
ISEAS MONITOR provides short-term projections on the socio-political and economic situation in Southeast Asian countries.

THE REGION: Geopolitical Overview

Three broad geopolitical trends will bear watching in the months ahead.

First, ample supplies and slowing global economic growth will keep oil and commodity prices relatively low. The longer-term geopolitical implications remain difficult to gauge, but in the short term low prices should be net positive for Southeast Asia, and the region should be able to keep inflationary pressures at bay. These positive effects will promote political stability in uncertain times.

Second, ASEAN's role will be tempered as developments in other parts of the world continue to occupy key ASEAN Dialogue Partners. Attention to the region on the part of the United States, the European Union, Japan and China will not decline abruptly. But the tense situation in the Ukraine, the unfolding Greek bail-out drama and the ongoing war with the Islamic State will distract the US and EU from their engagement with ASEAN members, regionally and bilaterally. ASEAN can expect even lower-key participation at its meetings this year from a Russia that is concerned with issues closer to home. Instability in international financial markets may also affect the push for stronger financial integration in the region, depending on how Greece's debts are resolved. Strategically, ASEAN continues to face the challenge of reaching agreement with China—and among its members—on a binding Code of Conduct for the South China Sea.



Third, terrorism may strike closer to Asia. The beheading of two Japanese hostages, the first Asian hostages taken by the Islamic State, came close on the heels of the *Charlie Hebdo* murders. These events, followed by further brutal executions, the Copenhagen shootings and the North Carolina killings, signal to Southeast Asian countries their vulnerability to “violent extremism”, which ASEAN members have collectively and publicly condemned. The co-existence of multiple ethnic and religious communities in Southeast Asia requires delicately calibrating responses that do not add to the conflation of extremism and religion and thus lead to hate speech and crimes.

Key Points: Low commodity prices, international partners’ focus on other parts of the world and the threat of terrorism will frame Southeast Asia’s place in geopolitics in the months ahead.

THE REGION: Economic Overview

Oil prices rose slightly in February after plunging nearly 60 percent between June 2014 and January 2015. According to credit ratings agency Moody’s, such low prices will not boost global growth, as some expect, largely because of economic woes in the Eurozone, Russia and China. In a bid to revive the Eurozone economy, the European Central Bank unleashed a €1.1 trillion quantitative easing plan that will see it inject €60 billion a month into financial markets until September 2016. Nevertheless, fears of a Greek withdrawal from the Eurozone and the crisis in Ukraine might frustrate hopes for such a revival. In the United States, a Reuters poll of 82 economists has forecast a buoyant GDP growth rate of 3.2 percent for 2015. Yet US manufacturing activity grew at its slowest pace in eleven months in January; and the Institute of Supply Management manufacturing purchasing managers’ index (PMI) fell from 55.5 in December to 53.5 in the same month.

China’s economy grew just 7.4 percent in 2014 – its lowest rate in 24 years – just missing the official 7.5 percent target. If this slow growth in China continues, it could stifle Southeast Asia’s closely linked economies this year. Additionally, China’s official PMI fell to 49.8 in January, contracting for the first time in over two years, despite the expected business spike before the Chinese New Year. Its Asian rivals – India and Japan – are faring better. India has surpassed China as the world’s fastest-growing economy. Using a new methodology, it recorded a GDP growth of 7.5 percent in the fourth quarter of 2014, compared to China’s 7.3 per cent. Spurred by cheap oil

and a weak yen, Japan seems to be on a trend of modest recovery. Its economy is expected to grow by an annualized rate of 2.1 percent this quarter. According to Markit/JMMA, Japan's manufacturing PMI showed solid growth in January at 52.2, slightly higher than December's 52.0 reading.

