

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

Southeast Asia now faces hard choices in its strategic and economic interactions with the wider region and the global community. There are four significant developments to monitor for the next quarter.

First, China's proposed Asian Infrastructure Investment Bank (AIIB) seems headed for a promising debut. The prospective membership of the AIIB illustrates the extent of China's economic links with the world. Yet these very same links make China's economic slowdown a cause for concern, especially for the nations of Southeast Asia – among the earliest to sign on to the AIIB.

Second, recent surges on stock markets in Asia – especially Shanghai, Hong Kong, and Tokyo, each of which has touched multi-year highs – have fuelled fears of a financial bubble. The bursting of such a bubble would have severe repercussions for ASEAN, especially with the ASEAN Community, and the ASEAN Economic Community, due to be announced at the end of 2015.

Third, developments in Iraq, Syria and Yemen will continue to complicate efforts to counter the so-called Islamic State. These developments may exacerbate the Sunni-Shia divide and affect freedom of navigation through the Bab al-Mandab Straits, a crucial route for the Middle Eastern oil on which much of Asia depends.

Fourth, despite its distractions in the Middle East, the US continues to assure Asia of its commitment to a "pivot" toward the region, and especially to the economic component of that pivot and to the Trans-Pacific Partnership. Nevertheless, with attention now turning to the long campaign for the US presidential elections of late 2016, Washington may be compelled to focus more on domestic concerns.

Key points: China's AIIB initiative, concern over the state of the regional economy and distractions for US foreign policy all reinforce Southeast Asia's quest to realise the ASEAN Community.



THE REGION: Economic Overview

China has scored a major diplomatic victory with the Asian Infrastructure Investment Bank (AIIB) – an international bank designed to provide funding for infrastructure projects in Asia. The US\$50-billion bank is to be formally established in late 2015. Despite objections from Washington, several major US allies and friends – such as Australia, India, South Korea, Singapore, Thailand, Germany and the United Kingdom – have joined in. On this matter, Japan remains the sole US stalwart in Asia. The AIIB is largely welcome in Southeast Asia, where there is hope that a major influx of capital will ease the infrastructure bottleneck currently preventing the region from achieving its economic potential. However, doubts about the China-led AIIB’s governance structure and investment standards remain.

The World Bank has pared its growth forecasts for East and Southeast Asia in 2015. China’s economy should grow by 7.1 percent this year, down from 7.4 per cent in 2014. Although oil prices are unlikely to rebound during the year – a boon for most Southeast Asian economies – China’s slowdown will temper the region’s economic performance. “Developing East Asia” – which consists of fourteen countries, including Indonesia, Malaysia and Vietnam – should expand by an average of 6.7 percent in 2015, compared to 6.9 percent in 2014. Even the Philippines, one of the fastest growing economies in the region, has had its 2015 growth forecast reduced to 6.5 percent from an earlier estimate of 6.7 percent. In Singapore, private-sector economists expect the economy to grow by 2.8 percent in 2015 – revised downward from a previous estimate of 3.1 percent. Thailand appears an exception to this trend as the World Bank projects its economy to grow by 3.5 percent, compared to last year’s 0.7 per cent.

Similarly, the International Monetary Fund has lowered ASEAN’s projected growth rate in 2015 from a previous estimate of 5.6 percent to 5.2 percent. Notably, Brunei’s oil-dependent economy is expected to suffer greatly from the oil price slump, with its projected growth rate in 2015 plunging from an earlier 3.0 percent to -0.5 percent.

The poor performance of manufacturing sectors across East Asia reflects this sobering situation. In China, the HSBC/Markit manufacturing purchasing managers’ index (PMI) fell to 49.6 in March, down from February’s 50.7 reading. A reading below 50.0 indicates contraction. Korea’s manufacturing PMI fell from 51.1 in February to 49.2 in March, while Taiwan’s fell from 52.1 to 51.0. In Vietnam, widely touted as the “new China”, the PMI slid from 51.7 in February to 50.7 in March. Worse still, Indonesia’s PMI fell from 47.5 in February to a record low of 46.4 in March. Further afield, the US also reported poor data as its manufacturing PMI fell from 52.9 in February to 51.5 in March – its slowest expansion in fourteen months. In sum, Southeast Asia’s growth prospects may be muted in the coming months.

