

MONITOR

A BI-MONTHLY SURVEY OF SOUTHEAST ASIA

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THE REGION: Geopolitical Overview

As 2015 draws to a close, Southeast Asia continues to confront the reality that economics and China remain front and centre in regional geopolitics.

Despite the different size of its footprint in the various countries of Southeast Asia, China will remain a source of concern. Fears of a significant deceleration in Chinese growth have rocked financial and commodity markets. Hopes that monetary and fiscal stimuli will allow China to keep its 2015 growth target of 7.0 percent within reach notwithstanding, a slowing global economy represents a substantial challenge to ASEAN's community-building project.

The process of ratification of the recently finalized Trans-Pacific Partnership (TPP) will now begin. The TPP embodies the economic backbone of the Obama administration's strategic "pivot" to Asia and is a response to the rise of the chief rival of the United States in the region, China. That latter power represents, in contrast, the major force behind the proposed Regional Comprehensive Economic Partnership (RCEP).

Against the backdrop above, policy-makers in the region remain focused on when and by how much the US Federal Reserve will raise interest rates. Such a hike is likely to trigger rises in rates around the world. With slowing global growth, these rises will inevitably have political consequences in many of the countries in the region.



Observers of regional geopolitics will closely watch both the conduct and degree of acceptance of this month's elections in Myanmar and the outcome of the political challenges faced by Malaysian Prime Minister Najib Razak. These developments represent barometers not only of the direction of reforms in the two countries but also of the possibility of political change in a region in which domestic politics has presented a decidedly mixed picture in recent years.

THE REGION: Economic Overview

The economies of Southeast Asia are suffering from China's economic slowdown. Progress on the TPP should inspire members of the RCEP to conclude negotiations on that latter agreement before year's end.

The International Monetary Fund (IMF) has cut its global growth forecast for 2015 to 3.1 percent, down from 3.4 percent last year. This cut reflects three major factors: the fall in global commodity prices; an anticipated hike in US interest rates; and finally, China's transformation into an economy powered by domestic consumption and services rather than exports and foreign investment.

The latter process of restructuring has affected China's economy directly; its growth rate has steadily declined in the past five years, and it is likely to struggle to meet its official growth forecast this year. The restructuring has also had an adverse effect on the economies of Southeast Asia, which are closely linked to China's. The IMF has pared down its growth estimates for the economies of Southeast Asia, with the exception of those of Laos, Myanmar and Vietnam. In particular, the outlook for the economies of Indonesia, Malaysia and Singapore is extremely hazy. In the long run, however, Southeast Asia should gain from China's restructuring, as labour-intensive manufacturing activities shift to the region. Not only are labour costs lower in most of Southeast Asia than in China, but the region is also well connected to the latter country. Its firms are thus well positioned to participate in China's manufacturing supply chains and booming consumer market.

Negotiations on the Trans-Pacific Partnership (TPP) — the largest regional trade agreement in history, involving twelve Asia-Pacific countries that account for 40 percent of the global economy — have been concluded. The agreement is expected to be signed during the next few months and ratified over the course of the next two years. Observers predict that it will generate massive growth opportunities for its members, which include Brunei, Malaysia, Singapore and Vietnam. Progress on the TPP should inject a fresh sense of urgency into the negotiations on the Regional Comprehensive Economic Partnership (RCEP), a rival regional trade agreement centred on ASEAN and its trading partners. Negotiations on the RCEP ought to conclude by year's end and result in a much-needed boost for the economies of Southeast Asia.



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)

| | July | August | September |
|----------------------|------|--------|-----------|
| Australia | 50.4 | 51.7 | 52.1 |
| China | 50.0 | 47.3 | 47.2 |
| Euro Area | 52.4 | 52.3 | 52.0 |
| India | 52.7 | 52.3 | 51.2 |
| Indonesia | 47.3 | 48.4 | 47.4 |
| Japan | 51.2 | 51.7 | 51.0 |
| Singapore | 49.7 | 49.3 | 48.6 |
| South Korea | 47.6 | 47.9 | 49.2 |
| Taiwan | 47.1 | 46.1 | 46.9 |
| United States | 53.8 | 51.1 | 50.2 |
| Vietnam | 52.6 | 51.3 | 49.5 |

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

The ruling party will continue severely squeeze the opposition. Cambodia is graduating from a low income to a lower middle income country.

