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# SOUTHEAST ASIAN AFFAIRS 2016

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# SOUTHEAST ASIAN AFFAIRS 2016

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# Contents

Foreword	vii
<i>Tan Chin Tiong</i>	
Introduction	ix
<i>Vandana Prakash Nair and Malcolm Cook</i>	
Acknowledgements	xix
<b>THE REGION</b>	
Southeast Asia's Regional Autonomy Under Stress	3
<i>Carlyle A. Thayer</i>	
Southeast Asian Economies Coping with Adverse Global Economic Conditions	19
<i>Cassey Lee</i>	
U.S.–Southeast Asia Relations in the Age of the Rebalance	35
<i>William T. Tow</i>	
China's International Strategy and Its Implications for Southeast Asia	55
<i>Zhang Zhixin</i>	
Japan's "Strategic Coordination" in 2015: ASEAN, Southeast Asia, and Abe's Diplomatic Agenda	67
<i>Kei Koga</i>	
India's Act East Policy and Implications for Southeast Asia	81
<i>Amitendu Palit</i>	
<b>BRUNEI DARUSSALAM</b>	
Brunei Darussalam: Challenging Stability	95
<i>Christopher B. Roberts and Malcolm Cook</i>	
<b>CAMBODIA</b>	
Cambodia in 2015: Accommodating Generational Change	109
<i>Sophat Soeung</i>	
<b>INDONESIA</b>	
Indonesia in 2015	131
<i>Robin Bush</i>	
Indonesia's Infrastructure Development under the Jokowi Administration	145
<i>Siwage Dharma Negara</i>	

**LAOS**

- Laos in 2015: A Pivotal Year in Moving Towards the AEC 169  
*Buavanh Vilavong*

**MALAYSIA**

- Malaysia in 2015: Crises of Confidence 183  
*Prashanth Parameswaran*

- Malaysia's Higher Education and Quest for Developed Nation Status by 2020 199  
*Viswanathan Selvaratnam*

**MYANMAR**

- Myanmar in 2015: *hki'mala. dukka* or Hard Times 225  
*Robert H. Taylor*

- Myanmar's General Election 2015: Change Was the Name of the Game 241  
*Tin Maung Maung Than*

**THE PHILIPPINES**

- The Philippines in 2015: Slowly, on the Straight and Narrow 267  
*Maria Elissa Jayme Lao*

- The Sustainability of Recent Philippine Economic Growth 281  
*Leonardo A. Lanzona, Jr.*

**SINGAPORE**

- Singapore in 2015: SG50 295  
*Norman Vasu and Damien D. Cheong*

**THAILAND**

- Thailand in 2015: The Waiting Game 317  
*Serhat Ünaldi*

- Being Thai: A Narrow Identity in a Wide World 331  
*Nicholas Farrelly*

**TIMOR-LESTE**

- Timor-Leste in 2015: Petro-Politics or Sustainable Growth 347  
*Maj Nygaard-Christensen*

**VIETNAM**

- Vietnam in 2015: Challenges Persist amidst Hope for Change 363  
*Le Hong Hiep*

- Vietnam: In Search of a New Growth Model 379  
*Jonathan Pincus*

# Foreword

It is my pleasure to present the forty-third edition of *Southeast Asian Affairs*. The information and analysis in this annual review will be useful for all those interested in developments in Southeast Asia.

The year 2015 saw global economic headwinds grow stronger in Southeast Asia. Growth in Japan and Europe remained subdued, while in China growth weakened and market volatility increased. These external factors were the main reasons for the lower growth rates, manufacturing exports, stock market capitalizations, and currency values in Southeast Asia. These headwinds will likely continue throughout 2016.

On the security front, the problems in the South China Sea worsened, particularly between the United States and China. China, the United States, Japan and India all increased their active interest in the South China Sea. The United States and China increased their pressure on Southeast Asian states and ASEAN to support their positions on the South China Sea.

Politics in 2015 reflected the region's diversity. The election in Singapore saw a strong surge of support for the ruling People's Action Party. Myanmar's first free election in many years saw a definitive defeat for the ruling Union Solidarity and Development Party. In Indonesia, the Jokowi administration struggled to translate its election victory into effective rule, while the Philippines, Vietnam and Laos geared up for leadership changes in 2016. The long-standing political regimes in Cambodia and Malaysia faced greater popular pressure for change, while Thailand moved no closer to a return to democracy.

