

Chapter 7

Southeast Asia—Toward a New Unity

Hit by the economic slowdown in the United States at the end of 2000, and aggravated by the September 11 terrorist attacks, Southeast Asian economies had been in the doldrums. However, as exports picked up in early 2002, the economies of the Association of Southeast Asian Nations (ASEAN) improved. During an official visit to ASEAN countries in January 2002, Prime Minister Junichiro Koizumi became the first prime minister since Takeo Fukuda in 1977 to unveil a new Japanese policy toward Asia.

In 2001, new governments were established in Indonesia, Thailand, and the Philippines, raising hopes for further democratization. Being pressed to cope with terrorists, Islamic extremists, and separatist movements, however, little progress was observed. Yet a step toward democratization in Indonesia—adoption of the new election law, for instance—has been made as the 2004 presidential election draws closer. In Myanmar, Aung San Suu Kyi, general secretary of the National League for Democracy (NLD), was released from house arrest in May 2002, raising hopes that this signaled an attitude shift toward democratization. In Malaysia, Prime Minister Mahathir bin Mohamad's announcement on June 22, 2002, that he would resign caused initial political confusion, though he finally agreed to remain in office until October 2003.

Concern over international terrorism dominated a series of ASEAN Ministerial Meetings in Brunei at the end of July 2002, with some delegates proposing to strengthen the function of the ASEAN Regional Forum (ARF) in order to better deal with the problem. ASEAN members also presented China with a draft proposal outlining a code of conduct in the South China Sea, and at the ASEAN Summit in November, ASEAN and Chinese leaders adopted the "Declaration on the Conduct of Parties in the South China Sea."

1. Japan and China Jockey for Leadership over a Free Trade Agreement (FTA)

In 1999, the economies of ASEAN members began to recover. However, the U.S. economic slowdown, begun in the second half of 2000, and the terrorist attacks of September 11, 2001, took their economic and political toll. Across the board, ASEAN economies stagnated in 2001, and even Singapore, only slightly hurt in the 1997 Asian crisis, registered negative growth (down 2 percent from the previous year). This economic slowdown is expected to be short-lived. Since the third quarter of 2001, however, the economies of major ASEAN nations (Indonesia, Malaysia, the Philippines, Singapore, and Thailand) have deteriorated (see Table 7-1), due largely to a decrease in exports of information technology (IT)-related products, especially to the United States. The more heavily dependent a country is on exports, the greater the negative impact, with Singapore and Malaysia being hit especially hard (see Table 7-2). When U.S. demand for IT-related products picked up in early 2002, ASEAN economies began to recover, and 2002 is expected to see growth exceeding that of the previous year.

Firm domestic demand and an increase in fiscal stimulus spending played a significant role in supporting the ASEAN's economic growth, together with an expansion in exports. As a result, there has been a tendency for each country to increase its budget deficit, which might eventually lead to a slowdown in domestic demand in the near future (see Table 7-3). Following China's entry into the World Trade Organization (WTO), China attracted a large amount of foreign direct investment. Due to the ongoing political and social confusion caused by Islamic extremist, separatist and terrorist groups in some ASEAN countries, and the long-term recession in the Japanese economy, there are no signs of a recovery in foreign direct investment in the ASEAN—the main element of its economic development. As a result of distrust worldwide in the corporate governance of large U.S. firms, such as Enron, wariness over

Table 7-1. Growth Rates in East Asia (%)

Country	2001				2002		2001	2002	2003
	1Q	2Q	3Q	4Q	1Q	2Q			
South Korea	3.4	2.9	1.9	3.7	5.7	6.3	3.0	6.0	5.8
China	8.1	7.8	7.0	6.8	7.6	8.0	7.3	7.4	7.5
Indonesia	4.8	3.8	3.1	1.6	2.2	3.5	3.5	3.2	4.4
Malaysia	3.0	0.4	-0.9	-0.5	1.0	3.8	0.4	4.5	5.0
The Philippines	2.9	3.0	3.0	3.9	3.7	4.5	3.2	4.0	4.5
Singapore	5.0	-0.5	-5.4	-6.6	-1.7	3.9	-2.0	3.9	5.6
Thailand	1.7	1.8	1.6	2.1	3.9	5.1	1.8	3.8	4.0
Vietnam	7.1	—	—	6.3	6.6	6.8	5.8	5.7	6.2

Note: Figures for 2002 and 2003 are estimation, taken from the Asian Development Bank (ADB), *Asian Development Outlook 2002 Update*.

