

MONITOR

A BI-MONTHLY SURVEY OF SOUTHEAST ASIA

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

THE REGION: Geopolitical Overview

The unease felt in 2015 will continue in the months ahead and potentially throughout 2016. It may affect planned leadership changes in countries such as Myanmar, Laos and Vietnam. It will also highlight the need for countries in the region to diversify their external partnerships, regardless of whether they will democratise further or are committed to the domestic status quo. Additional factors likely to unsettle the region include the risk of a global recession, ASEAN-US relations and “people” issues.

The prospect of a global recession, reflected in falling commodity prices worldwide and attempts by major central banks to shore up economic performance by means of dramatic monetary policy moves, will cast a shadow on the region in the months ahead. Policy moves in China, Japan, the EU and the US will affect Southeast Asia’s responses to challenges both economic and political. Regional governments are particularly concerned about developments in China and the risks that their spill-over across Asia presents. Rising interest rates in the US, negative interest rates in Japan, and the European Central Bank’s battle to keep Europe’s economy afloat only complicate regional states’ geopolitical calculations.

The successful US-ASEAN Summit has reaffirmed both the importance that Washington accords to the association’s role and the value that member states attach to relations with the US, regardless of the outcome of the 2016 US presidential elections. The EU’s efforts to keep the United Kingdom from exiting the union offers lessons for an ASEAN committed to greater regional integration.

Even as ASEAN members settle into life after the advent of the ASEAN Economic Community, national priorities will continue to shape regional agenda and actions. These priorities will be most clearly manifest in “people” issues—most notably, income inequality and rising mobility across borders for economic, political or other purposes. A central challenge for the region is to ensure that parties seeking to foment hatred and terrorism fail in their attempts to exploit ethnic and religious differences.

THE REGION: Economic Overview

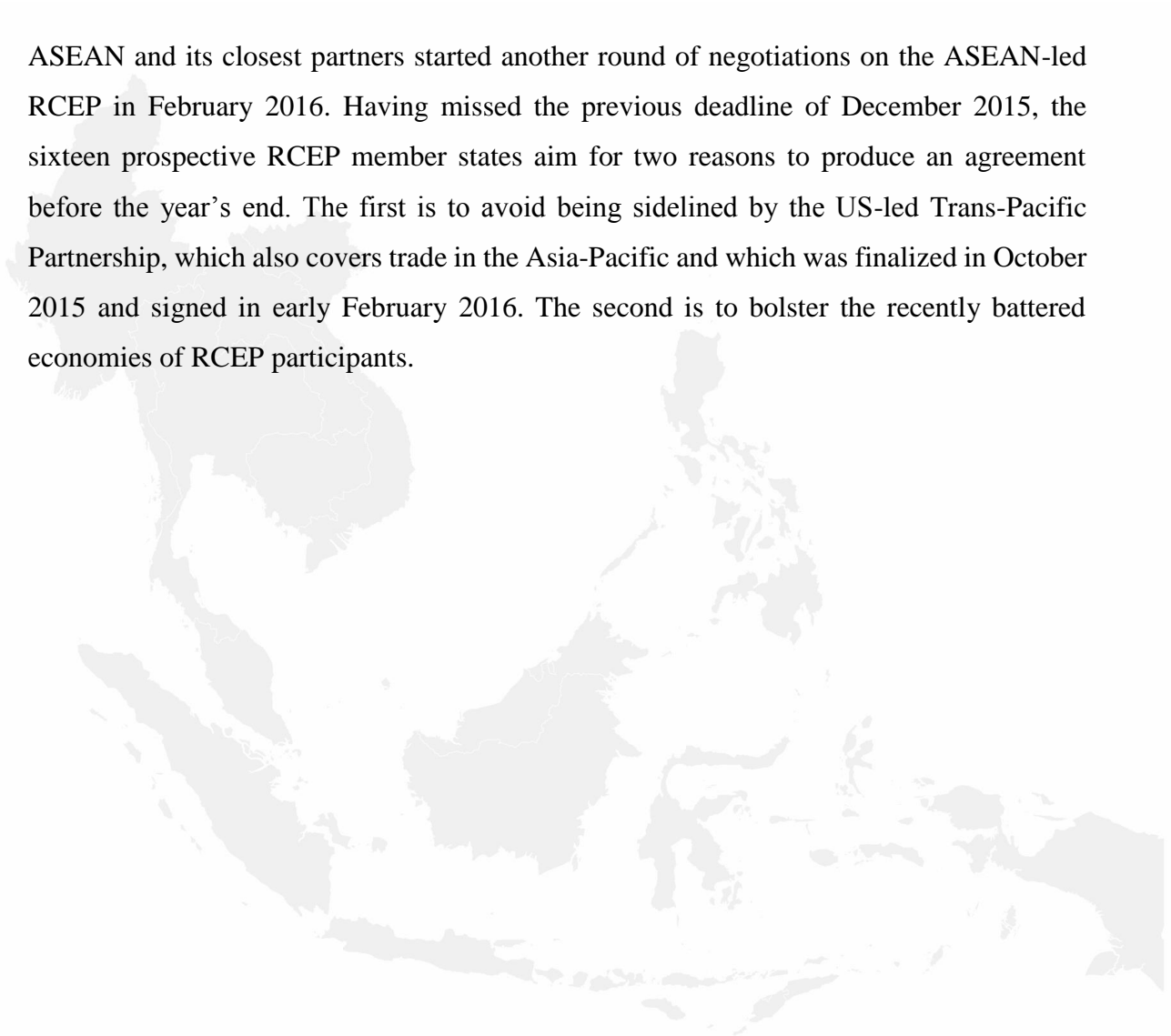
The low price of oil and China’s slowdown continue to weigh on the growth prospects of some countries in Southeast Asia. ASEAN hopes to conclude negotiations for the Regional Comprehensive Economic Partnership (RCEP) before the year’s end.