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

	2012	2013	2014	2015	2016
Brunei Darussalam	0.9	-1.8	-0.7	-0.5	2.8
Cambodia	7.3	7.4	7.0	7.2	7.2
Indonesia	6.0	5.6	5.0	5.2	5.5
Lao P.D.R.	7.9	8.0	7.4	7.3	7.8
Malaysia	5.6	4.7	6.0	4.8	4.9
Myanmar	7.3	8.3	7.7	8.3	8.5
Philippines	6.8	7.2	6.1	6.7	6.3
Singapore	3.4	4.4	2.9	3.0	3.0
Thailand	6.5	2.9	0.7	3.7	4.0
Vietnam	5.2	5.4	6.0	6.0	5.8
ASEAN-10 Average	5.7	5.2	4.8	5.2	5.6
China	7.8	7.8	7.4	6.8	6.3
India	5.1	6.9	7.2	7.5	7.5
United States	2.3	2.2	2.4	3.1	3.1
Japan	1.8	1.6	-0.1	1.0	1.2
European Union	-0.4	0.1	1.4	1.8	1.9
World Average	3.4	3.4	3.4	3.5	3.8

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

Key Points: Despite low oil prices, China's slowdown continues to restrain Southeast Asia's growth potential in 2015. It remains too early to say whether the AIIB can alleviate the region's infrastructure woes.

CAMBODIA

The next two months will see the continued, if temporary, easing of tensions between the governing Cambodian People's Party (CPP) and the opposition Cambodia National Rescue Party (CNRP). Three factors appear to explain this reduction in political confrontation.

First, the ruling party, nervous that it will lose the next general election, is pursuing a strategic compromise with the opposition that will make possible the CPP's long-term political survival. Second, as the CPP has long suppressed the opposition by means of control of the state machinery—including the armed forces and the judiciary—the opposition is left with few options but to compromise. This approach promises to allow the CNRP to consolidate as a political force and to gain more support among voters. Third, pressure from the donor community, particularly the United States, is likely to be a factor in modulating the CPP's undemocratic use of state power.

During this same period, the ruling party will pursue short-term strategies to prepare for the 2018 general election. A good example is Prime Minister Hun Sen's announcement that CPP-affiliated government officials would receive 30-percent supplements to their official salaries from the party.

The NGO community, which often sides with the opposition, will be left in the cold during this time of reduced political tension. Still, what we may view as a "soft opposition" will mobilize to sustain the support of local supporters and overseas Cambodians.

In the economic sphere, the World Bank and the Asian Development Bank have offered contradictory predictions regarding economic growth. The former predicts that Cambodia will sustain growth but that the pace will slow to 6.9 percent in 2015 and 2016, down from 7.0 percent in 2014. However, the latter projects growth rates of 7.3 percent in 2015 and 7.5 percent in 2016.

Key points: A temporary relaxation of tensions between the ruling party and the opposition is likely to prevail during the next two months.

INDONESIA

Six months into his presidency, the popularity of Joko Widodo (Jokowi) has begun to suffer. His approval rating has dropped from 75 to 60 percent—lower than that of former President Susilo Bambang Yudhoyono early in his first term. On the bright side for him, this is nevertheless higher than that for Vice-President Jusuf Kalla and the cabinet. Although this drop is due in part to the failure of Jokowi's ministers to develop and launch new programmes, Indonesians increasingly perceive the president as a man unable to introduce effective policies. Several issues have proved particularly damaging.

The conflict between the Corruption Eradication Commission (KPK) and the police has dragged on, as suspects' pre-trial motions threaten to harm the credibility of the KPK. Along with the surprise fuel-price hike in April, this saga has dented Jokowi's popularity. The president also needs to coordinate policy more effectively, and not to give in to pressure to reverse policy decisions, as he has done in areas ranging from the execution of drug traffickers to the ban on web-sites that promote Islamic radicalism and measures to allow visa-free entry to Indonesia.

The pressure on Jokowi to maintain support for his administration also stems from his relationship with the chairman of the Indonesian Democratic Party - Struggle (PDIP), former President Megawati Sukarnoputri. Jokowi's tendency to listen to policy advisers who may not be in agreement with her has led the former president to remind him that he is a mere party functionary. While an early cabinet reshuffle intended to ease the pressure on his administration is possible, Jokowi may also use the upcoming budget as a means of regaining support.

Investors are also worried about Jokowi's credibility in the realm of economic policy, not least after the introduction of measures driven by economic nationalism. Frequent changes in policy and weaknesses in policy implementation increase the risk of doing business in Indonesia. Slow progress on infrastructure investment has also triggered negative sentiment. Jokowi's economic agenda centres on an ambitious infrastructure spending plan, amounting to Rp 290 trillion (US\$22.4 billion) in the 2015 state budget, up from Rp 190 trillion last year. But disbursement remains sluggish, despite the president's instructions to expedite the tendering process during the first quarter. Disbursements during that quarter were only 18.5 percent of the total state spending of Rp 1,980 trillion. More worrisome, the Public Works and Housing Ministry, responsible for infrastructure projects, spent only 3 percent of its annual budget by the end of first quarter.

