

THIS MONTH'S EXCLUSIVES ►►

PHILIPPINES – Peso Weakness To Force Hike

The Philippine central bank, the Bangko Sentral, says it will not raise interest rates even though inflation has reached five-year highs of more than 7%. **BMI View:** Renewed pressure on the currency, the peso, will force a rate hike in early 2005.

..... FULL STORY ON PAGE 2

SINGAPORE – Developing The Asian Power Bloc

Participants at the Association of South East Asian Nations (ASEAN) summit in Laos have announced plans to hold a regular East Asian summit, aiming to further strengthen economic ties in the region. **BMI View:** For trade-reliant Singapore, the formation of ASEAN and a series of bilateral trade deals have provided improved regional security. However, as the forum starts to consolidate, China's rapid economic growth has boosted its influence over the group, allowing it to shape the pace and agenda of regional dialogue.

..... FULL STORY ON PAGE 6

FEATURE ARTICLE

Indonesia Vows To End Corruption

Indonesia's new president, Susilo Bambang Yudhoyono, has vowed to make fighting corruption his top priority. **BMI View:** The biggest challenge facing Yudhoyono as he begins his five-year presidential term will be working with an opposition-dominated parliament.

Indonesians took a risk when they made Susilo Bambang Yudhoyono their first democratically elected president. A retired 55-year-old general, Yudhoyono was an outsider, aligned with neither of the country's two established political parties, Golkar or the Party of Indonesian Democratic Struggle (PDI-P). His chief attraction was his distance from the discredited elite that has ruled Indonesia since the ousting of former President Suharto in May 1998. Now, Yudhoyono must show that he can succeed where his predecessors have failed.

Yudhoyono, who took office on October 20 at a swearing-in ceremony boycotted by his predecessor, Megawati Sukarnoputri, has vowed to make fighting corruption his top priority. The campaign will be led by the new attorney

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The copy deadline for this issue was December 6th, 2004.

REGIONAL INDICATORS

	2003e	2004f	2005f	2006f
Real GDP Growth, % y-o-y				
Indonesia	4.1	4.6	5.1	5.6
Malaysia	5.3	6.9	6.1	6.1
Thailand	6.8	6.2	6.3	5.6
Philippines	4.7	5.7	4.6	4.2
Singapore	1.1	8.8	5.6	5.2
Vietnam	7.2	7.4	7.6	7.5
Inflation, % y-o-y*				
Indonesia	6.6	6.1	5.6	5.4
Malaysia	1.1	1.8	2.5	3.3
Thailand	1.8	2.8	3.2	3.0
Philippines	2.9	5.4	5.4	5.0
Singapore	0.5	1.6	1.1	1.0
Vietnam	3.2	7.0	5.5	4.2
C/A Balance, % GDP				
Indonesia	3.4	1.7	2.0	2.6
Malaysia	12.6	10.9	8.9	10.5
Thailand	5.6	2.3	0.6	0.5
Philippines	4.2	3.4	2.7	2.6
Singapore	15.9	17.2	15.8	16.3
Vietnam	-5.8	-5.7	-5.7	-4.7

e/f = BMI estimate/forecast. *consumer price inflation. Sources: national central banks, statistical bureaus, BMI.

REGIONAL RISK PROFILE

	Rating	Rank*	Trend
Short-Term Political Risk			
Singapore	84.0	12	↔
Malaysia	75.0	40	↔
Indonesia	55.0	105	↔
Philippines	58.0	102	↔
Short-Term Economic Risk			
Singapore	88.0	3	↔
Malaysia	72.0	34	↔
Indonesia	66.0	46	↔
Philippines	54.0	82	↔

trend arrows reflect significant movement in the same direction. *out of 130 global markets rated. A high rating is an indicator of low risk. A low rank indicates low risk.

Risk Focus: Malaysia Short-Term Economic Risk

Prime Minister Abdullah Badawi has met with dissident politician Anwar Ibrahim at a high-profile reception, a symbolic step that is likely to cool Malaysia's political temperature. There had been speculation that the former prime minister would lead opposition against the ruling UMNO following his conviction for corruption six years ago, further weakening the party after poor results in the September elections. The move should help Badawi build support for his reform process.

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Political Risk – Feuding To Mar Golkar Congress

- Faction-fighting within the opposition Golkar party could come to a head at an upcoming party congress. Many rank-and-file members of Indonesia's largest political party have openly criticised their leader, Akbar Tandjung, for backing former President Megawati Sukarnoputri's re-election bid after their own candidate failed to make the running. Golkar deputy leader Marwah Daud Ibrahim has already vowed to challenge Tandjung at the conference to be held on the resort island of Bali between December 15 and 20.

Indonesia's short-term political rating rises to 55.0 (from 53.0) following peaceful presidential elections.

Economic Risk – Economy To Strengthen In 2005

- Indonesia will be one of the only South East Asian economies to record stronger growth in 2005. A recovery in private

investment, which expanded by 13.1% during the third quarter of 2004, its fastest rate for almost three years, will support economic growth next year. We have revised up our real GDP growth forecast to 5.1% from 4.8%.