Two vital factors will determine the outlook for the economies of Southeast Asia in the coming months: the low price of energy and the continuing slowdown in China. Crude oil prices have fallen to approximately US\$30 a barrel, the latest plunge in a downward trend that began in the latter half of 2014. This will continue to adversely affect the region’s net oil exporters — Brunei, Malaysia and Vietnam — and weigh on their growth prospects, not least because crude oil export revenues account for a large portion of their government budgets. The rest of the countries in the region, which are net oil importers, should theoretically benefit from such low prices. However, energy cost savings have so far not translated into large gains for their economies. This effect is due in no small measure to the economic slowdown in China.

Economic restructuring in China — towards domestic consumption and services and away from reliance on manufacturing and investment — has resulted in a decline in the country’s growth rate, while also provoking market concerns about the country’s future economic performance. Southeast Asia continues to suffer from this slowdown, as weak Chinese demand dents the region’s export performance. The manufacturing sectors of Indonesia, Malaysia and Singapore have contracted, causing the growth prospects of these countries also to look bleak. In an ironic twist of fate, the Philippines’ immature trade links with China — once perceived as evidence of its laggard economy — have given it a bulwark against

this slowdown. Vietnam, still powering on despite the regional downturn, stands to gain as China moves away from labour-intensive manufacturing. Reliance on such manufacturing also promises to remain a reliable growth strategy for Vietnam. In Thailand, a series of government stimulus measures helped to accelerate growth to 2.8 per cent in the last quarter of 2015, but it is uncertain if this trend will continue in 2016.

ASEAN and its closest partners started another round of negotiations on the ASEAN-led RCEP in February 2016. Having missed the previous deadline of December 2015, the sixteen prospective RCEP member states aim for two reasons to produce an agreement before the year's end. The first is to avoid being sidelined by the US-led Trans-Pacific Partnership, which also covers trade in the Asia-Pacific and which was finalized in October 2015 and signed in early February 2016. The second is to bolster the recently battered economies of RCEP participants.



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 for Key Economies

	Nov 2015	Dec 2015	Jan 2016
Australia	52.5	51.9	51.5
China	48.6	48.2	48.4
Euro Area	52.8	53.2	52.3
India	50.3	49.1	51.1
Indonesia	46.9	47.8	48.9
Japan	52.6	52.6	52.3
Malaysia	47.0	48.0	48.6
Singapore	49.2	49.5	49.0
South Korea	49.1	50.7	49.5
Taiwan	49.5	51.7	50.6
United States	52.8	51.2	52.4
Vietnam	49.4	51.3	51.5

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

Three sets of political developments deserve the attention of Cambodia watchers during the next two months and beyond. They are the local impact of the geopolitical rivalry between the United States and China, Cambodia's effort to position itself in the context of this rivalry and Prime Minister's Hun Sen's Facebook politicking.

