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## Southeast Asia’s Marred Miracle

CARLYLE A. THAYER

**S**outheast Asia today should be a success story. The region is well endowed with natural resources (Southeast Asia holds 40 percent of oil and gas resources in the Asia-Pacific). It boasts a skilled work force and an export industry geared toward global high-growth sectors. Its 560 million people form a \$330 billion consumer market that is on a par with China’s fast-growing coastal region. Before the onset of the Asian financial crisis in 1997, members of the region’s major political and economic alliance, the Association of Southeast Asian Nations (ASEAN), enjoyed some of the highest economic growth rates in the world. For more than a decade, a majority of the region’s countries have at least nominally based their governance and stability on electoral institutions rather than military force.

Yet, today, Southeast Asia’s recovery from the financial crisis of 1997 continues to suffer the effects of a global economic downturn and the outbreak of SARS and Avian flu epidemics. The region’s political dynamics remain unsettled as several countries struggle to complete and consolidate their transitions to democracy; elections this year could add to the uncertainty. Meanwhile, China’s rising influence provokes anxiety among states that would prefer to see a stable balance among the external powers. The specter of international terrorism has induced the United States to reengage with Southeast Asia, but the terrorist threat remains alive, especially in Indonesia, where domestic radicals have deep roots in society.

### A CELEBRATION SPOILED

The stumbling blocks in Southeast Asia’s success story can be traced to 1997, which marked the thir-

tieth anniversary of ASEAN’s founding. The association had planned to celebrate the occasion by enlarging its membership to include Cambodia, Laos, and Burma, thus fulfilling the vision of ASEAN’s founding fathers to unite all 10 of the region’s states into one organization. But, on the eve of the anniversary, a series of external events derailed ASEAN’s seemingly smooth transition into its fourth decade of development. Factional infighting by members of the coalition government in Cambodia turned violent, and ASEAN promptly suspended Cambodia’s proposed membership until peace and democratic government were restored. (The association nevertheless admitted Cambodia as its tenth member in April 1999.)

In mid-1997 Thailand devalued its currency, the baht, which triggered the Asian financial crisis. As the contagion spread across the region, some Southeast Asian economies shrank by 10 percent or more. Indonesia, Malaysia, and the Philippines were hit the hardest. The financial crisis mocked claims by some Southeast Asian leaders that ASEAN’s success could be attributed to “Asian values.” Instead, the crisis exposed widespread corruption, collusion, and nepotism. ASEAN as a regional organization was perceived as having failed to cope effectively with the financial challenges it faced.

The crisis years from 1997 to 1998 also strained Southeast Asian states that relied on successful economic development as the basis for their regimes’ legitimacy. During this period, seven of the region’s ten states underwent national leadership change. Elections replaced governments in the Philippines and Thailand. Vietnam’s Communists jettisoned their party leader in mid-term, while Laos accelerated the pace of generational change among its top officials. In Burma, the State Law and Order Restoration Council gave way to the State Peace and Development Council, comprised of relatively younger military officers. Elections in Cambodia resulted in longtime leader Hun Sen assuming the prime min-

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istership in his own right. In Indonesia, President Suharto, who had ruled the country since 1966, was forced to step down and was replaced constitutionally by his vice president, B. J. Habibie. Malaysia's prime minister, Mahathir Mohamad, experienced a fierce but unsuccessful challenge by his deputy, Anwar Ibrahim. Anwar was dismissed from office, tried in court, and imprisoned while his supporters clashed in the streets with police. These events had electoral repercussions later. Only Brunei and Singapore were unaffected by the crisis politically.

The financial debacle exposed the inability not only of ASEAN but of other multilateral institutions to respond effectively to the sudden collapse of currencies and slowdown in economic growth. It exposed differences among ASEAN members about how best to deal with outside agencies such as the International Monetary Fund. Disarray in ASEAN ranks also was laid bare by political upheaval in Indonesia, which led to East Timor's independence in 1999. ASEAN's inability to act in the crisis resulted in an external intervention under Australian auspices with UN endorsement. (And the vision of all the region's states united into one organization remains unfulfilled as long as East Timor stands outside the "virtuous circle.")

The effects of the financial crisis and regional instability continue to influence the economic, political, and security dynamics of Southeast Asia today. And now transnational elements have been added to the equation: pandemics and international terrorism.

