Geopolitical Overview

Four major geopolitical currents will continue to affect Southeast Asia in the opening months of 2015.

First, falling oil prices have in recent months been a boon to oil importers worldwide. But they have been a mixed blessing for oil producers in Southeast Asia, where structural economic reforms are central to political decision-making as ASEAN moves toward closer economic integration. Integration of the energy market is on the agenda, and, while the fall in oil prices may come at a perfect time for newly elected Indonesian President Joko Widodo after his recent move to remove oil subsidies, the impact of their fall on the revenues of some governments may lead to a delay—or a readjustment—in plans for regional economic integration.

Second, Beijing has exhibited some flexibility in its attitude toward ASEAN. Despite bilateral tensions with the Philippines and Vietnam over disputed areas in the South China Sea, China has shown interest in achieving an “early harvest” of common objectives in its dealings with ASEAN. Nevertheless, 2015 may not be the year for concluding negotiations for a Code of Conduct in the South China Sea.

Third, ASEAN looks likely during Malaysia’s chairmanship to remain at the centre of a number of geopolitical power plays. Japan’s Prime Minister Abe Shinzo has received a fresh electoral mandate to work for his country’s economic revitalisation. He will continue to seek partnerships in Southeast

Asia as he pursues that goal. China's President Xi Jinping will continue his fight against corruption and his effort to manage slowing growth in China, while seeking to improve perceptions of China and of Chinese in general, especially in Southeast Asia. Perceptions of the US will be coloured by the recent fallout over the United States Senate intelligence committee's report on the CIA's interrogations in the years after 11 September 2011.

Finally, concerns over the Islamic State will keep the region on high alert, as hostage dramas move closer to Southeast Asia. They represent a growing concern for countries with or without significant Muslim populations. The tinder box of ethno-nationalism may be manipulated in countries such as Myanmar, where general elections are expected in late 2015.

Key Points: The impact of falling oil prices on Southeast Asian economies and on ASEAN integration; Sino-Japanese rivalry; and threats emanating from the activities of the Islamic State number among the geopolitical developments on which to focus in early 2015.

THE REGION: Economic Overview

The recent plummet in oil prices – by 45 per cent between mid-June and mid-December – is a double-edged sword. While oil exporters such as Russia have suffered, the IMF expects falling oil prices to be broadly positive for the global economy. Additionally, India, Indonesia and Malaysia have capitalized on the falling prices to reduce fiscally damaging fuel subsidies and thus perhaps to devote more resources to economic development. However, falling oil prices will also have significant costs even for net oil importers: Japan will find it tougher to fight deflation, and Singapore's significant refining and rig-building sectors will take a hit. In Malaysia, a net oil exporter which derives a third of its state revenue from oil-related industries, the price fall will affect public finances. Some private-sector economists also view falling oil prices as a function of weak Chinese demand – suggesting a slowdown in China's economy.

Bolstered by cheap oil and progress in the labour market, the US manufacturing sector has expanded more than expected, with the Institute of Supply Management's factory index at 58.7 in November, similar to October's level. More impressively, the US raised its third-quarter GDP

growth from a previous estimate of 3.9 per cent to 5.0 per cent, its fastest pace in 11 years. In contrast, business activity in the Eurozone showed poor growth despite heavy discounting. According to financial data firm Markit, the Eurozone's purchasing managers' index (PMI) was 51.1 in November, a decrease from October's 52.1.

Economic data from Asia were similarly dismal for November, dampening Southeast Asia's economic prospects. China's HSBC/Markit PMI shrank to 50.0, while South Korea's 49.0 PMI reading indicates a contraction in its manufacturing sector. New data shows that Japan's GDP contracted at a real annual rate of 1.9 per cent in the third quarter of 2014, casting doubt on the effectiveness of Abenomics. However, Modi's India seems to be faring well, with its HSBC/Markit PMI rising from 51.6 in October to 53.3 in November, the highest level since February 2013.

Indonesia's PMI fell to a record low of 48.0 in November on weak demand, reduced fuel subsidies and a moderate increase in unemployment. While Singapore's overall PMI of 51.8 was stronger than the anticipated 51.5, the PMI reading for the electronics sector was a disappointing 50.6 – much lower than the estimated 52.1. Malaysia's rate of economic growth slipped to 5.6 per cent in the third quarter, from a revised 6.5 per cent in the second quarter, as exports and investment cooled. Furthermore, the slump in both petroleum and palm oil prices has impeded the country's efforts to reduce the fiscal deficit, and this has further weakened the Ringgit. In Vietnam, the PMI registered a sharp increase from 51.0 in October to 52.1 in November on the back of strong demand. This reflects the view of private-sector economists that Vietnam's manufacturing sector is competitive because the country has lower labour costs than China.