Economic data from Southeast Asia appear mixed. Singapore's PMI was a disappointing 49.9 in January, a tepid increase following December's 49.6 reading. Its economy grew 2.9 per cent in 2014, slightly faster than a previous 2.8 percent estimate, but slower than the 4.4 percent growth rate achieved in 2013. In Indonesia, the economy grew by 5.02 percent in 2014 – a five-year low – although a modest rebound in the fourth quarter suggests that the slowdown has bottomed out. Despite the oil slump, Malaysia's economy grew by 5.8 percent in the fourth quarter of 2014, strengthened by its construction and manufacturing industries. However, private-sector economists remain pessimistic about the country's performance in 2015, because of falling palm oil exports and persistently low oil prices. The Philippines' economic forecast for 2015 is bright, with the Asian Development Bank expecting the economy to grow by 6.4 percent.

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	-1.75	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	3.0	3.6	3.9

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

Key Points: The economic prospects for Southeast Asia in the first half of 2015 are uncertain, as the global effects of Europe's troubles and the oil slump continue to unfold. Nevertheless, China's slowdown is likely to hold the economies of Southeast Asia back because of their strong business and trade ties to that large neighbouring economy.

CAMBODIA

In the next two months, blatant and less obvious repression on the part of the ruling Cambodian People's Party (CPP) is likely to dominate Cambodian politics. The party will seek to intimidate the opposition, its supporters and various land-eviction activists. The opposition Cambodia National Rescue Party may, out of fear that some of its lawmakers will be prosecuted on charges of insurrection in the wake of protests over the July 2013 election, adopt a position of restraint. Refraining from offering strong criticisms of the CPP, it will face mounting frustration among party activists, victims of land grabs and NGOs. It remains to be seen if foreign donors will respond to the deterioration of Cambodia's fledgling democracy.

The CPP's agenda is likely to include the continued imprisonment of eleven anti-eviction activists despite rising popular pressure for their release. Keeping these activists behind bars serves to warn others against mounting protests. At the same time, the government will continue to crack down on nodes of anti-eviction activism, such as the Buddhist pagodas that are housing activists, including monks. However, this approach will not address the root causes of anti-government protests. It will, rather, increase grievances and further undermine the CPP's legitimacy.

On the economic front, the garment sector may well contract in 2015. Many factories have already reacted to decreasing orders by reducing overtime shifts. Factory closures and layoffs may begin to hit the sector. The decline in one of the country's main economic drivers will significantly affect overall growth prospects. The garment industry employs some 600,000 workers, contributing some 80 percent of Cambodia's total exports and representing a third of its GDP.

Key Points: CPP-led political repression will soften opposition to the government, at least temporarily. Prospects for the garment sector are gloomy.

INDONESIA

In January, parliament passed a law that effectively reinstated the direct popular election of regional leaders. This victory for the governing coalition was due at least in part to the intense lobbying efforts of former President Susilo Bambang Yudhoyono and current President Joko Widodo (Jokowi).

Jokowi named Budi Gunawan, former President Megawati Sukarnoputri's sometime adjutant, as the sole candidate for parliamentary endorsement as national police chief. This nomination precipitated a crisis when the Corruption Eradication Commission (KPK) named Budi a corruption suspect. In what many believed to be a retaliation, the police then turned on the four members of the KPK. They arrested one of the agency's deputy chairman, Bambang Widjojanto, on charges—already dismissed—of perjury allegedly committed in 2010 and accused KPK chairman Abraham Samad of violating the agency's code of ethics by discussing his chances to become Jokowi's vice president during last year's election campaign and of falsifying documents. Deputy chairman Adnan Pandu Praja has also been accused of mishandling company shares in 2006, while deputy chairman Zulkarnain is being investigated for receiving bribes in 2009, following allegations made by a prosecuted swindler. Concerns continue to mount, as the court recently ruled that KPK charges against Budi Gunawan were unlawful. While Jokowi withdrew Budi's nomination as police chief, this conflict involved unprecedented organised attacks on the KPK. It has also highlighted the fact that networks of corruption remain very powerful in Indonesia.

The revision of the 2015 state budget (RAPBN-P) has shown that the reduction in energy subsidies has allowed the government to reallocate spending to infrastructure and social protection. However, the slowdown in global economic growth, the decline in commodity prices and the anticipated end of quantitative easing in the United States may have negative effects on the domestic economy. Demand for exports and government revenues may fall, and the rate of inflation may rise. Although monetary policy remains tight, it is quite possible that the central bank will consider adjustments during the second quarter, in order to strengthen domestic demand.