Toward the year end, high politics will likely prevail. The ruling Cambodian People's Party (CPP) will likely fiercely continue to suppress the opposition Cambodia National Rescue Party (CNRP).

In the indirect CPP attempt to damage the opposition ahead of the local election in 2017 and national election in 2018, CNRP president Sam Rainsy may be imprisoned. As usual, CPP will likely punish Sam Rainsy using the weak court system under its dominance and such an unjustified and fake reason as Sam Rainsy's Facebook page's post connection to opposition Senator Hong Sok Hour who has been jailed.

CPP, will likely further weaken the opposition, and likeminded groups such as (environmental) activists on other fronts. Two events bear watching. One is the possible enactment of the draft Law on Telecommunications, which has been approved by the Council of Ministers. While the government defended that the law would ensure proper regulation and monitoring of the sector, critiques argue that the law, when passed, would become a government tool to centrally control over Cambodia's Internet and telecommunications. Two is CPP is observed to be supporting a new political party, the Khmer Power Party (KPP), an attempt viewed to dilute support for the opposition. Given the recent and likely cruel CPP's treatment toward the opposition, the donor community, especially the United State of America and the United Nations, may have reactions and interventions on the regime. What's next and left for the weak opposition remain to be seen.

Economically, attention might be paid the Cambodia's transition from a low income to a lower middle income country in the New Year. The World Bank predicted that Cambodia's Gross National Income per capita would reach US\$1,096 toward the end of 2015, exceeding the UD\$1,045 which is the threshold for a country to attain a lower middle income status.

INDONESIA

Assessments of Jokowi's first year as president have been largely negative. He must rely on the reshuffling of his cabinet to boost his popularity. The effectiveness of government measures to stimulate the sluggish economy remains to be seen.

One year into the presidency of Joko Widodo (Jokowi), his popularity rating has enjoyed a bounce up to 50 percent. Nevertheless, he continues to struggle to fulfil promises of clean and efficient government. The implementation of his infrastructure and pro-poor plans has suffered from poor coordination both among ministries and between the central and local governments. The government's economic nationalism also appears unsustainable, as Indonesia is in dire need of foreign investment. In the meantime, the weakening of the state's most trusted institution, the Corruption Eradication Commission (Komisi Pemberantasan Korupsi, KPK), continues with great damage to the prestige and respect that it once enjoyed.

Public opinion reflects Jokowi's struggles. Indonesians judge him on issues such as the weak economy, the faltering rupiah, rising unemployment, the high price of food staples and the government's slow response to the haze crisis. At the same time, they are satisfied with his decisiveness regarding the death penalty for convicted drug traffickers.

While a further—and perhaps higher-impact—cabinet reshuffle may boost the president's popularity, improved coordination among ministries will be required to support this reshuffle. The smooth conduct of nation-wide elections for regional leaders in December should be a high priority, as should action to check parliament's further efforts to weaken the KPK.

The government has recently released a fourth economic package, which aims to prevent massive layoffs in addition to those that have already struck the textile and garment sectors. Labour-intensive industries are facing significant pressures, as exports slump and the weak rupiah drives production costs up. The new stimulus package seeks to provide financial support to small businesses, export-oriented businesses in particular, and to assist laid-off employees in opening their own businesses. This economic package has also introduced a formula to determine the minimum wage through reference to existing wage rates and data on inflation and economic growth. The goal is to bring more certainty and efficiency to businesses than the long and complex tripartite negotiations over minimum wage had permitted. Additional economic packages being introduced in the coming months remain the issue to watch.

MALAYSIA

The Najib government will continue to struggle with the fall-out of the 1MDB scandal. It has limited scope to act to improve the worrying state of the national economy.

As of September 2015, Malaysian authorities had arrested or charged more than 80 people under the Sedition Act, the Peaceful Assembly Act, the Prevention of Terrorism Act and other oppressive laws. The besieged Prime Minister Najib Razak is expected to continue suppressing the opposition and critics, increase arrests, and try to retain support through patronage for UMNO leaders and, in a potentially violent racial cocktail, through the manipulation of Malay sentiments and fears.