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

	2011	2012	2013	2014	2015
Brunei Darussalam	3.4	0.9	-1.8	5.3	3.0
Cambodia	7.1	7.3	7.4	7.2	7.3
Indonesia	6.5	6.3	5.8	5.2	5.5
Lao P.D.R.	8.0	7.9	8.0	7.4	7.2
Malaysia	5.2	5.6	4.7	5.9	5.2
Myanmar	5.9	7.3	8.3	8.5	8.5
Philippines	3.7	6.8	7.2	6.2	6.3
Singapore	6.1	2.5	3.9	3.0	3.0
Thailand	0.1	6.5	2.9	1.0	4.6
Vietnam	6.2	5.2	5.4	5.5	5.6
ASEAN-10 Average	5.2	5.6	5.2	5.5	5.6
China	9.3	7.7	7.7	7.4	7.1
India	6.6	4.7	5.0	5.6	6.4
United States	1.6	2.3	2.2	2.2	3.1
Japan	-0.5	1.5	1.5	0.9	0.8
European Union	1.7	-0.3	0.2	1.6	1.8
World Average	3.9	3.2	3	3.6	3.9

Source: IMF, World Economic Outlook Database, October 2014.

Key Points: The steep decline in oil prices presents both costs and benefits for Southeast Asian countries, depending on the structure of their economies. The general slowdown in the global economy dampens prospects for the region's economies.

CAMBODIA

In the first two months of 2015, four major political developments will dominate the Cambodian scene.

First, in parliament, active debate and scrutiny of the government's performance—especially by members of the opposition—will continue. This activity marks the onset of a new era in Cambodian politics, in which the National Assembly is no longer a sleeping institution.

Second, members of parliament from the opposition Cambodia National Rescue Party have reached agreement with the ruling Cambodian People's Party (CPP) over fundamental issues such as elevating the status of the leader of the opposition, permission for an opposition-affiliated television station and the membership and formation of the new National Election Committee. They will now fan out into the countryside, meeting their supporters, listening to voters' concerns and making efforts to address them.

Third, it is likely that the CPP will drive progressive reforms, for instance by reducing the abuse of power in various executive agencies. At the same time, several high-profile ministers, including those responsible for education and commerce, and the sons of the prime minister will redouble their commitment to restoring the popularity of the party.

Fourth, a new social network, whose political mission includes endeavouring to promote internal democracy in the ruling and opposition parties and empowering citizens to exercise their rights, will further expand its activities and strength. Whether the network will retain its original vision or end up creating distance between the opposition and the people remains to be seen. A minor yet noteworthy issue relating to rights involves a protest undertaken by Buddhist monks and demonstrators to demand the release of eighteen land-rights activists, monks and opposition supporters jailed after a series of arrests in November 2014.

Key Points: Parliament will retain its new-found energy. Members of the opposition will be travelling across the country to meet their supporters. A new social network with a serious political agenda is taking shape and gaining public attention.

INDONESIA

Newly inaugurated president Joko “Jokowi” Widodo’s first foreign trips—to attend the APEC annual meeting in Beijing, the 25th ASEAN Summit in Naypyitaw and the annual meet of the G-20 Brisbane—and the speeches that he gave during those trips were well received internationally. His cabinet ministers have clearly demonstrated that all will not be “business as usual” in Jakarta during the Jokowi administration. An example of this new, unorthodox style is Marine and Fisheries Minister Susi Pudjiastuti’s policy of sinking foreign vessels fishing illegally in Indonesia’s waters. While many Indonesians have welcomed her bold move, its actual effectiveness in improving the country’s struggling fisheries industry remains to be seen.

Leadership struggles in Golkar and the United Development Party (PPP) may result in Jokowi receiving more support in the parliament. The president’s Great Indonesia Coalition (Koalisi Indonesia Hebat) has also received a boost with the end of a two-month-long stand-off between the government and the opposition and a deal to share leadership of the House of Representatives (DPR). The Jokowi administration is expected to introduce several significant pieces of legislation in January 2015, most important among them being two government regulations in lieu of law—known as Perppu Pilkada—to restore direct elections for city mayors, district heads and provincial governors. Former President and incumbent Democratic Party chairman Susilo Bambang Yudhoyono has vowed to support these measures. The debate over the Pilkada laws will be the first test of the ability of Jokowi and his political allies to develop a good working relationship with the opposition-controlled parliament.