Geopolitics involving the United States' strategies to contain a rising China will have a substantial impact on Cambodian politics. In its efforts to neutralize Cambodia's role in the contentious debate over the South China Sea, Washington has for the first time since the 1991 Paris Peace Agreement offered Phnom Penh more of a carrot than a stick. Secretary of State John Kerry's visit to the kingdom, during which he praised Cambodia's economic growth and made merely pro forma references to the sticky issues of human rights and the politically motivated charges of the Cambodian People's Party (CPP) government against exiled opposition leader Sam Rainsy, reflected this development. President Barack Obama's remarks at the US-ASEAN Summit, where he sought to nurture US relations with ASEAN leaders more than to highlight the lack of democratic progress in the region, reinforced Kerry's message. As a result, there is little prospect that the Hun Sen government will lift charges against Sam Rainsy in the coming months. In effect, the US embrace of Cambodia in its attempt to contain China serves to legitimize the CPP/Hun Sen government and to weaken the opposition.

Second, what remains to be seen is the exact position that Cambodia will adopt in relation to the US and China. Until very recently, Cambodia had demonstrated closer alignment with China than with the US.

Third, Hun Sen's Facebook politics will be significant. The premier has recently begun to re-cultivate his popularity with Cambodians through Facebook; he has gained more than two million "likes". He will continue to use this medium to gauge public sentiment and the need to make additional concessions, such as his recent cancellation of two toll-road contracts and the possible lowering of fuel prices. However, the point at which Hun Sen's Facebook politicking is exhausted and the limits to his concessions are reached bears watching. The premier faces the real risk of a backlash from voters if he fails to meet their continuing demands on his government.

INDONESIA

While Indonesia's ruling coalition gains strength and its economy improves, the government needs to continue fortifying state institutions and boosting private consumption.

President Joko Widodo (Jokowi) has faced increased public pressure to save the country's Corruption Eradication Commission (Komisi Pemberantasan Korupsi, KPK) from what is perceived as a deliberate effort to weaken its power. With Jokowi's party, the Indonesian Democratic Party of Struggle (Partai Demokrasi Indonesia- Perjuangan, PDI-P), as the main driver, seven out of ten parliamentary factions currently support the revision of the 2002 law on the KPK. Supporters of revision believe that changes are needed to improve KPK's methods of investigation, wiretapping powers and recruitment protocols and to make possible the creation of a supervisory body to monitor the KPK. But many experts, including the KPK's chairman and commissioners and professors from various universities in Indonesia, oppose revision of the law. They contend that it will weaken the KPK's anti-graft powers. The public is now waiting for Jokowi's decision on whether or not he will support the proposed revision.

The constellation of power in the government will change, as Jokowi seeks to bring new parties into his cabinet during the next reshuffle. Several parties previously in opposition, such as Golkar and the National Mandate Party (Partai Amanat Nasional, PAN), have recently pledged support for the government. The president is likely to include members of these parties in the new ministerial line-up. The beginning of the year already saw the president appoint former PAN leader Soetrisno Bachir as the head of the newly established National Committee on Economy and Industry (Komite Ekonomi dan Industri Nasional, KEIN). After Golkar's recent reorganization of its own leadership, the party may also look forward to its members taking up important government posts.

Jokowi led a discussion on regional counter-terrorism measures at the US-ASEAN summit in California in mid-February. Indonesia aims to share its experience and look for ideas to

strengthen the regional capacity to fight terrorism, following the successful response to the January terror attack in Jakarta.

On the economic front, some key macroeconomic indicators justify optimism for growth. After all, GDP growth during the fourth quarter of 2015 reached 5.04 percent, exceeding market expectations. Acceleration of government spending on infrastructure projects contributed to this relatively strong performance, while the rupiah has strengthened against the US dollar following remarks from the chair of the United States Federal Reserve suggesting uncertainty about her country's economic recovery. A continued decline in private consumption remains a worry for Indonesia, but the prospects of lower inflation, increased government spending and a stronger rupiah mean that consumer confidence is expected to strengthen in the months ahead.