I would like to thank the authors, the editors as well as others who have helped to make this publication possible. The chapters in the volume contain a wide variety of views and perspectives. They do not necessarily reflect the views of the Institute. The authors alone are responsible for the facts and opinions presented in their contributions.

Tan Chin Tiong  
Director  
ISEAS–Yusof Ishak Institute  
January 2016





# Introduction

Vandana Prakash Nair and Malcolm Cook

The twenty-three chapters in *Southeast Asian Affairs 2016* address a vast range of pressures and opportunities for the peoples of the region, from the political impact of spreading social media, to economic and political models showing signs of atrophy, to the large and turbulent regional ripples of economic transformations and policy adjustments around the world. States of Southeast Asia in 2015 faced bottom-up pressures for political and economic change, a tough global economic environment, and more major-power involvement, and even contestation, in the region. Times were very interesting. All of these pressures are likely to persist and potentially intensify in 2016 and beyond. Political and policy changes to address these structural continuities will be paramount.

## External Forces

Global and wider regional forces — most, negative — had greater impact in Southeast Asia in 2015. Cassey Lee's regional economic outlook chapter analyses how the fall in commodity prices, slowing growth in China and tightening U.S. monetary policy affected Southeast Asian economies. None were spared, but the effects were very varied. Brunei was the hardest hit and remained in recession given its undiversified economy heavily dependent on oil export revenue. The most open economies in the region as measured by trade flows — Singapore and Malaysia — also suffered from these external headwinds. The headwinds are expected to continue throughout 2016, suggesting politically difficult reforms will be necessary across the region to maintain growth and development.

Carlyle Thayer's regional security outlook chapter focuses on challenges to ASEAN's goals of regional autonomy, centrality and community building. China's

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rapid construction of artificial islands on seven disputed land features in the South China Sea stoked the strongest ASEAN language on the disputes and more intense U.S.–China rivalry. Movement on the long-discussed ASEAN–China Code of Conduct in the South China Sea progressed at a much slower pace. In 2015 the threat of regional spillover from the Islamic State’s rise in Syria and Iraq and the growing number of Southeast Asians joining those conflicts and returning home became imminent and then, in January 2016 in Jakarta, realized.

### ***The Major Powers***

While the domestic political developments of Southeast Asian countries in 2015 strongly reflected the diversity and fluidity of the region as a whole, the strategic policy settings with relation to Southeast Asia of the four most important extra-regional major powers — the United States, China, Japan and India — had two powerful commonalities. All were established before 2015, with 2015 being a year of continuity and constancy, not change and fluidity. All four major powers saw their economic and strategic interests in Southeast Asia, and consequently their engagement with individual Southeast Asian states and with ASEAN, intensify. For all four, Southeast Asia is a key subregion for their broader strategic interests and concerns. For China, greater focus on “peripheral diplomacy” is part of the Xi administration’s interest in China’s new global major-power status and U.S.–China relations. For the United States, the “rebalance to Asia” is about maintaining the U.S. position as the leading power globally and U.S.–China relations. For Japan, greater economic, diplomatic and security engagement with Southeast Asia is part of Abe’s “proactive contribution to regional security” in the Asia-Pacific and Japan–China relations. Modi’s “Act East” policy is focused on enhancing India’s major-power ambitions in the Asia-Pacific and globally.

As argued by Amitendu Palit, India’s Act East policy under Prime Minister Modi is starting to take a clear shape, with this approach likely to remain for the duration of the Modi administration. Act East has a wider Asia-Pacific focus compared with its more modest Look East predecessor. It is focused on integrating the Indian economy into the Asia-Pacific and East Asian production networks and enhancing India’s security role in the region in line with India’s expanding security interests. The lack of a single coherent expression or master plan for the Act East approach though is undermining its clarity and the ability of states in Southeast Asia to respond to it.

Zhang Zhixin argues that China’s global strategic approach and the place of Southeast Asia in it under President Xi Jinping has been settled with the

focus shifting to implementation. While the regional and international coverage of China's actions in Southeast Asia highlight supposed surprises, growing assertiveness and murky intentions, Zhang sees very powerful sources of continuity between the Xi administration and modern China's approach to international relations in general. China now faces a more competitive relationship with the United States and the need to move beyond the previous assumption that good U.S.–China relations would lead to good relations between China and Southeast Asian states.