The downward trend in the value of the Rupiah since July 2014 will have several adverse effects. It will make controlling inflation more challenging, especially after the recent fuel-price hikes. Bank Indonesia (BI) data show that, as of September 2014, external debt had reached \$292.3 billion, of which the private sector bore more than half the total. The bank needs closely to monitor the movement in the currency and to prepare for swift intervention to ease financial-market volatility. BI will have several policy options in any effort to avoid massive capital outflows and further weakening of the currency: increasing its policy rate from the current 7.75 per cent to 8.00 per cent; using foreign exchange reserves to intervene in the market for the Rupiah; and increasing the deposit facility rate in order to absorb liquidity.

Key points: The Jokowi government has enjoyed several important boosts in the parliament, and success in meeting economic challenges in the wake of the hike in fuel prices and securing passage of the Perppu Pilkada will allow it to maintain momentum in 2015.

MALAYSIA

Prime Minister Najib Razak's handling of various government-linked companies, especially 1Malaysia Development Berhad (1MDB) and Felda Global Ventures (FGV), and of the Malaysian economy more generally will merit scrutiny in the months ahead.

In November 2014, 1MDB failed to make debt repayments of RM2 billion, but avoided default through the apparent extension of the period after which its loans would be declared non-performing from three to six months. It was reported that former premier Mahathir Mohamad met and grilled top 1MDB officials over various aspects of the company's business activities, especially its finances, in December and that an UMNO division head subsequently filed a request with the police for investigation of 1MDB. A default on 1MDB's massive debt would have an adverse impact on Malaysia's banking system and economy. FGV's market capitalization has shrunk by 50 per cent since its initial public offering in mid-2012. Its shares now trade at around RM2.40. Felda settlers, who were obliged to take loans to buy FGV shares, have suffered a huge loss at a time when falling palm-oil prices are further aggravating their situation.

The government's fiscal and revenue positions will worsen with the slide in oil prices. Government revenues rely heavily on contributions from the national oil company Petronas, which account for slightly more than 30 per cent of total government revenue. Petronas' reduced dividends will make it harder for the government to narrow its budget deficit, especially since its fiscal position and 2015 budget assume an average crude oil price of US\$100 per barrel during the year. Even with revenue from the goods and service tax (GST), which comes into effect on 1 April 2015 and savings from the removal of fuel subsidies, it is unlikely that the government can meet its original 3.0 per cent fiscal deficit target for 2015. Najib may opt to introduce politically unpopular measures in order to narrow the fiscal deficit.

Falling oil prices have also led to a weakening Ringgit. Foreign interests hold about 50 per cent of Malaysia's government bonds, and it will now cost the country more to raise funds in the international bond market. A weaker Ringgit will push import prices up and, in combination with the 6.0 per cent GST, result in inflation of between 4.0 and 6.0 per cent in 2015.

Key Points: The 1MDB crisis and the perception that Prime Minister Najib is not providing adequate leadership may galvanize support for a call by his foes in the United Malays National Organisation for him to step down. Rising inflationary pressures and a mounting cost of living may force the government to postpone implementation of the GST.

MYANMAR

Myanmar's general elections will take place at the end of 2015, but the set, the players and the script for this event are as yet uncertain. Proposed multi-party talks to resolve the issue of constitutional reform, stymied time and again, account for much of this uncertainty.

While it has been decided that the first-past-the-post system of voting will remain in place, the Union Election Commission has not yet completed work on the rules and regulations for the elections. Speculation over the identities of candidates for the presidency continues. Barring a specific constitutional change, Aung San Suu Kyi will not be able to run for president. The National League for Democracy has yet to propose an alternative candidate. Thura Shwe Mann, speaker of the lower house of Myanmar's parliament, has thrown his hat into the ring, and President Thein Sein appears to be positioning himself as a reluctant leader who would only accept the position again if the people desired it. There has also been talk that the current commander-in-chief of Myanmar's armed forces, Senior General Min Aung Hlaing, may step forward as a candidate.

As the elections draw closer, the possibility that the peace process between the government of Myanmar and the ethnic armed groups will culminate in an agreement diminishes. President Thein Sein would like to be able to claim success in this area during his tenure. The multifarious groups involved in the peace talks will however view any agreement reached as less credible, the nearer to the elections it is completed. Obstacles to an agreement appear to include proposals for the creation

of a federal army, differing notions of what “federalism” means and the form and nature of cooperation on economic and development projects.

This latter issue has far-ranging implications at the grass-roots level. Reports of land grabbing and of inadequate compensation for land needed for infrastructure projects, special economic zones, hydro-power dams and other energy projects keep surfacing. Moreover, the price of land in certain parts of the country has risen exponentially.