Slowing economic growth, sluggish exports and declining investor confidence make the tax-revenue target of Rp 1,480 trillion for 2015—a 30-percent increase from last year—unrealistic.

Poor economic policies will negate the gains from fuel-subsidy reform and adversely affect the effort to attract foreign capital.

Key points: Unpopular policies are costing Jokowi support, even as he remains under considerable pressure from various interests. A possible cabinet reshuffle and the budget for next year may provide some relief. But disbursement of the 2015 budget also needs to improve.



MALAYSIA

Widening allegations of economic mismanagement, financial malfeasance and grave political misbehaviour will strengthen calls for Prime Minister Najib Razak's resignation in the months ahead. Led by former premier Mahathir Mohamad, a growing number of United Malays National Organisation (UMNO) members and supporters fear that Najib has become such a liability to the party that if he remains prime minister the ruling Barisan Nasional coalition will lose power in the next general election.

Najib is under pressure to address various scandals, especially the 1Malaysia Development Berhad (1MDB) fiasco and the 2006 murder in Kuala Lumpur of the Mongolian Altantuya Shaariibuu. The death of Najib's long-time close associate Jamaluddin Jarjis, UMNO member of parliament for Rompin, and his chief of staff Azlin Alias in a helicopter crash has left a power vacuum in the prime minister's inner circle. To thwart his opponents, including members of the opposition, Najib will use the vast power and resources available to him as both prime minister and UMNO president to protect his position.

After the Pan-Malaysian Islamic Party (PAS) government in Kelantan passed a bill to amend and strengthen Shariah law in the state, the Democratic Action Party (DAP) severed ties with PAS president Hadi Awang, and presumably with the conservative ulama faction of PAS. DAP remains in the opposition Pakatan Rakyat (PR) coalition, but its status in the coalition will be tested, as the conservative ulama faction is likely to gain control of PAS in party elections in June. Should that faction then pursue its Islamist agenda, PAS's conflict with the DAP will intensify. The Parti Keadilan Rakyat will probably nominate Wan Azizah, wife of jailed opposition leader Anwar Ibrahim, to contest the by-election for the federal seat of Permatang Pauh so that she rather than Hadi Awang can lead PR. The installation of the PAS president as coalition leader would be unacceptable to the DAP.

As 1MDB is no longer financially sustainable, the Najib administration will trim its huge burden of debt either by selling the company's real estate assets or by selling or listing its energy assets. It may tap Petroliaam Nasional Bhd (Petronas) to bail 1MDB out by taking a majority stake in 1MDB's listed energy assets or by simply taking those assets over altogether. Petronas recently raised US\$5 billion through securities offerings, including US\$1.5 billion in sukuk. The government may also use the Employee Provident Fund (EPF) to cover the financing gaps of 1MDB and other government-linked entities.

Key Points: The conservative ulama faction is well positioned to win control of PAS in the party elections in June 2015. Petronas and EPF are likely candidates to assist in a bail-out of 1MDB. UMNO will probably win the Rompin by-election and PKR the Permatan Pauh by-election.



MYANMAR

Naypyitaw is taking measures to enhance the credibility of the national elections set for November. President Thein Sein has asked parliament to appoint eight new ethnic-minority members to the Union Election Commission. The government has also announced plans to invite the American Carter Center and the European Union to monitor the elections. This will be the first time in sixty-five years that Western poll observers will be active in Myanmar. Notwithstanding these encouraging developments, the constitution remains the most significant issue affecting the credibility of the 2015 elections. The first of a series of inclusive talks about its amendment and other major issues took place in the beginning of April. Where these talks will lead remains unclear.

At the procedural level, the Union Election Commission has begun compiling voter rolls, a task that is both challenging and vulnerable to accusations of bias. Civil society organizations are encouraging citizens to ensure that they are properly registered.

The ADB's 2015 Asian Development Outlook report forecasts that economic growth and inflation will rise in the year starting 1 April, with the former reaching 8.3 percent as against 7.7 percent during the preceding year. Despite a fall in oil prices and the country's position as a net importer of oil, soaring housing costs, a falling kyat, increased food costs, higher government spending and expected higher wages will continue to exert inflationary pressures.