The government announced a tenth economic policy package on 11 February 2016. It has removed thirty-five industrial sectors from the negative investment list and thus allowed 100 per cent foreign ownership of firms in those sectors. This policy package was designed to boost investment, both domestic and foreign, while providing protection to small and medium enterprises. The months ahead will bring the introduction of additional economic packages, designed to remove bureaucratic hurdles and improve licensing procedures. However, the effectiveness of these economic packages in revitalizing the real economy remains to be seen.

MALAYSIA

Continued foreign investigations into the 1Malaysia Development Berhad (1MDB) scandal is not expected to worsen Prime Minister Najib Razak position domestically, but they may very well harm Malaysia's reputation and thus its economy. The ruling coalition is nevertheless likely to prevail in the state elections in Sarawak due to be held sometime in the coming two months.

On 25 January 2016, Attorney General Mohamed Apandi Ali declared on the basis of his appraisal of the Malaysian Anti-Corruption Commission's reports on the 1MDB that the RM2.6 billion transferred into Prime Minister Najib's personal bank account was a donation from the royal family of Saudi Arabia. He thus cleared Najib of any wrongdoing. While the government will curtail further public discussion of the 1MDB, Najib cannot prevent the various ongoing investigations in the United States, the United Kingdom, Switzerland, Hong Kong and, closer to home, Singapore.

The Saudi Foreign Minister, insisting that the money was not a "donation" but rather a "business investment", has disputed the attorney general's finding. Also, the Swiss attorney general's office has petitioned its Malaysian counterpart for information on the 1MDB, as it investigates the misappropriation of US\$4 billion from Malaysian state-owned companies and the transfer of part of this sum to Switzerland. French authorities have initiated an indictment against the president of a French company for paying illegal kickbacks on Malaysia's 2002 purchase of three submarines to a close associate of Najib; Najib was serving as minister of defence at the time.

The results of the foreign investigations and related negative coverage of Malaysia will worsen the Prime Minister's already fading credibility. While international pressures cannot bring him down, they may nevertheless affect foreign investors' and businesses' confidence. This could diminish the flow of foreign investments to Malaysia and keep the ringgit weak. Domestic public sentiment toward the Najib administration, which has already plummeted, will continue its downward slide.

Nevertheless, the 1MDB imbroglio will have little impact on the prospects for a comfortable Barisan Nasional (BN) win in the upcoming Sarawak state elections. Adept handling of regional issues and the popularity of new Chief Minister Tan Sri Adenan Satem are likely to contribute to the BN's margin of victory in these polls.



MYANMAR

A new government and cabinet, under the official or de facto leadership of Daw Aung San Suu Kyi, will take office in Naypyitaw at the end of March or the beginning of April. Appointment of chief ministers in the states and regions will follow.