### THE LONG CRAWL BACK

A number of external factors have affected Southeast Asia's recovery from the financial crisis. In 2000, a downturn in the global economy hurt ASEAN exports. The discovery of international terrorist cells in Malaysia and Singapore in 2001, followed by terrorist bombings in Bali in October 2002 and Jakarta in August 2003, also had a depressing economic effect. In 2003, the war in Iraq boosted oil prices and generated uncertainty that weakened economic growth. Of greater importance was the outbreak of Severe Acute Respiratory Syndrome, which became a concern in the first half of 2003. Tourism fell dramatically. The outbreak of Avian flu in the poultry industry this year has had a similar negative economic impact.

But external events alone do not explain the region's failure to recover six years after the financial crisis. Southeast Asia has lost its competitive edge because production costs are higher than in China. ASEAN can no longer rely on cheap domestic labor as its comparative advantage. Economic specialists point to the need to trim a range of costs involved in the production cycle to restore competitiveness. Southeast Asia also must overcome longstanding deficiencies in its banking, financial, and legal sectors, especially indebtedness and nonperforming loans. Economists argue, too, that ASEAN needs to rethink its export-oriented strategy at a time when global demand is depressed. ASEAN must look inward and stimulate domestic consumer demand as well as expand the revenue base of central governments.

During the financial crisis, China contributed to regional stability by refraining from devaluing its currency, the renminbi. While Southeast Asia's economies have foundered, China has surged ahead with annual growth rates of 9 percent. China's economy is expected to grow to double the size of the

German economy by 2010 and to overtake Japan's economy—the world's second-largest—by 2020. In 2003, China received \$52 billion in foreign direct investment (FDI), surpassing the United States as the world's largest recipient. At the same time, there has been a substantial diversion of FDI from Southeast Asia to China. A decade ago about three-quarters of US investment in East Asia went to Southeast Asia. That figure has now fallen to 10 percent. Approximately 80 percent of US investment in East Asia now goes to China.

China represents both an opportunity and a threat to Southeast Asia. Its large domestic market provides opportunities for Southeast Asia's economies; China's trade with ASEAN reached a record high of \$78 billion in 2003, with China importing goods valued at \$47 billion and exporting goods valued at \$31 billion. Yet China also represents a threat to these economies because of its increasing competitiveness. Its entry into the World Trade Organization, for example, could result in a flood of cheaper Chinese goods into Southeast Asia, overwhelming local industries.

### RESPONDING TO CHINA

ASEAN has responded to China's growing economic challenge in two ways. First, Singapore and

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Thailand have tried to push other ASEAN members to take additional steps to integrate their economies into a single market that is attractive to foreign investors. At the October 2003 ASEAN summit in Bali, association leaders pledged to form an ASEAN Economic Community by 2020. The AEC will not be a customs market or political union. Rather, it is conceived as a single regional market and production base in which goods, services, investments, capital, and labor will flow freely.

ASEAN's track record on economic integration provides an indication of likely problem areas. The association has achieved only limited progress in reducing tariff barriers. The six original ASEAN members (Brunei, Indonesia, Malaysia, Philippines, Singapore, and Thailand) committed themselves to eliminating tariffs on 60 percent of their products by 2003. But the Philippines and Thailand have achieved just small percentages of this target. In addition, there has been backsliding on tariff-reduction commitments already made by Malaysia (auto industry), Indonesia (rice and sugar), and the Philippines (rice and petrochemicals). ASEAN's newer members—Cambodia, Laos, Burma, and Vietnam—are concerned about the competitiveness of their domestic industries if their economies are opened too quickly. In short, as a result of economic nationalism and protectionism, the region looks much more like an assortment of individual markets than an emerging single market.

The second way ASEAN has responded to the challenge posed by a rising China has been to enter into a series of agreements with Beijing in an effort to better manage economic relations. In 2002, China and ASEAN committed themselves to creating a free trade area by 2010 for ASEAN's original six members and by 2015 for its newer members. During this period, China and ASEAN are to begin removing barriers to trade and investment. China has also agreed to a series of intermediate steps that take into account the concerns of ASEAN's less developed states.

Chinese officials met with ASEAN leaders at the Bali summit in October 2003. In an effort to kick-start the ASEAN-China free trade area, Beijing consented to begin a three-year "early harvest" scheme that started January 1, 2004. This agreement calls for early reductions in tariffs on designated agricultural and manufactured goods, with different phase-in periods for ASEAN's six original states and its newer members.

Most observers express optimism about Southeast Asia's economic prospects, but it is cautious optimism. The Asian Development Bank estimates

regional growth will reach 4.9 percent in 2004. Vietnam is expected to lead the region with a GDP growth rate of 7 percent forecast for this year, followed by Thailand and Malaysia (5.5 percent). Both Singapore and Indonesia in 2004 can expect a modest rise in their growth rates, to 3 percent and 4.1 percent, respectively. Burma represents the exception to the trend. Its economy has been in a downward spiral since 2001. The United States imposed economic sanctions in 2003 after the detention of democracy activist and Nobel Peace Prize winner Aung Sang Suu Kyi. Burma's GDP growth rate is now expected to decline to 3.2 percent this year.