Our short-term economic rating rises to 66.0 (from 64.0) following upward revisions to our growth forecasts.

Business Environment – Domestic Investment Up

- Indonesian businesses are beginning to invest more in factories and machinery. Domestic investment approved by the state Investment Co-ordinating Board rose by 55.1% y-o-y to IDR25,134bn (US\$2.80bn) during the first nine months of 2004 compared with a 13.8% fall during the same period of 2003. The board approved 128 locally financed projects between January and September.

Our business environment and short-term composite ratings rise to 48.3 (from 47.7) and 60.2 (from 58.2).

BMI FORECAST SCENARIO

BMI View: The Indonesian economy, South East Asia's largest, will expand an inflation-adjusted 5.1% in 2005 – its fastest rate of growth for four years. The corporate sector is at last recovering from its Asian crisis hangover. During the third quarter of 2004, Indonesia's real GDP expanded 5.0% y-o-y with fixed-capital investment in factories and machinery up a double-digit 13.1%. We expect private investment to grow 8.7% in 2005.

Consensus View*: We have a more bullish view of Indonesia's economic prospects than other forecasters, according to our latest straw poll. Our panel of nine investment banks, plus the Asian Development Bank and International Monetary Fund, expect real GDP to expand an average 4.6% in 2005 compared with an estimate of 4.7% growth in 2004.

Government View: Real GDP will expand 5.4% in 2005, according to the government's budget assumptions, approved by parliament in September.

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general, Abdul Rahmam Saleh, a former Supreme Court judge who became famous for being the one dissenter in a ruling to clear the parliament speaker of a graft conviction. Yudhoyono, who is to chair monthly anti-corruption meetings, has ordered Saleh to re-open stalled corruption cases.

But the biggest challenge facing Yudhoyono as he begins his five-year presidential term will be working with an opposition-dominated parliament. The pro-government People's Coalition, which includes Yudhoyono's small Democratic Party, holds just 233 seats in the 550-strong People's Representative Council, 43 seats short of the simple majority needed to pass legislation. A dispute over who should chair powerful parliamentary committees brought regular parliamentary business to a halt in early November as the People's Coalition fronted up to the opposition Nationhood Coalition, led by Golkar and the PDI-P.

Though a compromise was reached, the episode is likely to prove just the first in a series of power struggles between the two rival coalitions. Much will depend on whether the Nationhood Coalition can keep its internal divisions in check. The Golkar party, in particular, looks like imploding amid faction fighting. Rank-and-file members have openly criticised Golkar leader Akbar Tandjung for endorsing Megawati's bid for the presidency. Divisions could come to a head at the party's upcoming national congress, to be held on the resort island of Bali between December 15-20.

	2003	2004e	2004 Latest period		2005f	2006f
Population (mn) ¹	220.16	223.51	-	-	226.91	229.22
Nominal GDP (US\$bn) ^{2,6}	211.07	229.69	-	-	259.00	295.90
GDP per capita (US\$) ^{2,6}	959	1,028	-	-	1,141	1,291
Real GDP growth (% y/y) ²	4.1	4.6	5.0	Jul-Sep	5.1	5.6
Inflation, period average (% y/y) ²	6.6	6.1	6.0	Jan-Oct	5.6	5.4
Inflation, end period (% y/y) ²	5.1	6.5	6.2	Oct	5.4	5.7
1-month SBI rate (% eop) ³	8.31	7.51	7.41	24-Nov	8.51	8.31
IDR/US\$ (eop) ⁴	8,465	8,572	9,060	06-Dec	8,659	8,746
IDR/US\$ (an. avg) ⁴	8,577	8,599	-	-	8,430	8,347
Merchandise Exports (US\$bn) ²	61.03	64.56	50.75	Jan-Sep	69.08	71.84
Merchandise Imports (fob, US\$bn) ²	32.39	40.49	33.41	Jan-Sep	44.94	48.99
Trade balance (US\$bn) ²	28.64	24.07	17.34	Jan-Sep	24.14	22.86
Oil/Gas exports (US\$bn) ²	13.64	14.80	11.45	Jan-Sep	13.10	14.10
Oil output (mn b/d) ⁵	1.03	0.97	0.97	Sep	0.98	0.99
Current account balance (US\$bn) ³	7.25	3.91	1.85	Jan-Jun	5.28	7.66
Current account balance (% GDP) ^{3,6}	3.4	1.7	-	-	2.0	2.6
Foreign reserves (eop, US\$bn) ⁴	34.96	33.21	33.61	Jun	32.38	33.03

e/f = BMI estimate/forecast (bold); eop = end of period; *excluding gold. Sources: ¹ World Bank, ² State Statistical Bureau, ³ Bank Indonesia, ⁴ IMF, ⁵ International Energy Agency, ⁶ BMI calculation.

* Consensus forecasts based on data from the following institutions: Asian Development Bank, Citigroup, Deutsche Bank, Goldman Sachs, International Monetary Fund, JP Morgan, Lehman Brothers.

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