Key Points: Momentum toward the elections will build from May onward, after political party registration at the end of the month. Parties, personalities and campaigning will dominate the political scene in the following months. The Central Bank will have to implement measures to counter inflationary pressures, particularly in the face of rising food prices and their effect on the poor.

THE PHILIPPINES

The one-year anniversary of the signing of the Comprehensive Agreement on the Bangsamoro between the government and the Moro Islamic Liberation Front (MILF) passed with no fanfare on 25 March. Why? Two months earlier, forty-four Philippine National Police officers had died trying to capture known Malaysian terrorists in a MILF stronghold in Mamasapano, Maguindanao.

This massacre and the ineffective government reaction to what was the largest-ever loss of police officers' lives in a single operation have angered many Filipinos. Popular opinion has turned sharply against the Bangsamoro Basic Law, now being deliberated in Congress, which codifies the Comprehensive Agreement. In a March Pulse Asia poll, 79 percent of respondents believed that the government response to the Mamasapano incident was inadequate. More than twice as many respondents (44 percent) opposed passage of the Basic Law as supported it (21 percent).

President Aquino is bearing the brunt of this deep anger. The head of the bungled raid, since relieved of his duties, has publicly accused the president of betrayal. The latest Social Weather Stations and Pulse Asia polls show precipitous drops in the president's popularity and trust ratings, which have now fallen to their lowest levels. Prospects for the peace process with the MILF and the Bangsamoro Basic Law are darker now than at any time during Aquino's term. The head of the government's peace panel and senior MILF figures warn of a return to war.

Liberal Party hopes that its 2016 presidential candidate could ride Aquino's popularity against the declared opposition candidate, Vice-President Jejomar "Jojo" Binay, are fading. The most likely Liberal Party candidate, Manuel "Mar" Roxas, languishes in a distant seventh place in the latest Pulse Asia poll, at 4 percent support, and in third place in the latest Social Weather Stations poll, at 15 percent support. The peace deal with the MILF promised to be President Aquino's nation-building legacy. Now, for Aquino, for Muslim Mindanao and for the Philippines, it seems more likely to represent something very different.

Key Points: Fall-out over the massacre of Philippine police officers in a botched January raid on Mindanao will continue to leave President Aquino weak, jeopardize hopes for peace on that island and harm the prospects of the governing Liberal Party's candidate in the presidential elections due next year.

SINGAPORE

Singapore's first prime minister, Lee Kuan Yew, passed away on 23 March. As the state's founding father and longest serving premier, Mr Lee was the driving force behind many of the policies that led to the country's growth and development. The government declared a week of mourning, during which an unprecedented 1.5 million people either queued to attend the lying-in-state or went to community sites set up in eighteen areas to pay tribute to Mr Lee. The overwhelming response to his passing showed the strength of the perception that he was an embodiment of Singapore's national identity. Looking towards the future, it remains to be seen how his legacy will be upheld. Mr Lee's ideas still inform the policies of the People's Action Party, despite its adeptness in adapting to changing electoral and socio-economic realities. Most recently, this adeptness has seen shifts towards more inclusiveness, a tempered meritocracy and an increase in welfare measures and in the social safety net, all policy trends that are likely to continue.

In response to the need for more inclusiveness, the government's 2015 budget addresses economic inequality through fiscal adjustment. More funds have been allocated to help middle- and low-income families by means of reductions in the cost of education, elder care and domestic help. On a broader scale, the government has also set aside funds for skills development, aiding small- and medium-sized enterprises, and infrastructure spending. It has postponed increases in foreign-worker levies. These measures are likely to meet some concerns over socio-economic challenges.

Key Points: The passing of Singapore's founding father has brought the country together in mourning as it prepares to continue on its trajectory of national development. The national budget for 2015 includes measures to address economic inequality.

THAILAND

On 1 April, Thailand's National Council for Peace and Order (NCPO) junta lifted martial law, under which it had governed the country since May. To continue to associate itself with the monarchy, the junta requested, and obtained, a royal decree ordering this change. Even without martial law, under Article 44 of the junta's interim constitution, General Prayut Chanocha enjoys—and has begun aggressively to exercise—unchecked power to run the government and all its ministries and departments. The junta has chosen to complement application of that article with orders granting full police powers to military officers. The end of martial law has, then, only intensified and made more arbitrary military rule in Thailand.

April also saw the release of the draft of Thailand's next "permanent" constitution, to be finalized by September. This document, to which only minor modification is likely, represents a blueprint for depoliticization. It introduces a "mixed-member-proportional" electoral system likely to result in fragmented parliaments, permits installation of a premier who is not a member of parliament, calls for a largely appointed senate, makes constitutional amendment extremely difficult, and empowers external bodies to check the powers of the elected government.