Even before the opposition filed a motion of no-confidence against the prime minister in October, the speaker of parliament, Pandikar Amin, had ruled out a vote on the motion during the current sitting of parliament, which ends on 6 December. It is unlikely that he will allow the vote in the next sitting. After the attorney general rejected the proposal from Bank Negara Malaysia (BNM) to launch criminal prosecution procedures against 1Malaysia Development Berhad (1MDB), the bank insisted that it had the authority to revoke the permission that it granted to 1MDB for investments abroad totalling USD1.83 billion. BNM also issued a directive to 1MDB to repatriate that amount back to Malaysia. This independent stance could be the last significant action taken by BNM under Governor Zeti Akhtar Aziz's watch, as her tenure ends on 30 April 2016.

Najib has the chance to make use of the government's 2016 budget to address and redress some of the country's economic woes: rising inflation, a depreciating ringgit, high levels of capital flight, diminishing growth, and declining consumer and investor confidence. However, an unfavourable external economic environment, especially the slowdown of the Chinese economy, limits the range of measures that Najib can introduce. Spurring domestic demand will be a major challenge, as Malaysian household debt has already gone beyond 80 percent of GDP. On the other hand, increasing public spending could result in a deficit that breaches the government's self-imposed ceiling of 55 percent of GDP.

MYANMAR

The results of the general election and whether they will be upheld will be a source of much speculation in the coming days. Much work will be needed to reach a nationwide agreement on ceasefires and peace; it is likely that skirmishes between the Myanmar armed forces and non-state armed groups will continue sporadically.

In a few days, Myanmar citizens vote in the first general election contested by the National League for Democracy (NLD) in opposition to the military-backed Union Solidarity and Development Party (USDP). The consensus is that the NLD will win a large swathe of seats, but the question is whether it will win a parliamentary majority. The concerns of Myanmar's citizens centre on what will happen *after* the election. Will the results be upheld? Will the military step in? Will the Union Election Commission disqualify elected candidates? Events immediately after 8 November will be worth watching.

Mid-October saw the signing of a “nationwide” ceasefire agreement with eight non-state armed groups. However, this total represents just over half of the 15 groups involved in peace negotiations with Naypyitaw. While President Thein Sein's administration has portrayed the deal as a key achievement, it is a far cry from a durable solution. Armed groups along the Chinese border which refused to sign include the Kachin Independence Army, the Wa State Army and the Shan State Army-North, which have the largest militias in the country. This refusal, the continued fighting in the regions in which these groups are active and the vagueness of the ceasefire, disarmament and peace processes clearly demonstrate the need for more work before Myanmar is on its way to nationwide peace.

The World Economic Forum's annual Global Competitiveness Index for 2015-16 has ranked Myanmar among the ten least competitive countries—at 131 out of 140—in which to do business. The country ranked particularly low on measures of technological readiness, financial market development, business sophistication, transport infrastructure and electricity. In particular, the lack of electricity acts as a bottleneck on development. According to the 2014 census, fewer than a third of respondents used electricity as their main source of energy for lighting, and slightly more than two-thirds used primarily firewood for cooking. The World Bank's interest-free loan of US\$400 million, agreed upon in September this year, will aid in the National Electrification Plan in ensuring nationwide access to electricity by 2030.

THE PHILIPPINES

The approach of the Philippines' presidential election in May 2016 has begun to shape political and even economic developments in the country.

The candidates for the 9 May 2016 presidential elections are now known, but no clear winner is yet identifiable. The campaign will be a close three-horse race between strong candidates that appeal to different constituencies. The prospects of Manuel “Mar” Roxas, President Benigno Aquino’s anointed candidate, are picking up in the opinion polls, while the neophyte Senator Grace Poe has been the front runner in polls conducted during the last half-year. Finally, current Vice-President Jejomar Binay was the first to announce his candidacy, which he did last year. In the latest Pulse Asia poll, 26 percent of respondents give their support to Poe, 20 percent to Roxas and 19 percent to Binay.

