
ISEAS MONITOR is a socio-political survey of Southeast Asia which examines current events to identify trends in specific countries and in the wider region.

THE REGION: Geopolitical Overview

Southeast Asia will be subject to geopolitical influences from close to home in the final months of 2014. The implications of the democracy movement in Hong Kong are not lost on Southeast Asian governments, and these countries will continue to follow Beijing's responses to the demonstrations carefully.

"People's issues" will be a dominant theme in discussions among ASEAN member-states in the coming months. With the organisation now in the final stretch towards an integrated regional community, much of the focus will be on what Malaysia, ASEAN's 2015 chair, has termed a "people-centred ASEAN". More attention will also be paid to the issues of religion and ethnicity amidst growing global concern about the relentless advance of the Islamic State. Southeast Asian governments will be under pressure to ensure national and regional security against pandemics, as the deadly Ebola disease moves beyond Africa to other continents.

Several other trends merit watching as 2014 draws to a close.

The great-power game in the region will be more and more about Beijing and Tokyo and their efforts to seek traction in Southeast Asia for their geopolitical aspirations. While US President Barack Obama has attended more ASEAN-sponsored meetings than any of his predecessors, the much-discussed US rebalancing toward Asia takes second place to its efforts to counter the Islamic State by working through a diverse coalition of nations.

Officials are getting down to the business of formulating a Code of Conduct to be reached among all parties involved in the South China Sea. China may have agreed to consider the possibility of an early conclusion of such a code, but bilateral efforts to facilitate discussions may be needed to complement ASEAN's emphasis on keeping discussions regional, i.e. among the ten ASEAN members and China. At the same time, ongoing tensions between China and ASEAN member-states such as the Philippines and Vietnam will continue to colour regional meetings.

The performance of Southeast Asian economies will underpin political trends. The Asian Development Bank has trimmed its 2014 growth forecasts for these economies but has nevertheless offered an optimistic forecast for Asia in 2015, linking the growth outlook to structural reforms in Asian economies, particularly in the large developing economies of Indonesia, China and India.

Key Points: “People-centred” topics should dominate domestic and regional discussions in Southeast Asia, in areas ranging from political openness and accountability to security against external threats and radicalisation. The region will be increasingly more affected by the competing interests of Beijing and Tokyo, including those relating to maritime security. On the South China Sea, ASEAN states will need to balance regional and bilateral agendas, even as they balance domestic political and economic agendas to ensure performance legitimacy.

THE REGION: Economic Overview

The International Monetary Fund has again lowered projected global growth rates for 2014 by 0.1 per cent, to 3.3 per cent. Recovery in the European Union appears uncertain, as the 4.0 per cent fall in Germany's industrial output in August has sparked fears of a recession in Europe's “pillar of strength”. In contrast, the US economy is set to grow by at least 3.0 per cent in the third quarter, with strong expansion in its manufacturing sector. According to financial data firm Markit, the US manufacturing purchasing managers' index (PMI) was 57.9 and 57.5 in August and September, respectively – pointing to the strongest quarter for the world's largest economy since the financial crisis of 2008.

The World Bank has trimmed growth forecasts for East Asia in both 2014 and 2015 from 7.1 to 6.9 percent, a move that has clear implications for Southeast Asia. The bank anticipates that China's GDP growth will slow to 7.4 per cent in 2014 and 7.2 per cent in 2015, compared to 7.7 percent in 2013. China's HSBC/Markit manufacturing PMI remained at 50.2 in September, unchanged from August. However, the HSBC services PMI slipped to 53.5 from a 17-month high of 54.1 in August. The Japanese economy remains on a "moderate recovery trend", although industrial expansion is slowing. The Asian Development Bank predicts that India's GDP growth will rise to 5.5 percent this year and to 6.3 percent in 2015, reflecting confidence in the new Narendra Modi government's ability to pursue economic reforms.

GDP growth is expected to slow in the main economies of Southeast Asia. In September, weak export performance led the Asian Development Bank to pare down its GDP growth forecast for Indonesia to 5.3 per cent from 5.7 per cent in April. Thailand's GDP is expected to grow 1.5 percent this year, amongst the slowest rates in Asia, because of poor exports and weakening domestic demand. In Singapore, the PMI rose 0.8 points to 50.5 in September after unexpectedly dipping to 49.7 in August. However, private-sector economists regard this increase as temporary—a result of the approach of the festive season rather than a sign of sustained improvement. According to a Monetary Authority of Singapore survey, the country's economy is expected to grow 3.3 per cent in 2014, following a poor second quarter growth rate of 2.4 per cent, as Singapore contends with economic restructuring. Vietnam's growth in the third quarter increased to 6.19 per cent from 5.42 percent in the second quarter, as rising exports offset weak domestic demand. Despite this improvement, the World Bank estimates that the country's GDP will only expand by only 5.4 per cent in 2014, short of the government's target of 5.8 per cent. In an exception to the regional trend, improving export performance has led the same institution to raise Malaysia's growth forecast for the year from 5.4 per cent to 5.7 per cent.