Reflecting the fact that Prime Minister Abe has been in power longer than both Modi and Xi, Kei Koga's chapter argues that Japan's strategic approach to Southeast Asia and ASEAN is now in a phase of "strategic coordination". The basic goals of Japan's proactive contribution to regional security have been set and the institutional mechanisms established. The present focus is on strengthening these mechanisms and the coordination between them while responding to Chinese initiatives in the region seen to undermine Japan's interests.

William Tow's chapter on the United States moves beyond discussion of the rationale and goals of the U.S. rebalance to Asia to analyse the responses of key states in Southeast Asia to the rebalance announced in the first Obama term. As expected, responses have been mixed, with a key determinant being the nature of each Southeast Asian state's relations with China. With the second Obama administration in its last year, Tow also looks at the likely fate of the rebalance after Obama steps down.

## **Continuity and Change: Southeast Asia in 2015**

The year 2015 marked a milestone for many countries in Southeast Asia as several regimes celebrated a significant number of years in power. Yet, domestic political dynamics varied across the region, with tried and tested political models persisting in some countries while others transitioned almost overnight, setting the stage for governance challenges amid heightened expectations in 2016.

### ***Stable Regimes***

In 2015, the fiftieth year of Singapore's independence, Singaporeans cast a vote for stability, overwhelmingly returning the People's Action Party (PAP) to power with 69.9 per cent of the vote, a 9.8 per cent increase from its share of the popular vote in the 2011 General Elections. Norman Vasu and Damien Cheong in their review chapter on Singapore explain the swing back to the PAP as the result of

the long-term development of a common culture or worldview, now held by both the PAP and a majority of Singaporeans, through a process of interactions over the last fifty years. Vasu and Cheong point to the emergence of a strong Singaporean identity, which has transcended racial, religious and cultural cleavages, undoubtedly buttressing the development of a common worldview. Despite modest growth in the economy in 2015, the rising risk to Singapore from religious extremism, and ongoing debates between conservatives and liberals on issues such as Lesbian, Gay, Bisexual, and Transgender (LGBT) rights, Singapore approached 2016 with a strong sense of its nationhood.

The year 2015 reaffirmed the stability of Brunei Darussalam's political system and the serious economic challenges it is struggling to face. Despite suffering its third straight year of negative GDP growth, there are no visible signs of political unrest in the Sultanate. Rather, as argued by Christopher Roberts and Malcolm Cook, Sultan Haji Hassanal Bolkiah further centralized power in his office, taking over the Foreign Affairs and Trade portfolio from his brother. Over the last three years and into the foreseeable future, Brunei's energy-dependent economy faces the dilemma of soft global oil and liquefied natural gas prices and maturing energy assets. The economy's very small size, high costs and dependence on foreign labour limits its ability to diversify. Political stability will be needed and tested.

Traditional political models also prevailed in the Philippines and Laos in 2015, although economic difficulties posed challenges to both governments. The year 2015 was one of expectation for both countries in anticipation of leadership changes that will take place in 2016. In the Philippines, the continued importance of family dynasties in politics surfaced in many issues, including a debate on the potential passage of the Bangsamoro Basic Law. According to Maria Elissa Jayme Lao, dynastic politics will certainly shape the country's national elections in 2016. Three of the main candidates have family ties that have boosted their popularity or increased their influence in some way. The year 2015 was the last full year of Benigno C. Aquino's administration, which had been elected on an anti-corruption platform, *tuwid na daan* (straight path). However, Lao argues that despite some successes, the reforms may not serve as Aquino's legacy beyond his family name. Rather, the genuine institutionalization of the *tuwid na daan* reforms would require divorcing the country's politics from its traditional reliance on political dynasties.

On the other hand, Leonardo A. Lanzona's chapter on recent economic growth in the Philippines points to the real economic gains of *tuwid na daan*, such as an average real GDP growth rate of 6.12 per cent from 2012 to 2015. These gains have encouraged the main presidential candidates to promise to continue

the Aquino administration's reforms. Even so, Lanzona contends that while the country has undergone a transformation under the Aquino administration, negative historical factors such as corruption and a lack of coordination between local and national agencies have held the country back. A "big push", or coordinated investments in education, social security and infrastructure, is required for the country's economy to take off.