The constitution's terms make clear the unwillingness of either its drafters or of the soldiers who appointed them to pursue compromise with the social groups whose politicization has transformed Thailand in recent times. Those terms are thus a recipe for either further repression, further upheaval, or repression followed by upheaval. What merits attention in near term, however, is whether the Thai military intends to use the proposed constitution as a fig leaf for continued army rule or whether it envisions the charter as means of safely transferring power to trusted right-wing civilians.

The United States Pacific Command's decision to postpone the initial meeting with the Thai military on next year's Cobra Gold exercise may signal Washington's growing willingness to take a harder line on the Bangkok dictatorship, despite the short-term damage to military and intelligence relationships that may result. In the meantime, the European Union will continue to monitor environmental and labour abuses in the Thai fishing industry, before deciding later in the year on whether to ban imports from that sector.

Such a ban would do further damage to an already fragile export sector. In addition, Thailand confronts high levels of household debt, low consumer confidence, scaled back estimates of growth during 2015, and uncertainty about government disbursements, foreign investment and the global economic environment. Some Thai politicians and outside observers expect economic woes to prove the NCPO's eventual undoing. But junta repression and the continued

absence of significant resistance to military rule make this scenario hard to credit, at least in the months ahead.

Key points: Repressive military rule will continue. Discussion of the draft constitution may clarify the military's plans for the post-NCPO order. Economic fragility is unlikely to provoke political crisis.



VIETNAM

After the Hanoi city government cut down 500 of the hundred-year-old trees that have long lent charm to the city's streets in March, the intervention of Vietnamese citizens and activists stopped the government's original plan to remove as many as 6,700 of these trees. The incident generated yet another major scandal among Vietnam's governing organizations. A Facebook campaign under the banner "6,700 people for 6,700 trees" helped send crowds of citizens into the streets. As a result, the chairman of the Hanoi People's Committee ordered a suspension of all officials responsible for the \$3.4-million "landscaping" project. A wider investigation into the whole affair—which might include what happened to the valuable timber derived from the cut-down trees—has been ordered.

Rather than as testimony to a growing environmental sensibility in Vietnam, however, this incident comes in the context of a growing number of governance scandals and public protest campaigns in recent years. In April, a strike reported to involve close to 90,000 workers in Ho Chi Minh City reversed a recent change in social insurance policy. That same month, residents of Bình Thuận Province blocked National Highway No. 1 to protest pollution caused by the Vĩnh Tân 2 coal-fired power plant. In part, these incidents reflect the limited or inadequate formal channels available to Vietnam citizens for the expression of grievances and concerns. They also reflect the ineffective governance, lack of transparency and accountability, and multi-level corruption which contribute to scandals over governance. Whether state authorities choose to respond to these incidents with reforms or public repression remains to be seen, but the incidents risk jeopardizing Vietnam's reputation as a stable and secure environment for foreign investment.

Vietnam continues to pursue multi-lateralization in its foreign policy, while also carefully balancing that strategy against its bilateral commitments to China. This month will see Communist Party General Secretary Nguyễn Phú Trọng make an official visit to Washington. While largely ceremonial, this trip will signal growing rapprochement between Vietnam and the United States and permit further discussion of Washington's ban on the sale of lethal weapons to Hanoi, maritime security cooperation and the Trans-Pacific Partnership trade agreement. In April, the general secretary also led a high-level delegation on an official visit to China. While it has been rumoured that the Chinese invited Nguyễn Phú Trọng to Beijing in order to offer "advice" ahead of his visit to Washington, the trip also points to a new Chinese charm offensive towards Vietnam, one aimed at rebuilding trust that was broken during the oil-rig incident last year.

Vietnam's real GDP growth has continued to push marginally upwards, reaching a respectable 6.0 percent in the first quarter. However, the same old tune is still playing in the macro-

economy: the foreign-invested export sector is driving growth, while non-performing loans in the banking sector, high levels of state-owned enterprise (SOE) debt and slow progress on SOE equitization continue to present risks to the health of the economy.

Key points: State authorities' response to protests in Hanoi and the seriousness of their investigation of the tree-cutting scandal will be a bellwether for their approach to increasing episodes of public protest and dissent. General Secretary Nguyễn Phú Trọng's visit to Washington this month will provide opportunity for important bilateral discussions and possibly prepare the ground for more formal agreements during President Barack Obama's visit to Vietnam in November. At the same time, the US will use the meetings to press Vietnam on human rights and governance issues.

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