### A CHOPPY THIRD WAVE

In 1991, Samuel Huntington published *The Third Wave: Democratization in the Late Twentieth Century*. He noted that since 1974 more than 30 countries across the globe had embarked on a "third wave" of transition from authoritarian rule to democracy. Since 1991, four countries in Southeast Asia have started on the path of democratic transition and consolidation: Thailand, Cambodia, East Timor, and Indonesia. They joined the club of "politically open" states that regularly hold parliamentary or legislative elections: the Philippines, Malaysia, and Singapore. The remaining four countries—Brunei, Laos, Burma, and Vietnam—represent the "politically closed" members of ASEAN. Brunei is ruled by an unelected sultan. Burma is a military dictatorship, and Laos and Vietnam are one-party socialist states.

All of Southeast Asia's political systems—autocratic, one-party, transitional, or democratic—face challenges to their legitimacy. Those states that relied on performance legitimacy—successfully delivering the economic goods—came under severe challenge as a result of the multiple crises that swept Southeast Asia in 1997 to 1998 and the economic downturn that followed.

Cambodia's transition to democracy has been hamstrung by electoral laws dating to 1991–1993, when the United Nations Transitional Authority was charged with bringing democracy to the country. These laws require a government to command a two-thirds majority in the National Assembly before it can be formed. Cambodia has held three national elections since the end of armed conflict in 1991. No single political party has been able to achieve a two-thirds majority. Two unstable coalition governments have been the result.

Three political parties won seats in the National Assembly following the 2003 elections: the Cambodian People's Party (CPP), led by Hun Sen, a for-

mer ally of Vietnam; FUNCINPEC, led by Prince Norodom Ranaridh, the son of the Cambodian king, Sihanouk; and the Sam Rainsy Party (SRP), a breakaway faction from FUNCINPEC that espouses liberal democracy. Cambodia currently faces a political stalemate because of FUNCINPEC's and the SRP's refusal to form a coalition government with the CPP. The stalemate further entrenches the CPP in power. Political instability in Cambodia has invariably spilled over and affected its relations with Vietnam and Thailand.

### THE YEAR OF DANGEROUS ELECTIONS

Elsewhere, 2004 is an important electoral year for Southeast Asia: Indonesia, the Philippines, and Malaysia are scheduled to hold national elections.

Indonesia will hold two separate ballots. Twenty-three officially registered parties will contest parliamentary elections scheduled for April 5. The country's first presidential election will then take place on July 5. If no candidate wins an absolute majority, a run-off will be held in September.

Only four or five parties are expected to do well in parliamentary voting. In the last national elections held in 1999, only four parties received more than 10 percent of the vote. Two—the Indonesian Democratic Party of Struggle (PDI-P), led by Megawati Sukarnoputri, and Golkar, the former New Order regime party—together received more than 50 percent of the vote. Two moderate Muslim parties came in third and fourth: the National Awakening Party of Abdurrahman Wahid (Gus Dur), and the United Development Party.

Indonesia's new electoral laws will short-circuit the backroom politics that in 1999 led to the election of Abdurrahman Wahid as president. The Muslim parties contrived to block the election of a woman (Megawati) as president. In the end, Wahid proved incompetent and was forced to step down. Megawati then became president and now holds the advantage of incumbency as the elections approach.

Party nominations for president are not required until after the parliamentary elections. Indonesian parties that do well will contest the presidency or lobby for their candidate to run as a vice president in an electoral alliance with one of the major parties. Polling data are unreliable, but it appears that the PDI-P and Golkar will emerge as the two main vote-

getters in the April elections. One point of uncertainty is whether Megawati's lackluster leadership will prompt her secular nationalist supporters to vote for Golkar. Observers also are watching closely how moderate Muslims vote, and whether radical Islam will have any appeal to the ordinary voter. Avowedly Islamist parties garnered no more than 14 percent of the total vote in the last elections.

Although the Philippines has held regular national elections since people's power toppled President Ferdinand Marcos in 1986, the consolidation of democracy has been extremely rocky. President Joseph Estrada was subject to impeachment hearings for corruption and was forced out of office in 2001—in part because of the political intervention of the Armed Forces of the Philippines (AFP). Estrada's vice president, Gloria Macapagal-Arroyo, assumed the presidency. Attempted subversion by rogue elements of the military has threatened her term in office. In July 2003 a mini-coup in downtown Manila by disaffected AFP personnel was quickly quelled.