Sources: Quarterly figures are taken from the official statistics of the countries concerned; those for 2001 and 2002 are taken from *Asian Development Outlook 2002 Update*.

Table 7-2. Export Growth Rates in East Asia (%)

Country	1999	2000	2001	2001				2002	2002*	2003*
				1Q	2Q	3Q	4Q			
South Korea	8.6	19.9	-12.5	2.1	-11.6	-19.7	-19.2	-11.0	10.0	10.0
China	6.1	27.8	6.9	13.9	4.5	3.9	6.6	9.8	13.0	10.0
Indonesia	-0.4	27.4	-0.7	5.1	-4.7	-14.7	-22.3	-13.8	-3.0	8.0
Malaysia	15.9	16.1	-10.4	1.6	-9.0	-19.2	-13.1	-4.3	5.5	4.8
The Philippines	18.8	8.7	-15.6	-0.5	-17.6	-22.5	-19.5	-5.3	4.0	4.5
Singapore	4.4	20.3	-11.8	7.2	-7.5	-20.8	-21.7	-15.4	5.5	10.5
Thailand	7.4	19.3	-6.3	-0.8	0.6	-10.5	-13.1	-6.7	2.7	7.0

Note: In U.S. dollars.

Sources: Based on official statistics of the countries concerned. Those marked * are estimation, taken from ADB, *Asian Development Outlook 2002 Update*.

Table 7-3. Fiscal Balance in East Asia (% of GDP)

Country	1997	1998	1999	2000	2001
South Korea	-1.5	-4.2	-2.7	1.1	1.3
China	-1.5	-2.1	-2.1	-2.9	-2.6
Indonesia	0.5	-1.7	-2.8	-1.6	-2.3
Malaysia	2.4	-1.8	-3.2	-5.8	-6.7
The Philippines	2.4	-1.8	-3.2	-5.8	-6.7
Thailand	-1.8	-7.6	-11.2	-3.2	-2.1

Source: ADB, *Asian Development Outlook 2002 Update*.

falling stock prices persists. It is feared, therefore, that the environment surrounding ASEAN economies may deteriorate and lead to export decreases and economic slowdown from 2003 on. In order to stabilize the situation of ASEAN, it is necessary to maintain sus-

tainable economic growth by expanding exports and attracting foreign direct investments.

In January 2002, the ASEAN put the ASEAN Free Trade Area (AFTA) into effect to create an expanded common market in the region and to lure foreign direct investment. An advance group of six nations—Brunei, Indonesia, Malaysia, the Philippines, Singapore, and Thailand—cut tariffs on 98.46 percent of imported items to below 5 percent and are planning to cut tariffs on all items by 2003. Cambodia, Laos, Myanmar, and Vietnam are supposed to do likewise between 2003 and 2007. As the volume of goods and services traded among ASEAN members accounted for only 22.2 percent of their total international trade in 2001, it is necessary for the ASEAN to increase the volume of intra-AFTA trade in order to induce foreign direct investment and spur economic growth. Further integration of the regional markets would also lead to a more unified ASEAN, weakened by the 1997 Asian crisis. Conflicts of interest among member nations, caused by the disparity of development and the similarity of their industrial structures, may hinder promotion of the AFTA in the coming years.

(1) China's Concept of an East Asia Free Trade Area

Meanwhile, China's successful entry into the WTO at the end of 2001 is stimulating the integration of its economy into the global market. Along with China's trade liberalization, its huge potential market has become more and more attractive to foreign investors and foreign investment in China has increased. Foreign investment in ASEAN, on the other hand, has decreased, and this became more evident in 2002. It is vital for China to maintain the momentum of its economy in order to secure internal stability. Since a steady supply of food and energy is crucial for sustaining economic growth, China proposed—at a November 2001 ASEAN summit—a Free Trade Agreement (FTA) with the ASEAN. China is also hoping to ease the rising concern among ASEAN members who see China as a threat by strengthening economic ties with the ASEAN.