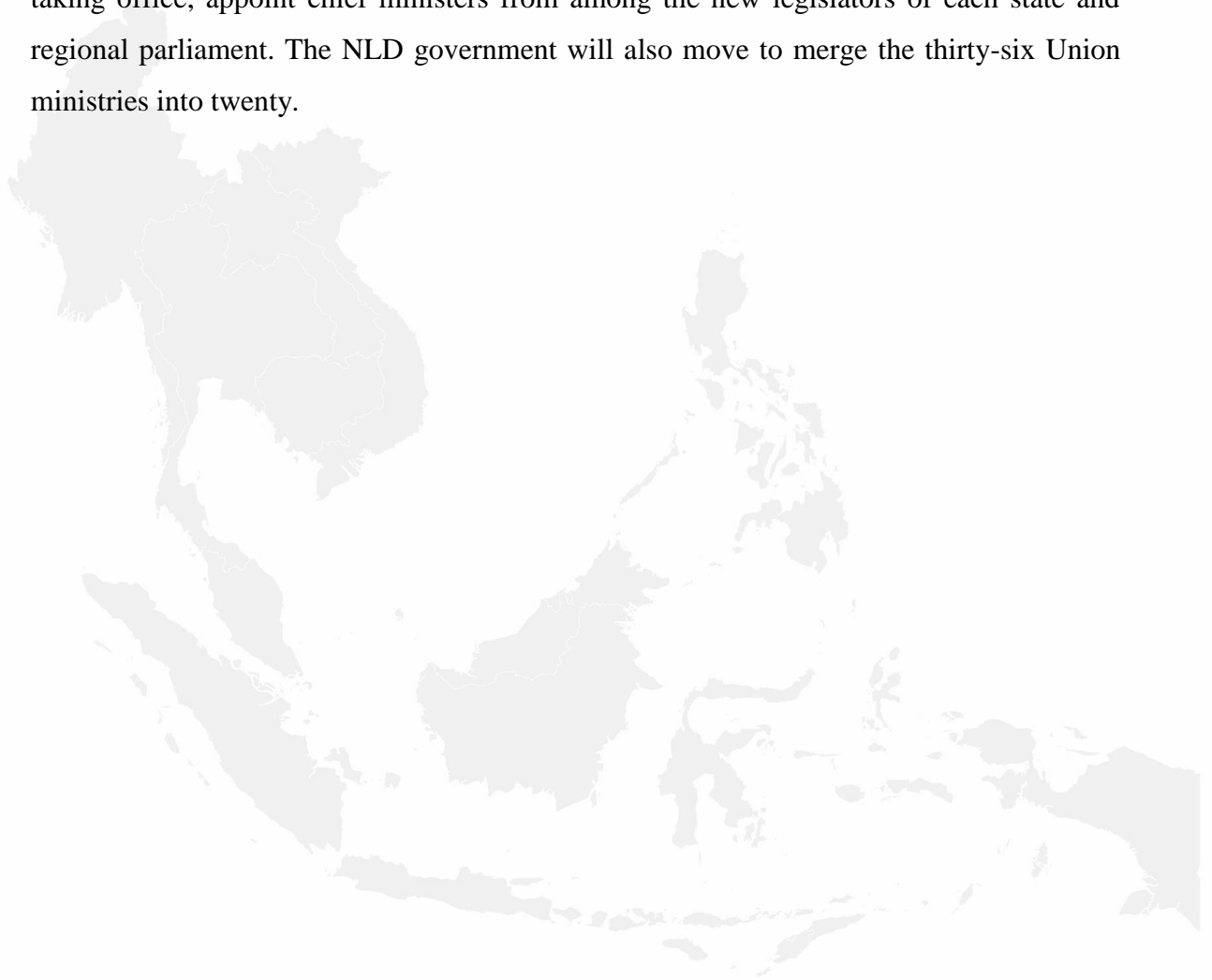
The cooperation of Myanmar's outgoing Union Solidarity and Development Party (USDP) parliamentary leadership permitted smooth transitions to National League for Democracy (NLD) leadership in both the upper and lower houses in early February. The new speaker of the lower house is NLD central executive committee and former political prisoner U Win Myint. The new speaker of the upper house is the NLD's U Man Win Khine Than, grandson of a member of General Aung San's 1946-47 cabinet. The deputy speakers of the lower and upper houses come, respectively, from the USDP and the Arakan National Party. As a group, this leadership represents disadvantaged social groups and activists. By early March, the four standing committees of the Union parliament, comprised of both houses, and nineteen ad hoc committees of the two houses will be formed.

Outgoing power-holders have promised Daw Aung San Suu Kyi an equally orderly transition in the executive branch. Meetings of transition teams and discussions between the NLD leader and the armed forces' commander-in-chief to discuss power sharing, arrangements for lasting peace and the composition of the new government have been fruitful. Central to these discussions have been NLD efforts to win the military's acquiescence to Daw Aung San Suu Kyi's assumption of the presidency.

On 17 March, the Union parliament, serving as an electoral college, will be convened to elect a president and two vice presidents from among candidates proposed by the upper and lower houses of parliament and by military legislators. Election of the president and vice presidents and selection of cabinet ministers are to be completed by 30 March, when the government of President Thein Sein will leave power. The new NLD administration will be sworn in on 31 March or 1 April. Should NLD-military discussions on Daw Aung San Suu

Kyi becoming president not bear fruit by the end of U Thein Sein's term, the NLD will seek later amendment of the constitution to realise its leader's accession to the presidency.

April is ordinarily budget season in the Myanmar parliament, but the outgoing parliament has already passed the budget for the 2016-2017 fiscal year. The new parliament will therefore not work on the national budget this April. But the new president will, soon after taking office, appoint chief ministers from among the new legislators of each state and regional parliament. The NLD government will also move to merge the thirty-six Union ministries into twenty.