Laos focused its efforts in 2015 on managing its fiscal deficit and other economic challenges in its bid to propel the country to middle-income status. Buavanh Vilavong shows in his review chapter on Laos that reforms in education, infrastructure and the general business environment are imperative for Laos to improve its competitiveness and for it to be able to take advantage of the opportunities that joining the ASEAN Economic Community in January 2016 will provide. In 2015 the Lao People's Revolution Party undertook a government reshuffle in preparation for its Tenth Congress to be held in 2016, which is unlikely to change the governance structure of the country. While young princelings are being groomed for future administrative roles, Vilavong anticipates that posts in the Tenth Congress are likely to be limited to the old guard to ensure the longevity of the regime.

### ***Regimes in Transition***

While traditional models endured in Singapore, the Philippines, and Laos, waves of instability threatened to unseat long-established regimes in Malaysia and Thailand in 2015.

In Malaysia, Prime Minister Najib Razak spent much of the year embroiled in political drama, mired by allegations that he had not only mismanaged funds related to the debt-ridden state investment fund, 1Malaysia Development Berhad (1MDB), but that he had personally profited by about \$700 million from entities linked to 1MDB. While Najib managed to forestall moves to remove him from office, Prashanth Parameswaran argues that the scandal resulted in a "crisis of confidence" and affected Malaysia's image abroad. This set the stage for the Bersih 4.0 demonstrations where anti-corruption protestors peacefully called for Najib's resignation. In response, however, ethnic Malay nationalist supporters of the government organized a counter-rally, delivering racially charged speeches calling for a bloodbath. Besides deteriorating race relations, Malaysia suffered from increasing religious extremism and economic woes in 2015, all of which, as Parameswaran posits, Prime Minister Najib survived but which chipped away at Malaysia's governance model.

The Malaysian education system itself has planted some seeds of instability, according to Viswanathan Selvaratnam's chapter on the state of higher education in the country. Selvaratnam contends that the long-established affirmative action policies pursued by the United Malays National Organisation government, enshrined in Article 153 of the Constitution, and extended by the New Economic Policy, created a racial imbalance among students and academic staff alike. This resulted in brain drain and a mismatch in the types of graduates that the universities produce and the quality of skilled workers that employers require. Unless the government undertakes a massive shift in education policy to pursue an inclusive skills-based strategy, it is unclear whether Malaysia will achieve its goal of attaining developed nation status by 2020.

According to Serhat Ünaldi, Thailand spent 2015 in a state of suspension as the country waited for the imminent death of King Bhumibol, the bastion of the traditional Thai governance model. In the meantime, Prime Minister General Prayuth Chan-o-cha and his government rejected a new draft constitution by the Constitution Drafting Committee that it had appointed, prolonging military rule until another constitution is drafted. Although there was no mass movement against military rule in 2015, Ünaldi points to deepening cracks in the monarchy, citing the alleged purges of some of Crown Prince Vajiralongkorn's closest associates in preparation for his ascension to the throne. The purges have created uncertainty about the future of the Thai monarchy and the power of its traditional charismatic-based authority. Indeed, in his chapter on "Being Thai: A Narrow Identity in a Wide World", Nicholas Farrelly notes that the carefully crafted Thai identity, which provides the foundation for monarchic and, now, military rule, has come under threat. Thais are increasingly questioning the military government's mandated version of "Thainess" as well as the value of the structure itself through social media platforms. In Farrelly's words, "Finding a new version of Thainess that has space for conflict and dissent will only happen when other political problems have been finally resolved."

To a lesser extent than Malaysia and Thailand, long-established models in Cambodia and Vietnam came under stress in 2015 mainly due to intra-generational tensions accentuated by the growing use of social media platforms. Sopheak Soeung writes of Cambodia's "millennial" generation coming of political age in the information era, putting pressure on Prime Minister Hun Sen and the Cambodian People's Party (CPP) to make conciliatory moves towards the opposition Cambodia National Rescue Party in 2015. The "culture of dialogue", unprecedented in the CPP's thirty-year rule, eventually broke down towards the end of the year. Even so, with an eye towards the 2018 elections, Soeung contends that Hun Sen is intent on winning the "hearts and minds" of the younger generation by carrying out

reforms, improving the CPP's message on social media platforms, and cultivating a new generation of CPP leaders.