Key Points: The conflict between the KPK and the police has tested Jokowi's decisiveness and eroded public confidence in him. He needs to prove himself more capable of managing diverse political interests while pressing forward with his programmes.

MALAYSIA

The conviction on sodomy charges and resultant five-year prison sentencing of Anwar Ibrahim, the *de facto* leader of the Pakatan Rakyat (PR) coalition, followed almost immediately by the death of Nik Abdul Aziz Nik Mat, the spiritual advisor of the Pan-Malaysian Islamic Party (PAS), could further diminish the opposition coalition's already fraying unity. In the past, when disagreements and differences—especially between the Islamist PAS and the secular Democratic Action Party (DAP)—arose, Anwar had acted as the mediator. Also, Nik Aziz was instrumental in preventing PAS from falling under the control of its ulama faction, which favours aligning the party with the ruling United Malays National Party (UMNO) to form a “unity government”.

With Nik Aziz's death, UMNO is likely to step up its efforts to entice the PAS ulama faction to form such a government. Several PAS leaders in Kelantan have called for a special meeting of the State Assembly on March 16-19 to amend the Shariah Criminal Code (II) Enactment, Kelantan, 1993. If a vote on the amendment is taken, the amendment will almost certainly be passed unanimously, with the support of UMNO's state assemblymen.

This vote will lead the DAP, which is strongly against the implementation of shariah law in Kelantan, to review its position in the PR. It will consider leaving the opposition coalition. The Parti Keadilan Rakyat (PKR) will probably remain in some form of coalition with PAS while also aligning with DAP in a separate alliance. UMNO's declaration that it will not contest against PAS in the Cempaka state by-election further shows its strategy to co-opt the pro-unity government faction in PAS. On the other hand, UMNO will put up a candidate against PKR's likely candidate Nurul Huda, Anwar's second daughter, in the Permatang Pauh parliamentary by-election. She should clinch a comfortable win.

Prime Minister Najib Razak's problem with 1Malaysia Development Berhad's financial distress will persist, as the company may need a further cash injection of RM3 billion before its financial year closes on 31 March.

Key Points: PAS's annual congress, scheduled for June, will witness a major showdown between the faction that wants to remain in the PR coalition and the faction that wants to align the party with UMNO. Malaysia may face a downgrade in its credit-rating if it appears unable to tackle its fiscal

deficit and if the Goods and Services Tax, effective from 1 April, causes a significant dip in consumer spending.

MYANMAR

President Thein Sein's approval of a law allowing a referendum on constitutional change has important implications for the elections due in late 2015. However, the details of the referendum are still unknown, and there has been no mention of the clauses of the constitution that voters will be asked to consider. Also, while it has been suggested that the referendum will take place in May, there are doubts as to whether this is logistically possible. If it does not take place before the elections, slated for October, Aung San Suu Kyi will be out of the running for the post of president.

In the meantime, relations between Myanmar and China are in flux. Last year, the US\$20 billion railroad project to connect Yunnan and the Bay of Bengal was cancelled. The Myitsone dam, suspended in 2011 by the president, is being revisited and will be the subject of intense negotiations between Naypyitaw and Beijing. Recently, Burmese authorities also detained 155 Chinese nationals for illegal logging.

Nevertheless, Chinese FDI dominates investment in Myanmar, and the two governments have continued with their development plans. They have signed a contract to build rice mills in Myanmar, complementing a trade agreement that will legalise the shipment of Myanmar rice to China, previously illegal under Chinese regulations.

Key Points: The proposed referendum brings hope for constitutional change. While the government will be cautious about its scale and scope, the referendum will offer an excellent opportunity to gauge the opinions of “ordinary” people in Myanmar. China will continue to dominate Myanmar's export sector and foreign direct investment in the country, but Myanmar will try to juggle domestic concerns and geopolitical strategy. Its government must attend to domestic consumers and its electoral popularity and to the need to balance China's influence with that of other countries.