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

	2011	2012	2013	2014	2015
Brunei Darussalam	3.4	0.9	-1.75	5.3	3.0
Cambodia	7.1	7.3	7.4	7.2	7.3
Indonesia	6.5	6.3	5.8	5.2	5.5
Lao P.D.R.	8	7.9	8	7.4	7.2
Malaysia	5.2	5.6	4.7	5.9	5.2
Myanmar	5.9	7.3	8.3	8.5	8.5
Philippines	3.7	6.8	7.2	6.2	6.3
Singapore	6.1	2.5	3.9	3.0	3.0
Thailand	0.1	6.5	2.9	1.0	4.6
Vietnam	6.2	5.2	5.4	5.5	5.6
ASEAN-10 Average	5.2	5.6	5.2	5.5	5.6
China	9.3	7.7	7.7	7.4	7.1
India	6.6	4.7	5.0	5.6	6.4
United States	1.6	2.3	2.2	2.2	3.1
Japan	-0.5	1.5	1.5	0.9	0.8
European Union	1.7	-0.3	0.2	1.6	1.8
World Average	3.9	3.2	3	3.6	3.9

Source: IMF, World Economic Outlook Database, October 2014.

Key Points: Projected global growth rates have been revised downwards again, dampening prospects for some Southeast Asian economies. Looming recession in the EU may have further repercussions for the global and regional economies.

CAMBODIA

In the final two months of the year, Cambodian politics may take on a business-as-usual configuration, in which the ruling Cambodian People's Party (CPP) and the opposition Cambodia National Rescue Party (CNRP) each focus on their political interests. This focus will nevertheless see each party adopting an active stance on certain issues.

The opposition CNRP will join the debate over the agreement between Cambodia and Australia under which refugees intercepted trying to reach Australia will be sent to Cambodia. It will also call attention to corruption and nepotism in the National Assembly, Vietnamese economic and political dominance in Cambodia and other sensitive issues. The ruling CPP may seek to reverse the growing momentum of the opposition by secretly arranging for a few charismatic and popular civil society activists to set up a new political party to rival the CNRP.

Outside of the formal political arena, individuals, NGOs, and the donor community will monitor the second round of high school completion exams. There is an expectation that, while the strict standards of the first round meant that fewer than 30 per cent of students passed, the results of this later round may be politically compromised.

A variety of social movements will remain active and visible during the period. These movements include garment workers' unions demanding wage increases, farmers caught in land conflicts, and anti-Vietnamese activities among Khmer Krom monks and others. The scale and political sensitivity of the first two movements are greater than those of the third. Recently, Prime Minister Hun Sen told unions that a rapid increase in the minimum wage would chase away investors, but the unions remain unconvinced. They will maintain pressure for higher wages.

Finally, Cambodians will follow both the continuing campaign of arrests on corruption charges and the ongoing national census of resident foreigners. The latter has led to the arrest and deportation of several hundred illegal migrants, predominantly Vietnamese.

Key Points: While Cambodian politics will enter a more stable phase in the last two months of 2014, both the CPP and the CNRP will gradually increase the tempo of their political activities. Social activism in the country will continue.

INDONESIA

The success of the coalition centred around failed Indonesian presidential candidate Prabowo Subianto in dominating the House of Representatives (DPR) and abolishing the direct election of local-government leaders has given the retired general “small victories” against President Joko “Jokowi” Widodo. This opposition coalition’s control of the DPR endows it with considerable power vis-à-vis the incoming government. Hope that outgoing President Susilo Bambang Yudhoyono and his Democratic Party (PD) will lend support to Jokowi’s coalition is now all but gone. The refusal of Jokowi’s Indonesian Democratic Party – Struggle to build bridges to opposition parties, and particularly to the PD, means that the government coalition has thus far received no support from them. It is hoped that Prabowo’s decision to attend the presidential inauguration may signal possible co-operation between the opposition and the government, however faintly.