Key Points: The question for 2015 is whether Myanmar will be able to move beyond the paralysis over constitutional, political and economic reforms in which it found itself at the end of 2014. Undoubtedly, most attention will be given to preparations for the elections due in late 2015. In the best-case scenario, the approach of the polls will serve as the catalyst for real political reforms. In less favourable scenarios, it will produce half-hearted attempts at political change or leave the country in a continued stalemate.

THE PHILIPPINES

One contrast and two continuities will determine the direction of the Philippines in the first months of 2015.

In the first week of December, Ruby—known internationally as Hagupit—was the second super-typhoon to hit the Eastern Visayas in a year, following the devastation caused to Samar and Leyte by Yolanda (or Haiyan) in November 2013. This time, municipalities in the expected path of Ruby were well prepared. More than a million people congregated in designated emergency shelters away from the shoreline. The death toll in the twenties compared well with the loss of more than 6000 lives attributed to Yolanda. Damage to property, agriculture and public infrastructure was also much less severe. The Philippines apparently learned painful lessons from Yolanda and applied them in its preparations for Ruby.

The Philippine economy continues to grow despite stronger international headwinds, with annual GDP and remittances growth rates of more than 6.0 per cent. Remittance inflows were expected to

top \$25 billion by the end of 2014. Two lagging economic indicators, FDI inflows and employment, finally appear to be benefitting from the Philippines' sustained period of high GDP growth rates, the best among major Southeast Asian economies since the global financial crisis of 2008. In November 2014, FDI inflows doubled in year-on-year terms while unemployment fell to 6.0 per cent, the lowest rate in a decade and down from 7.0 per cent at the beginning of the year.

A second continuity is apparent in the trajectories of the main potential candidates in the 2016 presidential election. Vice President Jejomar "Jojo" Binay, a declared candidate and the front-runner, saw his popularity drop further from 31 to 26 percent in the end-of-year Pulse Asia poll. Favoured dark horse candidate Senator Grace Poe saw her popularity jump to second place among potential candidates, at 18 per cent. The Liberal Party heir apparent to President Aquino, Manuel "Mar" Roxas, saw his popularity halved from a low 13 per cent in September to a desultory 6 per cent at year's end. A Binay-Poe election looks most likely, unless Binay and his United Nationalist Alliance can convince Poe to run for vice-president, in which case the coast would seem to be clear for Binay.

Key points: The run-up to the 2016 presidential elections will dominate Philippine politics in 2015. The country's economic outlook is encouraging.

SINGAPORE

Speculation on the date of Singapore's next general election, to be held by January 2017, is rife, as political parties have clearly begun to prepare for the contest. The ruling People's Action Party has updated its party constitution for the first time in 32 years in order to position itself to deal effectively with the evolving needs of the country. Its main priorities seem to be ensuring opportunities, closing the inequality gap, strengthening the social safety net for low-income groups and fostering a "democracy of deeds" with "hard work" and "self-reliance" as its core principles.

Prime Minister Lee Hsien Loong has addressed rumours of an early election by stating that the government must tackle important issues and mark important events, such as celebrations of the fiftieth anniversary of Singapore's independence in 2015, before calling polls. It is likely that the

ruling party will seek to implement a range of new measures before entering what may well prove a strongly contested campaign.

These initiatives include developing Singapore as a hub for information technology and renewable energy. The government plans to make Singapore a “Smart Nation” in which information technology is integrated into a platform that engages the community and serves to supplement government services. A host of government e-services and new programmes such as eldercare monitoring will soon be available online, as part of Singapore’s bid to stay ahead of the regional pack and to position itself globally in the forefront of innovation.

Singapore also aims to build up its renewable energy sector, with a target of generating five per cent of its electricity from solar energy by 2020. A renewable energy grid will be built on the Semakau landfill to test the integration of power from different energy sources. Singapore also seeks to become a regional trading hub for liquefied natural gas. And further initiatives and measures in the areas of energy security and technology are in prospect, all part of an effort to maintain Singapore’s edge as an innovator.

Key Points: Political parties have started gearing up for the general election that must to be held before January 2017, despite the prime minister’s cautioning that much remains to be done before polls are called. Energy- and technology- related initiatives will reflect Singapore’s determination to become a hub in these fields.

THAILAND

In the months ahead, Thailand’s Constitution Drafting Committee will work to incorporate ideas developed by the specialized committees of the National Reform Council into a new charter. This process will offer the clearest indication to date of the political order that the National Council for Peace and Order (NCPO) junta seeks to create. The roles of politicians and political parties, the size and composition of parliament, processes for selecting the prime minister and cabinet, and the political powers of the judiciary and of various unelected regulatory bodies will be areas to watch.