Its proposal sought to conclude an FTA with ASEAN members within ten years. Yet the ASEAN feared that a free trade agreement with China would allow Chinese products to flow into their markets and harm local industries. However, an FTA would also benefit ASEAN members by boosting exports to China, and could spur foreign direct investment by corporations aiming to expand exports to the Chinese market. With this in mind, ASEAN has finally decided to accept the Chinese proposal. At a November 2002 ASEAN summit in Cambodia, a Framework Agreement on Comprehensive Economic Cooperation was signed between the ASEAN and the People's Republic of China, containing specific measures such as tariff cuts to promote an FTA.

In addition to securing resources necessary for economic development and for defusing ASEAN's fears, China wants to strengthen its influence over ASEAN members in order to challenge Japan's leadership in the region. More specifically, after the onset of the 1997 Asian crisis, Japan's leadership over the region had waned due to its long-lasting recession and the failure to establish an Asian Monetary Fund (AMF). China, on the other hand, sought to strengthen its position by assuring ASEAN members it would not devalue the renminbi (the Chinese yuan) in order to avoid further devaluation of ASEAN currencies. However, Japan proposed the New Miyazawa Initiative that promised \$30 billion worth of aid to Southeast Asian countries in 1998, as well as the Obuchi-ASEAN Initiative led by former Prime Minister Keizo Obuchi. Japan strengthened its position in Southeast Asia by hammering out large-scale financial assistance for expediting economic recovery of crisis-hit countries through these initiatives. In addition, Japan also initiated the agreement on expansion of the swap agreement among the ASEAN+3 (Japan, China, and South Korea) in 2000 known as the "Chiang Mai Initiative." It had been negotiating with Singapore to finalize an FTA since 1999, when then Prime Minister Obuchi and Goh Chok Tong agreed to establish free trade area.

In spite of China's prosperous and sustainable economic growth,

it seems that China does not yet have the wherewithal to finance its ASEAN policy as Japan had done. Thus, China might become to feel its position in the region pales beside Japan. The way China sought to bolster its position in the ASEAN has been to establish a free trade area or the kind of regionalism progressively established in the major regions of the world during the 1990s—such as the European Union (EU), the North American Free Trade Agreement (NAFTA), and the Mercado Comun del Sur (MERCOSUR) or South American Common Market. By promoting free trade with ASEAN members, China is able to improve its relations with these countries, and hopefully recover its influence. It cannot be ruled out that China also intends to take the lead in establishing a free trade area in the ASEAN+3, which might lead to China securing sole leadership in East Asia. The ASEAN+3, which does not include the United States and Australia, is an ideal framework within which it can exercise its influence, making it easier for China to play a leading role in forming a free trade area in East Asia.

The agreement China worked out with the ASEAN to form a free trade area within ten years also affected Japan's ASEAN policy. Japan has also tilted toward open regionalism, and in January 2002 it concluded a bilateral FTA with Singapore, Japan's first ever. This was a suitable FTA for Japan to sign, since Singapore does not have an agricultural sector. For many ASEAN members, however, agricultural products represent major export items, so it is important for Japan—with its protected agricultural sector—to delicately handle FTA negotiations with ASEAN members. However, the FTA between China and the ASEAN includes liberalization of the agricultural sectors of both sides, thereby obligating Japan to change its domestic agricultural policy and adopt a new ASEAN policy.

(2) The Koizumi Doctrine—The Concept of Expanded East Asian Community

In January 2002, Prime Minister Koizumi visited five ASEAN

members—the Philippines, Thailand, Malaysia, Indonesia, and Singapore. On January 13, he signed an agreement with Singapore for a New-Age Economic Partnership, Japan's first FTA. On January 14, he also issued a statement entitled "Japan and the ASEAN in East Asia—a Sincere and Open Partnership," explaining Japan's diplomatic policy toward East Asia, which was Japan's first policy statement toward Southeast Asia since the Fukuda doctrine in 1977. In the Fukuda doctrine, then Prime Minister Fukuda made it clear that Japan would cooperate in the development of Southeast Asia, under the ideal of equal partnership. While there was no change in the principle attached to Southeast Asia, the Koizumi doctrine stressed the ideal of "acting together and advancing together" as candid partners, and proposed the following points of cooperation: (1) undertaking reforms and increasing prosperity; (2) strengthening cooperation for the sake of stability; and (3) cooperation related to the future. Under "cooperation related to the future," he listed: (1) education and human resources development; (2) designation of 2003 as the "Year of Japan-ASEAN Exchange;" (3) the "Initiative for Japan-ASEAN Comprehensive Economic Partnership;" (4) a proposal to convene an "Initiative for Development in East Asia" meeting; and (5) intensification of Japan and ASEAN security cooperation, including "transnational issues." Of these, the "Initiative for Japan-ASEAN Comprehensive Economic Partnership," which includes an FTA, is designed to promote broad-based cooperation not only in trade but also investment, science and technology, and tourism, using the Japan-Singapore Economic Cooperation Agreement as a model.