The opposition’s domination of the DPR and the abolition of direct local elections have led many Indonesians to voice concerns about the direction in which the country seems to be heading. Questions about Jokowi’s capacity to tackle the many challenges that he will face reduced his 20 October inauguration to only a brief celebration. Observers focus on his ability to galvanise all elements of his support base in order to give his government an effective start. Ministerial appointments are crucial to Jokowi’s consolidation of the momentum he can be expected to enjoy during his honeymoon period in power. His cabinet line-up has, however, proven a mixed bag. While some appointments are indeed of professionals as he had promised, many others are apparent rewards for the support of his coalition parties. Worse still, some of these reward positions seem to be in deference to the PDIP leadership. Calls are already being made for him to start his “work, work, work” initiative immediately. The President and his appropriately named Working Cabinet face an unprecedented pressure to have a quick and direct impact on the country.

Having made the unpopular decision to increase petrol prices, Jokowi needs to ensure that the compensation funds reach the right targets and that the reallocation of budgetary resources away from fuel subsidies actually translates into fiscal support for his programs, especially in the areas of education, health and infrastructure. Indonesia’s rate of economic growth has fallen to its lowest level in four years, although the central bank has been able to hold inflation in 2014 within a range of 3.5-5.5 per cent. Slower economic growth in the Eurozone, Japan and China makes it possible

that the United States Federal Reserve will postpone an increase in interest rates until mid-2015. This holds clear benefits for Indonesia.

Key Points: The incoming Jokowi government suffered important losses with the DPR's reintroduction of indirect local elections. The new president needs to galvanise every element of support to avoid further losses, and launch an effective government – but doubts are being cast over his mixed bag cabinet.

MALAYSIA

The Selangor Menteri Besar crisis has been resolved with the appointment of Azmin Ali, Deputy President of Parti Keadilan Rakyat (PKR), but in the process it brought into the open the ideological and personal conflicts within the Parti Agama Islam Se-Malaysia (PAS) and between PAS and its Pakatan Rakyat (Pakatan) allies, PKR and Democratic Action Party (DAP). The on-going struggle within PAS between the reformists and the ulama-led conservatives will significantly impact the future of Pakatan. In the coming months, if the PAS conservatives push for hudud to be implemented in Kelantan, it may further aggravate the fractious relations within PAS and in Pakatan.

In the last days of October, Anwar Ibrahim's final appeal against his five-year jail sentence for sodomising his former aide, Mohd Saiful Bukhari Azlan, was heard in the Federal Court. If Anwar's appeal is unsuccessful, Anwar is found guilty, Pakatan will be hard-pressed to find a new leader who is acceptable to all three coalition partners. After the Selangor crisis, it is clear that the ulama-led conservative faction in PAS will most likely not accept Wan Azizah as Pakatan's de facto leader. Conversely, not many in PKR and DAP will support PAS's conservative president Abdul Hadi Awang to assume the leading role in the opposition.

The government's budget for year 2015 is unlikely, even with its various stopgap measures, to help the lower and middle income groups and placate Malaysians' concerns over the escalating cost of living. Allegations of corruption and government leakages will continue to prevent the government from regaining its waned credibility. While Prime Minister Najib Razak's position in his party will

remain strong especially with the various bumiputra perks in the latest budget, popular support for the ruling coalition will remain weak.

Key Points: Conflicts in Pakatan will persist and may even worsen if Anwar is jailed. The Najib administration is expected to continue with the use of authoritarian measures, especially the Sedition Act, to clamp down on critics and the opposition.

MYANMAR

It appears that there will be no amendment to the constitution regarding the eligibility for the presidency of Myanmar citizens with family members who are non-citizens. This means that Aung San Suu Kyi will be out of the running to become president following the country's general elections a year from now. At present, the National League for Democracy (NLD) has no candidate for president. It has, however, formed an election strategy committee, which will—it is hoped—provide the party with ideas for both its parliamentary and presidential election campaigns.

By-elections planned for November 2014 have been cancelled so that political parties may concentrate on next year's general elections and the government may focus on hosting the high-profile East Asia Summit in Naypyitaw to be held that same month. President Barack Obama will be among the national leaders attending this event. This will be his second visit to Myanmar in just two years. It is likely that the Myanmar government will try to impress upon him its efforts to address human rights and other social issues, in order to hasten the removal of remaining American economic sanctions and to encourage US trade and investment.