The junta and the civilians whom it has appointed to assist it have long since dashed hopes that the country's new constitution would emerge from an inclusive process of consultation.

Thailand will remain under martial law. The NCPO will continue to use soldiers and police officers to limit Thais' freedom of expression and to counter suspected anti-junta activities. There is little likelihood that this policy of broad repression will arouse widespread resistance during January and February. How actively the junta will pressure other countries to extradite Thais accused of *lesè majesté* for trial in military courts and how those countries will respond remain to be seen.

The recent arrest of a senior police officer related to Crown Prince Vajiralongkorn's third wife, of other members of her family and of their associates in a vast scheme of alleged corruption, and the prince's subsequent granting of a divorce to that wife bespeak a clear pattern of cooperation between the junta and the heir to the Thai throne. The apparent alienation of Privy Council chairman Prem Tinsulanond from the NCPO only underlines the degree of control enjoyed by junta head General Prayuth Chan-ocha and soldiers close to him at a juncture at which the state of King Bhumibol Adulyadej's health caused him to miss his annual birthday appearance in early December.

At year's end, some economists cut estimates of Thailand's growth rate for 2015 to well below 4.0 per cent. Low commodities prices, economic difficulties in Japan and Europe and slowing growth in China, coupled with the dampening effect of Thai household debt on domestic demand, helped account for this bearish view. The view also reflected skepticism over the timing of the junta's planned infrastructure spending.

Falling global oil prices will affect Thailand's politics as much as its economy. High-stakes debates over energy policy are an important part of the behind-the-scenes politicking under the junta. The parties to those debates will now need to recalibrate the assumptions on which they have based their positions.

Key Points: The constitution that the NCPO's civilian proxies are now drafting will offer many clues about the order that the junta seeks to forge. The year begins with economists being concerned about prospects for growth.

VIETNAM

As Vietnam enters 2015, its political machinery will begin to shift gears in anticipation of the 2016 National Party Congress. This quinquennial meeting of the Vietnamese Communist Party's meeting makes crucial decisions on the country's political and economic orientation and on the selection process for all top leadership positions. Factional in-fighting and an effort on the part of the country's leaders to shore up internal support in the party—which can sometimes offer rare glimpses into an otherwise arcane political institution—typically characterize the year leading up to the congress. In mid-November, the confidence vote of the National Assembly—a device re-instituted after its suspension amid controversy in mid-2013—offered early indications of what is to come. Prime Minister Nguyễn Tân Dũng appears to have recuperated support since his dismal showing in 2013, scoring 321 “high confidence” votes—64 per cent of the total—this year. Nonetheless, he still trailed considerably not only his main political rival President Trương Tân Sáng, who scored 380 “high confidence” votes, but also top-ranking Deputy Chair of the National Assembly Nguyễn Thị Kim Ngân, who scored 390. While neither Nguyễn Tân Dũng or Trương Tân Sáng is eligible for selection to the top post of prime minister in 2016, strong political support will increase the ability of each to influence that selection.

The rate of GDP growth continued to show slight but important improvement throughout the latter half of 2014. This progress is due to continue in 2015, and the rate of growth ought to exceed 6.0 per cent during the first quarter. While the prime minister continues to promise important economic reforms, their pace remains sluggish. In November, several high profile state-owned enterprises (SOEs) made initial public offerings, but with limited transparency. The prime minister also announced ambitious plans partially to privatize 400 additional SOEs and to clean up “bad debt” in the banking sector. But he and his government have yet to match these words with action, and, once again, the deadline for banks to clean up their accounts has been pushed back.

Vietnam's government maintains a harsh posture toward public criticism. In November, 58-year-old Nguyễn Quang Lập was arrested on criminal charges of “abusing democratic rights,” along with 65-year-old Hồng Lê Thọ. Nguyễn Quang Lập is one of Vietnam's most widely read bloggers, and his typically balanced views make his arrest all the more shocking. After much public fanfare over the releases of political prisoners Cù Huy Hà Vũ and Nguyễn Văn Hải (Điều Cày) earlier this year, these new arrests demonstrate that Vietnam continues to undermine its “progress” on human rights

with its revolving door-policy on political prisoners. International trade negotiators should take note of this important issue.

Key points: At this time last year, Vietnam's prime minister delivered an upbeat and ambitious New Year's address promising economic reforms, institution-building and democracy. This year's message will be another opportunity for him to declare his intentions for the year ahead, especially amid enduring uncertainties in Vietnam's relations with China and serious underlying macro-economic problems. Otherwise, more of the same—stalled economic reforms, the multi-lateralization of foreign relations and strict control over domestic politics—can be expected in 2016.

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