Given the wording of the "Initiative for Japan-ASEAN Comprehensive Economic Partnership," Japan intended to focus on "broad-based cooperation" in order to avoid commitment on the agricultural issue. Some ASEAN members complained about this ambiguity, and whether the initiative includes free trade and agricultural products. By contrast, China announced it would cut tariffs on agricultural products ahead of the conclusion of the FTA

with the ASEAN, putting China at an advantage in the eyes of ASEAN members. However, Japan has a definite advantage in cooperating with the ASEAN in the fields of direct investment and science and technology. China has lately been increasing its investment in ASEAN countries, particularly Indonesia, but this is mostly to develop natural resources (energy and lumber) rather than the transfer of new industries or technologies. Japan's superiority in technological cooperation still remains unshaken, and an increase in Japanese investment is essential to strengthen the industrial competitiveness of these countries. With the economic slump in Japan lowering overseas investments, as well as imports, prompt structural reform is the most pressing task for Japan if it is to maintain its leadership in the region.

In a speech, Prime Minister Koizumi advocated a non-exclusionary "expanded East Asian community" that includes the ASEAN+3, Australia, and New Zealand in order to strengthen cooperation and enhance the prosperity of East Asia. However, it is obvious that China is reluctant to admit Australia and New Zealand into the proposed community. ASEAN members also seem opposed to the idea because it was not made clear how this group would differ from the Asian Pacific Economic Cooperation (APEC), a body in which they have lost confidence following the Asian crisis in 1997. If Japan pushes in haste for the admission of Australia and New Zealand, ASEAN's suspicions toward Japan's policy might grow.

"Securing stability" is designed to cope with the changes in the strategic environment since the end of the Cold War, and it is worthy of note that Japan has proposed a policy to cooperate on security issues in the region. Prime Minister Koizumi mentioned specific areas, such as Mindanao, the Philippines, and Aceh, Indonesia, and showed his willingness to cooperate in alleviating poverty and preventing conflicts. He also emphasized the necessity of strengthening mutual cooperation in dealing with transnational issues such as terrorism, piracy, and human trafficking. As a counterpoint to

this proposal, China also announced its willingness to cooperate with ASEAN in solving security issues within the framework of the ASEAN+3 at a series of ASEAN meetings at the end of July 2002. China appears to want to stick to the ASEAN+3 framework in implementing its Asian policies.

Using ASEAN as their stage, it appears that Japan and China are jockeying for a leadership role in East Asia, with the former seeking an expanded East Asian community that includes Australia and New Zealand, and the latter opposing the idea. The ASEAN has high hopes of developing China



Ceremony of signing the agreement between Japan and Singapore for a New-Age Economic Partnership (January 13, 2002, Singapore)

into an export market, but little beyond that. Even so, if their mutual dependence deepens through an increase in trade, the ASEAN may expect China's constructive engagement. Yet exports from ASEAN countries to Japan are not likely to increase, given the latter's slumping economy, but Japanese investment and technology are vital for reducing the economic disparity among ASEAN members, and to strengthen the competitiveness of their exports. ASEAN members need both Japan as a source of capital and technology and China as an export market, so their expectations for the development of the ASEAN+3 framework are high. It is necessary for Japan to cooperate with ASEAN members in investment, technology, and human resources development, as well as in promoting their stability and prosperity by providing technology and know-how to strengthen the capabilities of law-enforcement authorities and to help them deal with piracy and other non-traditional issues. Through such measures, Japan can match the growing influence of China in the region.

2. The Democratization Process, and the Obstacles It Faces

With the establishment of new governments in Indonesia, the Philippines, and Thailand in 2001, hopes for an economic recovery and further democratization ran high (see Chapter 2, *East Asian Strategic Review 2002*). However, some ASEAN members heavily populated by Muslims are having difficulty dealing with terrorists and Islamic extremist activities stimulated after the September 11 terrorist attacks in the United States. Further religious and ethnic conflicts and separatist movements have been posing threats to the governments. Therefore, little progress has been made in turning around their economies in a manner to fulfill the people's expectations. Although Thailand and Malaysia got on track for healthy recovery in 2002, due to an increase in exports, Indonesia, which has the largest population in the region, made little progress in reforming its banking system, and ethnic and religious conflicts still continue.