THE PHILIPPINES

The 25 January massacre of 44 Philippine police officers in a clash with the Moro Islamic Liberation Front (MILF) and the Bangsamoro Moro Islamic Freedom Fighters in Mamasapano town, Maguindanao province, may have dealt a deathblow to the ongoing peace process between the former group and the Manila government. The police pursued and succeeded in killing a leading Jemaah Islamiyah terrorist, the Malaysian known as “Marwan”, in MILF-controlled territory.

This single largest loss of life ever suffered by the Philippine National Police came at a sensitive period in the peace process. The Senate and House of Representatives are deliberating the Bangsamoro Basic Law, the law that is to put into legal force the Comprehensive Agreement on the Bangsamoro signed with great fanfare in March 2014. If the Basic Law is not passed by the end of the congressional session that ends on 20 March, it is likely to be too late to hold the inaugural Bangsamoro elections currently scheduled to coincide with the end of President Benigno Aquino’s single presidential term in May 2016.

The massacre and the recriminations between the government and the MILF that followed it have seriously delayed these legislative deliberations and eroded political and popular support for the Basic Law and for the peace process between the government and the MILF. The passage of the Bangsamoro Basic Law is now much less likely.

Muslim Mindanao has witnessed many peace processes and peace deals, which have offered many false dawns followed by the resumption of low-intensity conflict in one of the poorest and the most mineral-rich areas of the Philippines. The 25 January massacre and its continuing political fallout risk bringing a repetition of this history. The months ahead will determine whether history does indeed repeat itself.

Key points: The fall-out from the Mamasapano massacre may damage prospects for peace in Mindanao and thus jeopardize one of the central achievements of the second President Aquino.

SINGAPORE

Singapore has passed a Liquor Control (Supply and Consumption) Bill, which will come into force in April 2015. It makes alcohol consumption in public areas illegal from 10.30 p.m. to 7.00 a.m. and bans alcohol sales in retail shops after 10.30 p.m. Additional regulations will apply in two areas designated Liquor Control Zones. Although a government-commissioned consultation process indicated support for these measures, there have been concerns about their effect on small businesses that sell alcohol and on youth and tourists who congregate at certain open areas.

An incident during a Hindu Thaipusam festival procession has awakened questions of religious expression in the country. Three men were stopped from illegally playing drums at the procession. This incident sparked a debate over why religious music was banned in the first place and why Thaipusam could not be reinstated as a public holiday, as it was designated until 1968. Officials explained that it was necessary to maintain peace and orderliness during the procession and that each religious group had public holidays recognizing its faith. Race and religion remain highly sensitive topics in Singapore, but public debate on the management of diversity has increased; the government tried to engage the country's Hindus in explaining its position during the recent debate over Thaipusam.

The Aljunied-Hougang-Punggol East Town Council (AHEPTC), under the management of the opposition Worker's Party, was lambasted for poor management and accounting lapses, following an audit conducted by the Auditor-General's Office. This adds further pressure on opposition parties to manage their activities and responsibilities well and to show themselves worthy contenders in the general elections to be held before January 2017. The prime minister acknowledged in an interview the public desire for alternative views and said that parliament would not be composed exclusively of PAP MPs. But he cautioned that opposition members should be competent enough both to act as a check on the government and to manage operations on the ground, implicitly referring to the AHEPTC case.

The Prevent of Corruption Act is being reviewed and the Corrupt Practices Investigation Bureau will increase its manpower by twenty percent, as the government commits itself to internal and external checks and balances and seeks to prevent lapses.

Key Points: Discussions of racial and religious differences in Singapore society have become more open, and the role of opposition parties in national life will continue to become clearer.

THAILAND

During the tenth and eleventh full months of its rule, Thailand's National Council for Peace and Order (NCPO) junta is unlikely to lift martial law, which it considers fundamental to its control of the country pending the promulgation of a new constitution. Surveillance of the Internet will continue and perhaps intensify. Abuses of legal and human rights in conflicts over land and natural resources are likely to mount. Mid-March will see the courts decide whether criminal proceedings against former Prime Minister Yingluck Shinawatra in connection with her government's rice policies are to go ahead. While isolated and small, anti-dictatorship protests on the part of students will continue to break out sporadically.