In his analysis of Vietnam in 2015, Le Hong Hiep argues that the Communist Party of Vietnam (CPV) faced a testing period as its performance-based legitimacy had been undermined due to widespread corruption and other socio-economic problems. In the run-up to the CPV's Twelfth National Congress in 2016, the party spent 2015 reviewing the achievements and shortcomings of the past thirty years of the *doi moi* model. Hiep recognizes that the CPV is trying to make changes to better govern the Vietnam of the future, as illustrated, for example, by its acknowledgement of the need to enhance a socialist form of democracy.

Providing practical recommendations for a transitioning Vietnam, Jonathan Pincus advocates for a new economic model to replace the decayed *doi moi* one in his chapter, "Vietnam: In Search of a New Growth Model". While it served Vietnam relatively well for two decades, the *doi moi* model impeded the growth of an independent commercial class and eventually revealed the inability of the government to impose order on state-owned and state-related firms. Vietnam's participation in the Trans-Pacific Partnership could help accelerate Vietnamese exports and promote backward linkages, but Pincus explains that it is more important for the government to transform itself into a facilitator for domestic and foreign investment rather than to continue acting as the guardian of domestic markets. Pincus notes that it would be challenging to build a political coalition in support of a new growth model, but, as Hiep has pointed out, there is hope yet as the CPV seems to be deeply aware of the painful reforms needed to overcome economic problems and inertia in the state-owned enterprise and banking sectors.

### ***New Regimes, Persisting Troubles***

In sharp contrast to the elections in Singapore, Myanmar in November 2015 overwhelmingly voted for change in the form of a National League for Democracy (NLD) government, ending more than five decades of military dominance over Myanmar politics. In his chapter on Myanmar's General Election, Tin Maung Maung Than cites two major factors leading to the Union Solidarity and Development Party's defeat: the incumbent's disadvantage of people forgetting their good policies but remembering bad experiences; and the draw of NLD-leader Daw Aung San Suu Kyi who toured the countryside in a relentless campaign to engender a big win for her party. Despite the hope generated by the NLD win, the enduring block of military Members of Parliament (MPs) means that even if the NLD is able to convince all other MPs to support its motions, it would not be able to achieve the threshold of 75 per cent plus one to change the Constitution. Accordingly,

in his review chapter on Myanmar, Robert Taylor sums up the condition of the country in 2015 in one short phrase: “hard times”. Despite positives such as Myanmar’s successful chairing of ASEAN in 2015 and the opening of Myanmar’s first stock exchange, his chapter offers a whole host of persisting problems that await the NLD government, including conflicts over land rights and usage, the lack of a resolution to nearly seven decades of ethnic armed conflict, human rights issues pertaining to the Rohingya community, Myanmar’s vulnerability to natural disasters, and the slow development of the economy. In Tin’s words, “enormous expectations await the NLD’s rule, and at this stage the future of Myanmar seems to rest squarely on the shoulders of ‘the lady’”.

Meanwhile, in Indonesia, the first year of political outsider Joko “Jokowi” Widodo’s presidency proved to be a politically and economically challenging one for the new administration. As outlined by Robin Bush, Jokowi started 2015 boldly by abolishing fuel subsidies, which freed fiscal space for spending on infrastructure and service delivery. On the other hand, the wheels of his highly anticipated reform agenda turned slowly, hindered by a political tug of war between pro- and anti-reformists. Local elections also took place at the end of the year, but, as Bush highlights, *KKN* (corruption, collusion and nepotism) continued to sway election results. Slow growth persisted in 2015 with a decline in the value of the rupiah, which reached a seventeen-year low in August and September of just above Rp14,000 to the U.S. dollar. Compelled by economic challenges, the year also saw Jokowi shift from a strong economic nationalist stance to a much more investor-friendly position as evidenced by a series of deregulation packages issued between September and November.

Bush argues that the new directions in economic and regulatory policy set out by the Jokowi government are likely to facilitate greater spending on infrastructure, the cornerstone of Jokowi’s economic development plans. Siwage Dharma Negara offers the perspective that although the preceding Susilo Bambang Yudhoyono government had lost momentum on its infrastructure policy, it had set in place laws, regulations, institutions and planning documents which should enable the Jokowi administration to effectively carry out its expansive infrastructure development plans. In 2015 the government carried out the groundbreaking of ten infrastructure projects to show that its commitment to its development policies is practical rather than theoretical. But as Negara postulates, the genuine and successful implementation of infrastructure development plans will require the twin ingredients of effective leadership and strong political will.