The Philippines is scheduled to hold both presidential and legislative elections

on May 16. The 90-day campaign period has already begun. Five main contenders are vying for the presidency, but political pundits and public opinion polls suggest the contest will come down to a race between President Arroyo and Fernando Poe, a popular movie star who is backed by supporters of former Presidents Marcos and Estrada (also a former movie star). Whoever wins, the outcome will not change the essential character of Filipino politics, strongly shaped by oligarchic patron-client linkages among the wealthy elite.

The role of Islam is sure to be a central issue in the Malaysian parliamentary elections in March 2004. A majority of Malays deserted their communal party, the United Malays National Organization (UMNO), in favor of the opposition Islamic Party of Malaysia (PAS) in the last federal election. Voter surveys suggest that Malays voted against UMNO rather than for PAS. Malaysia's new prime minister, Abdullah Ahmad Badawi, has been trying to consolidate his position through an anti-corruption campaign that has targeted cronies of the outgoing prime minister, Mahathir Mohamad.

Finally, there are straws in the wind in Burma suggesting that some form of political change may

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be under way. Younger military officers took Burma out of isolation and into ASEAN in 1997. Later that year they formed the State Peace and Development Council (SPDC) to signify the priority of domestic goals, including the drafting of a new state constitution. The SPDC has oscillated from repression of pro-democracy activists to limited periods of political liberalization. As a result of external pressures in the form of economic sanctions and diplomatic initiatives by ASEAN and the United Nations, Burma may be poised for another period of liberalization. SPDC officials have indicated they will release democracy activist Aung Sang Suu Kyi from detention and hold national elections at some unspecified time in the future. Progress in this direction will depend on the establishment of a *modus vivendi* between the SPDC and Suu Kyi's National League for Democracy.

### A "NEW SECURITY CONCEPT"

Two external forces—the rise of China and the US-led global war on terrorism—shape today's security dynamics in Southeast Asia. In 1997, China began a major campaign to promote its "new security concept" among the region's states.<sup>1</sup> Beijing argued that military alliances were cold war relics and that ASEAN states should join with it in promoting regional cooperation, security dialogues, and regional confidence-building measures. China dropped its opposition to multilateralism and became a supporter of the ASEAN Regional Forum, the only regionwide body for security dialogue in the Asia-Pacific.

Between February 1999 and December 2000, China signed long-term cooperative framework agreements with each of ASEAN's 10 members. These agreements committed each state to regular high-level exchanges of political leadership with China and, in some cases, defense cooperation activities. China's prestige and influence reached an all-time high. In 2001, after prolonged negotiations, China managed to diffuse its territorial disputes with the Philippines, Vietnam, Malaysia, and Brunei by jointly adopting a treaty called Conduct of Parties in the South China Sea. In October 2003, China became the first major power to accede to the ASEAN Treaty of Amity and Cooperation, pledging to resolve all disputes by peaceful means.

<sup>1</sup>The discussion in the following paragraphs is drawn from Carlyle A. Thayer, "China's 'New Security Concept' and Southeast Asia," in David W. Lowell, ed., *Asia-Pacific Security: Policy Challenges* (Singapore: Institute of Southeast Asian Studies and Canberra: Asia Pacific Press, 2003), 89–107.

Beijing's new security concept was aimed at undermining US influence in Southeast Asia and its alliances with Thailand and the Philippines. For example, in a speech in Bangkok in September 1999, Chinese President Jiang Zemin warned ASEAN states against "hegemonism and power politics" and "gunboat diplomacy," code words for the United States. China was not averse to playing power politics itself, of course. Chinese inroads in Burma, Laos, and Cambodia—through economic aid and military assistance—became a cause for geostrategic concern in Vietnam and India, which viewed China's presence in these countries as creating levers of influence on ASEAN itself.

### THE WAR ON TERROR

The events of September 11, 2001, proved a turning point for the United States. Overnight it reengaged with the Southeast Asian region and became a major security player through its leadership in the global war on terrorism. The Bush administration hosted visits by Southeast Asia's most influential leaders. The Philippines and Thailand were designated major non-NATO allies alongside Australia. ASEAN and the United States signed a joint declaration on countering terrorism. States in the region have begun adopting money-laundering legislation to curtail financial support for designated terrorist groups and individuals.