THE PHILIPPINES

The formal campaign for the Philippine presidency started on 9 February. It will dominate the country's politics until at least the 9 May election. The race between the four leading contenders remains close and volatile, with Vice President Jejomar Binay and Senator Grace Poe topping the polls and Davao Mayor Rodrigo Duterte and President Benigno Aquino's nominee Manuel Roxas close on their heels. There will be five key dynamics to watch over the next couple of months.

President Aquino will try to push last-minute reforms through. The recent executive order on the merger of the state-owned Landbank and the Development Bank of the Philippines to create the second largest bank in the country is one example.

The administration will continue to use the 2016 budget to boost the chances of its candidate Manuel Roxas, who has yet to top any of the presidential polls. The Department of Budget and Management noted that as much as half of the 3 trillion peso annual budget had been released by the end of January.

Meanwhile, the Commission on Elections is sending mixed messages about its ability to conduct the election. It has noted a range of technical problems and warned of possible delays in holding polls in some voting districts. The combination of a very close and divisive election and technical problems with voting and vote-counting can be destabilizing. The commission has little time left to address these problems.

At present, Senator Grace Poe is disqualified from running, and Davao Mayor Duterte may still be disqualified. Yet both their names will be on the ballot. This may mean that the Supreme Court could have a larger say in the outcome of the presidential election than the electorate. The longer the Supreme Court delays ruling on the Poe and Duterte cases, the more disruptive the eventual final disqualification of either candidate or both candidates will be.

The vice-presidential race is becoming much more competitive. Senator Francis Escudero, the early front-runner, now faces a serious challenge from Senator Ferdinand Marcos, son and namesake of the dictator who ruled the country for more than two decades.



SINGAPORE

The People's Action Party government plans changes to promote more inclusive governance. A heightened sense of threat due to extremist-linked activities in neighbouring countries has put the country on alert. The government is exploring ways to prevent the radicalization of its Muslim population and to enhance its inclusion in the country's social fabric.

In line with expectations of reform following its recent electoral victory, the People's Action Party government has announced plans for changes to Singapore's political system during the current session of parliament. The changes include, first, giving more voice to the opposition by increasing the minimum number of opposition members in parliament from nine to twelve. The changes will also allow non-constituency members of parliament—members of the opposition who have lost elections with the highest number of votes—to vote on bills to amend the constitution and on motions of no confidence. The number of multi-member “*group representation constituencies*” will be reduced to make way for more single-member constituencies. A review of the eligibility criteria for the post of Elected President will seek to increase the chances for ethnic-minority candidates to be elected. Finally, the reforms will strengthen the Council of Presidential Advisers. Singaporeans are expected to welcome these changes and the strategy that they seek to advance, and view them as a sign that the government is responding to the growing push for more inclusive politics in the country.

Recent terrorist attacks in Indonesia linked to the Islamic State in Iraq and Syria (ISIS), ISIS-related activities in Malaysia, and the discovery in and deportation from Singapore of twenty-seven radicalized Bangladeshi workers have increased the sense of threat felt in the country. The government is carrying out more outreach and community-based programmes both to keep the Muslim community embedded within mainstream society and to combat Islamophobia. Emphasis has been put on the achieving of security through the government and the public working together. Muslim religious leaders are working under the Singapore Muslim Identity initiative to reach out to Muslims and promote principles that contribute to the good of society. Other groups are also active in this effort. The

Religious Rehabilitation Group is working to rehabilitate those Singaporeans influenced by extremist ideologies, while the Asatizah Recognition Scheme is seeking to guide the faithful away from such ideologies. The hope is that these measures will not only be effective in combatting extremist and terrorist threats but also provide reassurance to Singaporeans and investors. The government has stated that it will announce more measures in the year ahead. These measures will help address what is likely to be growing concern over the risk of a terrorist attack.



THAILAND

Various arms of the National Council for Peace and Order (NCPO) regime will devote most of March to manoeuvring toward the final draft of the 2016 Constitution. April will trigger campaigning in advance of the referendum on that charter. This will be a sensitive period for the junta, during which indications of the state of king's health deserve careful scrutiny.

The final version of the Constitution must be complete by 29 March. Input from stakeholders outside the NCPO regime and the organs that it has created will have little or no impact on preparation of that document. While this version of the charter is likely to permit an unelected prime minister, provisions on the means of choosing the senate and the lower house of parliament and on the powers of unelected bodies such as the Constitutional Court and a possible "crisis committee" to override elected governments await finalization.