Finally, Maj Nygaard-Christensen paints 2015 as a year of transition in Timor-Leste. Prime Minister Xanana Gusmão resigned to facilitate the restructuring of the



government. He was replaced by Rui Maria de Araújo, not a member of Gusmão's own party but of the rival FRETILIN. Timor-Leste had long been ready for a leadership transition, as Gusmão's resignation had been preceded by popular debates over the form that a leadership transition should take and the generational divide between the leaders of the *1975 generation* (senior leadership in the resistance struggle against Indonesia), the *Geração Foun* (younger generation of resistance activists) and the new emerging generation. However, Nygaard-Christensen makes it clear that the debates stopped short of a complete withdrawal of senior leaders from the political scene. In the realm of economics, the government continued to struggle to find a way to balance large-scale development initiatives with sustainable projects that catered to the needs of the rural population. Plans to develop a native petroleum industry within Timor-Leste went forward in 2015, but Nygaard-Christensen argues that the government will soon have to find a way to diversify its economy and reduce its heavy dependence on petroleum.

## Intraregional Relations

Two main events dominated intraregional relations in 2015. The first was the worst haze in eighteen years, which covered Singapore, Malaysia and parts of Thailand and the Philippines in smog for over two months in the later part of the year. The haze is an annual event caused by the burning of peat lands in Sumatra, Kalimantan and other parts of Indonesia in order to prepare the land for palm oil plantations. The magnitude of the haze in 2015, however, in Robin Bush's estimation, seriously frayed Indonesia's bilateral relationships in the region, diminished Indonesia's global image, and resulted in serious economic, health and environmental costs across the region. As Vasu and Cheong point out, the Pollutants Standards Index in Singapore reached the "hazardous range" on several occasions. Indonesia–Malaysia and Indonesia–Singapore relations in 2015 were consumed by the haze, exacerbated by Indonesia's initial refusal of Singapore's assistance to fight the fires.

The second event was a regional humanitarian crisis triggered in May 2015 by scores of Rohingya refugees who, in their attempt to flee Myanmar by boat, became stranded in the Strait of Malacca and the Andaman Sea. According to Robert Taylor, the Rohingya crisis continued to afflict Myanmar's international relations in 2015; the Human Rights Council of the United Nations General Assembly once again adopted a resolution criticizing Myanmar on its human rights record, including its persecution of the Rohingya. Serhat Ünalı illustrates that the "boat people", as they have been called, often fell victim to human traffickers who

sometimes worked in tandem with Thai security officials. Mass graves discovered on the Thai–Malaysian border containing the bodies of refugees who had died from illness or hunger caused an international uproar and monopolized Thai–Malaysian relations. Prashanth Parameswaran relates, however, that one positive result arising from the situation was that the two countries thereafter showed a greater willingness to cooperate on cross-border criminal matters. After initially turning away the boat people, Malaysia and Indonesia eventually agreed to take in a limited number of refugees. A Special Meeting on Irregular Migration in the Indian Ocean was also convened in May 2015, which agreed on a variety of measures on how to handle the refugee crisis but, as Carlyle Thayer argues, ultimately did not address the root cause of the Rohingya exodus. In a nutshell, the Rohingya crisis revealed the limits of the ASEAN toolbox and the extent to which its consensus-based model can effectively manage regional crises.

## **Looking Ahead to 2016**

For most of Southeast Asia, the road to 2016 was bumpy. This volume in its reflections on 2015 has shown that the twin threads of continuity and change will characterize regional dynamics in 2016; political, economic and social challenges will persist in the coming year as the region deals with the rising threat of the Islamic State and other forms of religious fundamentalism, as well as the sovereignty disputes in the South China Sea, against the backdrop of falling oil and commodity prices and slowing economic growth. At the positive end of the spectrum, 2016 will see increased economic opportunities with the establishment of the ASEAN Economic Community, which should encourage Southeast Asian states to pursue structural reforms in order to take advantage of growing regional integration. Leadership changes will take place in the Philippines and Laos, and the new leaders of Myanmar will attempt to find their political footing. The region will look towards Laos, which now carries the baton of ASEAN chairmanship. Southeast Asia in 2016 will continue to be one of the most economically vibrant, politically diverse and socially fluid regions in the world.

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Malcolm Cook

Daljit Singh

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