Whether they gain momentum and, if so, how the government of General Prayuth Chan-ocha reacts to them will merit attention. So, too, will increasingly open rifts within the Buddhist Sangha, a reflection of the depth of Thailand's current ideological and institutional crisis.

The junta-appointed Constitution Drafting Committee may complete work on its Chitty-Chitty-Bang-Bang charter in April. It remains to be seen whether convoluted provisions on parties, candidates, campaigning and elections will come under criticism for their unworkable and anti-democratic nature. Anticipated provisions mandating processes of "reconciliation" and "reform" will serve either as means to check the will of Thai voters, as devices for continued military domination of politics, as the basis of utopian fantasies of clean government or as some combination of the three.

On the economic front, consumers' willingness to put aside concerns about household debt and to spend, along with the export sector and the pump-priming effects of government disbursements, bear watching. These indicators will determine whether Thailand is on course to grow at the rate of between 3.5 and 4.5 percent forecast for 2015 by the National Economic and Social Development Board. Popular dissatisfaction over pocket-book issues in urban areas counts as the junta's greatest worry.

NCPO plans for infrastructure spending have emerged as an arena of Sino-Japanese competition for influence in Thailand. And its efforts to induce foreign governments to restrict the activities of Thais overseas accused of *lèse majesté* will continue to come to naught.

Key Points: Praetorian rule and repression will deepen. Details of the draft constitution will make ever clearer the future for Thailand envisaged by the NCPO junta. The risk of urban discontent over pocket-book issues remains that junta's most significant vulnerability.

VIETNAM

Mystery and intrigue may be keywords for 2015. It will be the last year before the next national party congress of Vietnamese Communist Party (VCP), held every five years to set political and economic directions and to fill positions at the top of the political system. The year before a congress is typically characterized by jostling for power among members of the political elite, as well as the occasional revelation—orchestrated by rival factions to damage their opponents—of corruption scandals. It also brings an even more than usually restrictive environment for activists and critics of the state. Competition this year may be more cutthroat, and the opportunity for major changes greater than ever, as 10 of 16 Politburo members are set to retire.

The Tenth Plenum of the Central Committee of the VCP in January held an unprecedented vote of confidence in Politburo members. Domestic media were able to acknowledge that the vote took place, but no results were made public. The blog “Chân dung Quyền lực” posted unconfirmed results showing that both Prime Minister Nguyễn Tấn Dũng and his rival President Trương Tấn Sang scored the most “high confidence” votes, but that blog is rumoured to be operated by allies of the prime minister. Furthermore, as with re-instated confidence votes in the National Assembly, the impetus for the vote, its conduct and the significance of voting criteria remain unclear.

While the economy grew by 6.78 percent in the last quarter of 2014, the government's intention to tackle the troubled state-owned enterprise (SOE) sector is a matter of doubt. Hanoi plans to equitize 532 SOEs before the end of 2015, but in 2014 it managed to equitize only 143 of the more than 400

SOEs projected for this process of conversion into public limited companies. It gave itself a head start this year with the revised Enterprise Law enacted at the end of December and scheduled to go into effect by June 2015. The new law changed the legal definition of SOEs from 51 percent to 100 percent state-owned. While putting more state-invested firms on an equal footing with private ones, the law will also help relieve pressure on the government for deeper state-sector reforms.

In a peculiar turn of events, bloggers Nguyễn Quang Lập and Hồng Lê Thọ, arrested in December on charges of spreading propaganda against the state, were released in January and put under strict house arrest. What the government has planned for these and other bloggers remains to be seen.

Key Points: If foreign-invested exporting sectors remain strong, problems in the state-owned sector may be papered over, enabling growth to continue at an annualized rate of 6.0 percent. While the VCP Central Committee continues to reiterate its commitment to core principles, including remaining at the apex of political power, smouldering economic problems, potential confrontations with China and growing public dissent will continue to challenge it.

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