The Constitution is to be put to a popular referendum in July. Restrictions on campaigning against its adoption will constrain freedom of expression even more than has been the case since the May 2014 coup. New rules governing visas for members of the foreign press, due to come into effect during the second half of March, and continued, aggressive use of the computer crimes act will reinforce the junta's ability to choke off political debate in the run-up to the referendum.

Recognizing the junta's nervousness over the referendum on the Constitution, Thaksin and Yingluck Chinnawat and the Phuea Thai Party launched a political offensive in February. This offensive is likely to continue in the months ahead. While the NCPO regime will regard it as a serious threat, the junta's powers to counteract it remain limited. It is thus almost certain that the months leading to the constitutional referendum will be filled with growing political tensions.

Like many of its neighbours, Thailand will feel the impact of China's economic slowdown, struggle with concerns over the state of the global economy, and suffer weak domestic demand in the months ahead. The National Economic and Social Development Board has

cut its 2016 GDP growth forecast to the 2.8-3.8 per cent range. While assuming export growth of only 1.2 per cent, this forecast is dependent above all on the effects of stimulus measures introduced in 2015, additional government spending this year, and their multiplier effects. March and April will begin to show if this scenario is plausible. The prospect of grave water shortages, both in Bangkok and the countryside, offers reason for skepticism. In addition to their economic consequences, these shortages will have inevitable political consequences. Just how great a challenge to the NCPO dictatorship they will become during a time of already heightened tensions merits close observation.



VIETNAM

The twelfth national congress of the Communist Party of Vietnam (CPV) dominated Vietnam's domestic agenda in early 2016. The outcomes of the congress show that Vietnam will largely maintain its current political, economic and foreign policy trajectories, with the party continuing to pursue international integration and the comprehensive reforms needed to deal with domestic challenges.

The CPV held its twelfth national congress during 20-28 January. The congress proceeded in two main stages. The first involved policy deliberations, and the second focused on the election of the party's new leadership.

The congress reviewed Vietnam's development under thirty years of *Đổi Mới* (renovation) in order to draw lessons for the country's next stage of development. It also set policy objectives for the country and the party during the next five years. These objectives reflected the theme of the congress: promote the building of a clean and strong party; mobilize the strength of the whole nation and of socialist democracy; promote the renovation cause synchronously in all fields; securely defend the fatherland; maintain a peaceful and stable environment; and create the foundations for turning the country into an effectively modern and industrialized nation soon. At the end of the congress, delegates also adopted a resolution which, among other things, identified specific targets for the country's socio-economic, political and foreign policies in the period up to 2020.

The congress also elected a new CPV Central Committee, composed of 180 full members and twenty alternate members. The average age of members is 53; 90 per cent of them are male; and representatives from the North, Centre and South account for 43.5, 34.5 and 22.0 per cent of the total membership, respectively. The twenty-two members from the Ministry of Defence represent the biggest bloc, followed by the five members from the Ministry of Public Security and the three members from the Ministry of Foreign Affairs.

The new Central Committee elected from its ranks a new Politburo of nineteen members and voted to keep incumbent CPV General Secretary Nguyễn Phú Trọng in power for another term. His re-election disappointed supporters of Prime Minister Nguyễn Tấn Dũng, who had been rumoured to seek nomination for the party's top job. At the fourteenth plenum of the Central Committee, just ten days before the congress, however, Nguyễn Tấn Dũng and eight other senior Politburo members retired. Their move left the incumbent as the only candidate for the general secretary position, despite his old age of 71 years. The plenum also nominated candidates for the three other top positions in Vietnam's government. Accordingly, Public Security Minister Trần Đại Quang became the next president, Deputy Prime Minister Nguyễn Xuân Phúc the next prime minister, and Deputy Chair of the National Assembly Nguyễn Thị Kim Ngân—the only woman in the top leadership—the new chair.

The new leadership line-up, especially the re-election of Nguyễn Phú Trọng, shows that the party seeks unity and stability. The policy framework outlined in the congress' final resolution also suggests that Vietnam will continue in large part to follow its current trajectories in politics, economics and foreign affairs. Nevertheless, it remains to be seen how fast and how effectively Vietnam will implement reforms under the new government, which the new National Assembly will install in July.

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