In this respect, Myanmar has endeavoured to deal with issues surrounding the Rohingya and communal violence, and with those regarding child soldiers, political prisoners, conflict, rape and freedom of speech. However, the somewhat ad hoc nature of these efforts makes it unlikely that they will satisfy the US or the UN. Myanmar's foreign minister has requested to have a discussion on the situation in the country struck from the agenda of the UN Human Rights Council agenda.

Myanmar's other bids to encourage investment from the US and other countries include permitting foreign banks to operate in the country for the first time in half a century; receiving a steady stream of US and other diplomats; and organising a recent forum in New York to assure potential investors that it will stay the course toward political and economic change.

Key Points: The NLD's lack of a presidential candidate will be the subject of much deliberation as it develops its campaign strategy for Myanmar's 2015 polls. Will it choose a candidate from within or outside the party? Naypyitaw will probably announce measures to address human rights and conflict issues before the East Asia Summit in November in order to demonstrate its seriousness in these matters. Myanmar will continue to promote foreign investment, but the lion's share of such investment will continue to come from neighbouring countries.

THE PHILIPPINES

A full eighteen months before the Philippines' May 2016 presidential election, "ground warfare" has begun, and the rough contours of the competition in those polls should become clearer in the months ahead. Vice-President Jejomar Binay, the strong early front-runner, has declared that he will run as the opposition United Nationalist Alliance candidate. The identity of his party's vice-presidential candidate is yet to be decided.

The ruling Liberal Party is in a bind as it faces 2016. Its heir-apparent, party president Manuel "Mar" Roxas, is far behind Binay in the polls; he lost to Binay in the 2010 vice-presidential election. The Liberal Party is using its majority in the senate to mount an investigation into corruption during Binay's time as mayor of Makati City, with a resultant loss of support for him. Yet Binay is still some 20 per cent ahead of his closest rivals in the polls. The Liberal Party revealed its desperation when—with President Benigno "Noynoy" Aquino III playing along—voices from within the party floated the idea of revising the constitution to allow the still popular president to run for a second term. This thought has already passed, as insufficient time remains to revise the constitution and a firm 62 per cent of people polled rejected the idea. The Liberal Party may thus be forced to opt for a surprise candidate. Grace Poe, the adopted daughter of the late movie mega-star Fernando Poe Jr. and former presidential candidate is the leading dark horse in this scenario, not

least after emerging as the top vote-getter in the 2013 senate elections despite running as a neophyte office-seeker.

That the congress, despite solid Liberal majorities in both houses, has yet to give President Aquino the emergency powers that he requested under the Electric Power Industry Reform Act to deal with a looming power crisis suggests that early positioning for the 2016 election is already undermining his authority.

Key Points: Political positioning for the Philippines' 2016 presidential elections has begun. The hopes of President Aquino's Liberal Party to hold on to the presidency face considerable challenges. The president's own lame-duck status is becoming apparent.

SINGAPORE

A recent fracas at Singapore's Hong Lim Park has highlighted the need for better management of protests, on the part both of the government and of protestors themselves. The "Return our CPF" protest group was accused of heckling special-needs children performing at a charity carnival taking place at the same time. Refusing to confine themselves to the space allotted to them in the park, members of the former group marched around to gain attention and spread their message. Their conduct drew much flak from the government and public alike. As more protestors make use of Hong Lim Park in order to be heard, it will become harder for the government to manage demonstrations and remain neutral while allowing for the airing of diverse opinions.

Singapore and the Philippines have agreed to hold annual bilateral defence-policy dialogues to build closer ties in the face of increasing security challenges. The dialogues will be conducted at what Singapore's defence minister terms a "deputy secretary level" and cover a range of issues from terrorism, natural disasters, cyber threats to piracy and issues relating to the South China Sea. Dialogue with the Philippines joins Singapore's defence-policy dialogues with other countries, such as Vietnam, Brunei, China, France, India, the United States and the United Kingdom. Uncertainties in the regional security environment mean that such bilateral arrangements are likely to continue and even to increase in number.

Singapore is enhancing its efforts to become a more environmentally sustainable city and has ratified the Doha Amendment to the Kyoto Protocol. Highlighting the drive to take climate change seriously, the state has put into place several measures to reduce carbon emissions by 2020, despite the economic and social opportunity costs that these measures may bring.

Key Points: Future protests may require more careful management on the part of the government and protestors. More defence-policy dialogues may be in the works, as Singapore builds closer bilateral ties in an uncertain regional security environment. Climate change is a source of concern, stemming from its potentially serious effects on Singapore.

THAILAND

Six months after putting Thailand under military dictatorship, the National Council for Peace and Order (NCPO) junta has succeeded in imposing on the country a state of political quiescence that few had thought possible.