Senator Miriam Defensor-Santiago, who almost won the presidency in 1992, is the fourth serious candidate. She has no prospect of winning, and her choice of Senator Ferdinand “Bongbong” Marcos as her running mate is likely to alienate many of her urban supporters. However, if she captures more than 5 percent of the votes cast, she could be in a position to determine the outcome of the race among the three front-runners.

The tightness of the presidential election will have an impact on the Philippine economy, the star performer in maritime Southeast Asia over the last five years. On the positive side, the closeness of the race will increase the amount of money spent on the campaign and thus drive demand in the economy. While Roxas is widely seen as a weak retail politician, an upsurge in long dormant government spending can be expected to help out the president’s chosen candidate. On the negative side, the approach of legislative and presidential elections on 9 May may stall the legislative process outside of work on the 2016 budget, despite the large number of priority bills pending. These bills include the anti-dynasty bill and the Bangsamoro Basic Law. Janes IHS even reports a heightened risk of kidnapping for ransom during the election period. The election season has only just started, and it is already hot and stormy.

SINGAPORE

The PAP won the 2015 General Elections handily and will push ahead with major policies. The haze crisis is likely to last into 2016, and has resulted in calls to strengthen the deterrent power of the Transboundary Haze Pollution Act.

The General Elections held in September 2015 gave a resounding victory to the People's Action Party (PAP), which won 83 of 89 seats in parliament and saw its percentage of the vote jump by nearly 10 percent from 2011, to 69.86 percent. The polls thus decisively—and, to some, surprisingly—reversed a pattern of eroding electoral support for the party.

Three factors account for this reversal. First, voters credited the government with addressing many of the grievances that had dented its level of support in the 2011 polls. Second, pride in Singapore was running high following the celebrations in August of fifty years of independence. Finally, the passing of Singapore's founding father Mr Lee Kuan Yew in March had touched the hearts of many.

Following its electoral victory, the government can be expected to adhere to existing policies without significant changes to its plans for economic restructuring and welfare measures. As always, it will continue to monitor the situation on the ground closely.

Haze caused by the annual forest-clearance fires on Sumatra has badly affected Singapore. Medical costs and losses in tourism revenue have mounted. Based on the 2014 Transboundary Haze Pollution Act, six companies received notices calling on them to douse fires and prevent any further burning in areas under their ownership or control. According to observers, the act requires amendment to permit higher fines or provide for compensation of whistle-blowers, if it is to be effective in deterring practices causing the haze. There is also widespread awareness that the real solution depends on the actions of Indonesian authorities.

After several refusals, Indonesia finally accepted help in fighting this year's fires from other countries, including Singapore. The Singapore team reported extinguishing fires in 35 hotspots. Despite these multinational efforts, the dry spell caused by the El Niño phenomenon means that the haze affecting Singapore may last into early 2016.

THAILAND

Experts working on yet another draft constitution face the challenge of producing a document that will both advance the NCPO junta's long-term political project and win approval through a national referendum. Thailand's economic woes are unlikely to have serious political consequences between now and the end of the year.

The National Council for Peace and Order (NCPO) junta has created a new Constitution Drafting Committee and a National Reform Steering Committee. These steps pave the way for twenty more months of military dictatorship in Thailand. The junta has put veteran legal expert Michai Ruechuphan in charge of yet another effort to draft a constitution that enshrines its vision for the country's political order. His committee is to hold hearings in December and to complete a draft constitution in January. Public interest in its deliberations will focus on the likely inclusion of a "crisis panel" to take control from elected governments under certain circumstances; the composition and power of the senate; the possibility of a prime minister who is not an elected member of parliament; and measures relating to political parties and intended to restrict the conduct of elected politicians. While such provisions would undergird the NCPO's long-term depoliticization, few observers believe that a constitution containing them could pass the anticipated national referendum.

Uncertainties concerning the viability of any draft constitution acceptable to the junta may well drive it to take an increasingly hard line toward Thais who do not share its vision of the country's future. Indications that repression has brought only superficial political quiescence to Thailand will bear watching in the months ahead. While the junta remains obsessed with rooting out *lèse majesté*, it risks arousing broad cyber-dissidence. Rifts both between long-influential civilian royalists and the junta and between members of the military elite willing to accept General Prayut Chanocha's domination of the state and others may become clearer before the end of the year.