The United States and the Philippines entered a period of close military cooperation that seriously degraded the capabilities of the terrorist Abu Sayyaf Group, which had gained notoriety by kidnapping and beheading foreign tourists, including American citizens. Filipino troops last year captured Commander Robot, Abu Sayyaf's leader.

In 2001, Southeast Asia was profoundly shaken by the discovery of regional terrorist cells in Malaysia and Singapore that had begun operational planning to attack American interests in Singapore and the Straits of Malacca. Jemaah Islamiyah (JI) was identified as the main terrorist group responsible. Its leaders had connections with Al Qaeda that dated back to the Soviet occupation of Afghanistan between 1978 and 1989. By 2001, JI had succeeded in creating a regional network that included training camps run by the Moro Islamic Liberation Front (MILF) in the Philippines and a large JI contingent in Indonesia.

In response to US-Philippine cooperation in the war on terrorism, the MILF publicly distanced itself from involvement in sponsoring regional terrorism by offering to track down foreign terrorists in its area of operations. Nonetheless, the MILF con-

tinued to provide training facilities to the JI as recently as late 2003. Recent reports indicate that the MILF may have closed its training facilities to JI members after international publicity and in order to strengthen its hand in negotiations with the Philippine government. Unlike Al Qaeda or JI, the MILF has agreed to discuss a cease-fire and the presence of international monitors as a preliminary step to political negotiations with the Philippine government.

Key political leaders in Indonesia and Thailand were initially skeptical of claims that a regional terrorist network existed. Then came October 12, 2002, when JI terrorists killed 202 people—many of them Australian tourists—in bombing attacks on the island of Bali. Close cooperation between the Indonesian and Australian police quickly netted many of those responsible. Police investigations revealed that JI was a homegrown terrorist group whose leaders were graduates of a radical Islamic school in Indonesia's central Java and had received indoctrination and paramilitary training in Afghanistan. This leadership core was related through marriage, and spouses played an active role in terrorist support activities. The larger JI network in Indonesia was composed of graduates of a small number of radical Islamic schools.

According to an August 2003 International Crisis Group report, JI "is damaged but still dangerous." As a result of counterterrorism efforts by Southeast Asian states, JI's operational capabilities have been seriously degraded. JI in Indonesia has begun to disintegrate on its own. The decision by the JI operational planner named Hambali to attack so-called soft-targets (tourist venues) provoked strong dissent within JI ranks. But many key operatives, including those with bomb-making skills, remain on the loose. Even more worrying are recent reports that disaffected extremists have left JI to found their own organization, the Mujahideen Kompak, on the Indonesian island of Sulawesi.

Thailand's complacency was shaken by the arrest of Hambali outside of Bangkok in August 2003. Southern Thailand has witnessed a gradual escalation in violence directed against security personnel since late 2001. In January 2004, Thailand was rocked by a series of violent incidents in the Muslim-populated southern provinces, including an armed attack on a military armory, the deliberate burning of 20 government schools, and the brutal murder of three Buddhist monks. Thai security officials have implicated Muslim separatists, the Gerakan Mujahideen Islam Pattani and Barisan

Revolusi Nasional, in these recent attacks. The government's claims notwithstanding, it is unclear whether the resurgence of violence in southern Thailand is the work of Islamic separatist groups, criminal elements, or some combination of the two.

## A REGIONAL BALANCE SHEET

What might a regional balance sheet for 2004 look like? The possibility of a SARS or Avian flu epidemic—or of a major terrorist attack, despite successes against terror groups—remains an economic wild card. Thailand, Indonesia, East Timor, and Cambodia have yet to consolidate their democratic institutions, and this year's elections in Indonesia, the Philippines, and Malaysia could create risks to political stability. China's rising influence seems inexorable, even as the United States has sought closer ties with ASEAN members in the war on terrorism. Although midterm economic prospects for Southeast Asia appear reasonably good, the region's political and security dynamics pose considerable risks to a full recovery from the crisis of 1997. ■

### A Current History Snapshot . . .



"If the war in [South Vietnam] lasts long enough, the United States has a good chance of winning it. The United States is not likely to win the war in the traditional way by breaking the enemy's will to resist, but rather by killing so many enemies that there is no one left to resist. . . . No civilized nation can wage such a war without suffering incalculable moral damage. This damage is particularly grave since the nation can realize no plausible military or political benefit which could justify this killing for killing's sake. And it is particularly painful for a nation like the United States—founded as a novel experiment in government, morally superior to those that preceded it—which has throughout its history thought of itself as performing a uniquely beneficial mission not only for itself but for all mankind."

"U.S. Misadventure in Vietnam"  
*Current History*, January 1968  
 Hans J. Morgenthau, University of Chicago