The junta has stacked the National Reform Council (NRC) with its allies and known opponents of former Prime Minister Thaksin Shinawatra and of the government of his sister Yingluck. Concern that the military has already scripted the council's work has grown. Nevertheless during the next several months, that work will represent the NCPO's last chance to demonstrate an interest in an inclusive consultative process for charting Thailand's future. Early November will also bring the appointment of a 36-member Constitution Drafting Committee that is tasked with preparing the charter under which the NCPO may return the country to civilian rule in late 2015 or early 2016.

The clumsiness of the police investigation of the murder of two British backpackers on the southern island of Ko Tao has damaged the junta's claims to administrative competence, strained already poor relations with the United Kingdom, caused tensions with Myanmar after the arrest of two Myanmar suspects of the crime, and added accusations of these suspects' torture to allegations that agents of the junta have tortured its political opponents. The case has also given rise to direct criticism of NCPO chief and Prime Minister Prayut Chanocha from elements on the Yellow side of

Thai politics. With the king and queen in increasingly fragile health, resentment in royalist circles that the junta has cut members of the Thai network monarchy out of power is sure to grow. The asset declarations of military members of the junta's phony National Legislative Assembly have already reminded Thais of their military's record of corruption.

Increasingly evident economic troubles will also sour many Thais on the NCPO dictatorship. Poor export performance, possible drought, slackening tourist arrivals in what should be the peak season, and low domestic consumption due to high levels of household debt, help account for the World Bank's estimate that the economy will grow by only 1.5 per cent in 2014, the least of any country in the region.

Key Points: Domestic dissatisfaction with the NCPO junta over a range of issues is likely to grow. Whether and how the junta moves to suppress expression of this dissatisfaction bears watching. So, too, does the health of the king. Uncertainty regarding the state of the economy presents a further challenge to the junta and to those in its service.

VIETNAM

Vietnam's bolstering of ties with major powers continued to bear fruit over the past couple of months, as the US announced a partial easing of its weapons ban on Vietnam (allowing Vietnam to purchase US maritime defence and surveillance systems), India committed to an extended line of credit for defence procurements up to US\$ 100 million, and Japan reaffirmed its commitment to provide the Vietnamese Coast Guard with maritime vessels and training worth US\$ 500 million. These announcements came during a busy past few months of reciprocal high-level visits, including Indian President Pranab Mukherjee's visit to Hanoi in September, Foreign Minister Pham Binh Minh's visit to Washington in early October, and Prime Minister Nguyen Tan Dung's recent visit to India.

However, despite earlier bluster about re-assessing its relationship with China, Vietnam's top leadership now appears bent on mending relations with its northern neighbour. Defence Minister Phung Quang Thanh recently downplayed the summer's oil rig dispute as a minor disagreement

“between brothers,” while Politburo Member Le Hong Anh recently agreed with President Xi Jinping in Beijing to “avoid actions that might complicate and expand the disputes”—a statement seemingly directed at the US and warning it to back off. In short, Vietnam continued to pursue its delicately balanced multi-pronged approach to foreign policy, even in the wake of the oil rig crisis.

The economy shone slightly brighter this quarter. Vietnam posted its highest quarterly growth this year at 6.2%, which is also higher than its annual target of 5.8%. The Prime Minister also announced in his opening speech to the National Assembly plenary meeting an estimated 12% increase in exports and 17% increase in state revenue for 2014. However, this growth has been driven primarily by foreign-owned manufacturing exports, suggesting that these brighter indices may be masking enduring weakness in the domestic economy. Notably, progress on mopping up “bad debt” and equitization of state enterprises continue to drag.

In a surprising twist, one of Vietnam’s most prominent bloggers, Dieu Cay (Nguyen Van Hai), was recently released, several years after his original term of detention had expired. Like lawyer Cu Huy Ha Vu earlier this year, he was escorted immediately to the US. However, there is growing cynicism about Hanoi’s handling of political prisoners and bartering them for trade concessions.

Key points: The National Assembly’s bi-annual meeting, which kicked off on October 20, has an ambitious agenda to review socio-economic development, to set that state budget for 2015 and to implement for the second time the “Confidence Vote,” which was suspended amid controversy earlier this year. The government also plans to make an Initial Public Offer (IPO) in November for Vietnam Airlines—one of its most successful SOEs—which, if it goes ahead, will be a bellwether for how seriously and how transparently it intends to implement SOE equitization.

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