Serious questions about the competence of the Prayut-led government relate both to the investigation of August's Erawan Shrine bombing and to the long-running insurgency in the southern Patani region. Malay rebels there recently increased pressure on Bangkok by

demanding that foreign governments observe any future negotiations with the Thai state. This demand may refocus Bangkok's attention on violence in the southern region, notwithstanding the junta's apparent lack of fresh approaches to the insurgency.

The Thai economy remains a source of deep concern, and of further questions—fair or unfair—concerning the NCPO regime's effectiveness. Sharply declining exports, a collapse in foreign investment, serious drought and the slowdown in the Chinese economy account for much of this concern. It is a mark of the current desperation in official Bangkok that it has begun to make noises about joining the Trans-Pacific Partnership. Mounting discontent in the rural sector only compounds that desperation. Their gravity notwithstanding, Thailand's economic problems seem unlikely to provoke a crisis in the NCPO's hold on power during the rest of 2015.

VIETNAM

The Central Committee of the Communist Party of Vietnam has met to discuss personnel decisions in advance of the party's upcoming national congress, in anticipation of which political infighting has intensified. The conclusion of negotiations on the TPP has pleased Vietnam, which has high hopes for its impact. Hanoi is preparing to receive both President Xi Jinping and President Barack Obama, in a clear reflection of mounting major-power competition for regional influence.

The 11th Central Committee of the Communist Party of Vietnam (CPV) convened its 12th plenum in 5-11 October 2015. It focused on matters of personnel to be decided at the 12th National Congress early next year, and reportedly conducted a preliminary vote on Central Committee candidates to be nominated for the first time. It also proposed a list of incumbent members eligible for re-nomination to the Central Committee, Politburo and Party Secretariat. In particular, it discussed the criteria for “special cases” and thus touched on the question of who among the five current Politburo members turning 67 next year will be eligible to retain his seat. The plenum reached a consensus on neither this issue nor on the top four leadership positions—CPV general secretary, state president, the prime minister, and speaker of the National Assembly. Official press releases indicate that the Central Committee will meet twice more before the Party Congress. Final decisions on personnel matters may well await the 14th and last plenum, likely to be held just days before the congress convenes.

In the meantime, political infighting among contenders for the top positions has intensified. Rivals of Prime Minister Nguyễn Tấn Dũng have, for example, alleged that his daughter Nguyễn Thanh Phương has become an American citizen and that he is thus an unsuitable candidate for the position of general secretary. Both Nguyễn Thanh Phương herself and Nguyễn Tấn Dũng's supporters have denounced the allegation as baseless.

The conclusion of negotiations on the Trans-Pacific Partnership (TPP) Agreement on 5 October was generally welcomed news in Vietnam. The mass media highlighted the deal's economic and strategic importance as well as the opportunities that it may offer Vietnam. Research suggests that Vietnam may emerge as the biggest winner among TPP member countries. The

Eurasia Group, for example, forecasts that Vietnam's GDP may expand by an *additional* 11 percent in ten years and that its exports may jump 28 percent thanks to the TPP. Garment and footwear industries are likely to benefit most, while the government has identified the relatively uncompetitive livestock sector as the most obvious loser.

Vietnam is planning to receive Chinese President Xi Jinping on an official visit to Hanoi in early November 2015. Apart from addressing long-standing maritime disputes in the South China Sea, the two sides are expected to discuss measures to deepen economic ties, especially in the areas of infrastructure development, monetary cooperation and the establishment of trans-border economic zones. Vietnam is also expected to receive US President Barack Obama in the coming months. If confirmed, Mr Obama's visit to Hanoi, and very probably Saigon, will strengthen bilateral ties following the historic and markedly successful visit of CPV General Secretary Nguyễn Phú Trọng to Washington last July. The visits by the world's two most important political leaders to Vietnam within a short period of time offer yet another indication of their intensifying competition for influence in Southeast Asia.

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