(1) Indonesia

In Indonesia, the government of President Megawati Soekarnoputri came to power in July 2001. President Megawati placed top priority on national unity, and changed the conciliatory policy, emphasizing dialogue with separatists, of her predecessor, President Abdurrahman Wahid, in favor of a hard-line stance against separatist and independence movements. To consolidate her power base, she strengthened her relationship with the military. Although she paid lip service to the importance of a dialogue with pro-independence factions, it was reported she proclaimed to the armed forces at the end of 2001 that she would allow them to use force and to ignore human rights if unavoidable when fighting separatists in Aceh and Irian Jaya. In fact, she enforced the Special Autonomy Law giving Aceh broad autonomy, and yet decided to restore the Aceh military district in January 2002 (officially estab-

lished on February 5, 2002) for the first time since 1985. Subsequently, the army made a swoop on the headquarters of Free Aceh Movement (GAM) in Pidie, killing Abudulla Syafii, GAM's top-ranking leader. Independence fighters and human rights groups strongly opposed the Megawati government. GAM called on workers to join a general strike, and decided to indefinitely suspend dialogue with the government.

The conflict with GAM had previously raged around 1998, after the collapse of the Suharto regime. Although the former government of President Wahid had signed a ceasefire agreement with the rebels, both sides once again plunged into military conflict, with approximately 1,400 people killed in 2001, and more than 100 during January 2002. In May 2002, the government and GAM agreed to have a comprehensive and democratic dialogue in Geneva. In the ensuing months, however, armed conflict between the military and GAM had intensified, and there was no sign of the conflict dying down.

In July 2002, the military recommended that President Megawati issue a state of emergency in Aceh, and the government designated GAM a terrorist organization, though this policy was opposed by Muslims and Islamic political parties. Keeping an eye on the next presidential election, President Megawati sought to avoid a backlash from the large number of Muslims in Indonesia, and postponed issuing the military's requested state of emergency in August 19. Instead, she declared that November 25 would mark the new deadline for peace negotiations, and her government would continue dialogue with GAM. As a result, GAM and the Indonesian government signed a peace agreement on December 9, raising the possibility of a peaceful solution to the conflict.

In a similar fashion, President Megawati outwardly seemed to favor a dialogue with leaders of the Irian Jaya independence movement while taking a hard-line policy on national unity. In November 2001, the Indonesian government enacted a Special Autonomy Law for Papua (as a result of this law, Irian Jaya was

renamed "Papua"), and sought to suppress the independence movement by allotting it a much larger share of income produced from natural resources development. However, Theys Hiyo Eluay, chairman of the Papua Council, was assassinated later that month, and the involvement of army special forces in his assassination raised the tension. When members of the special forces involved in the assassination were arrested, the situation seemed to calm down. In September 2002, it was rumored that the special forces had also killed two American schoolteachers and one Indonesian; but the truth remains unknown. Pro-independence members charge that they were killed by the armed forces to suppress its movement.

Muslim and Christian representatives agreed to amicably settle their religious conflicts in Poso, Southern Sulawesi and Ambon, Maluku in December 2001, and February 2002, respectively. However, Laskar Jihad, believed to be terrorists, were involved in these conflicts, and a terrorist bombing occurred even after the agreement, so more time is needed for the situation to stabilize.

Critics charge that President Megawati's hard-line policy opens the way for military domination, which runs counter to the democratization process. Since President Megawati did not issue an emergency declaration in Poso and Ambon, and failed to take effective measures to defuse the religious strife, critics cite this as proof of her lack of political savvy.

At a session of the People's Consultative Assembly (MPR) that began on August 1, 2002, President Megawati delivered a report summing up her administration's accomplishments, asserting that independence movements and religious and ethnic conflicts have been defused, and that the economy had begun to recover. Yet popular confidence in the president has declined due to her political horse trading, cozying up to the military, suppressing the separatist movements with hard-line measures, slower-than-expected economic recovery, and conciliatory approaches to Golkar, the party that was a dominant party of the former Suharto regime.

In recent sessions, the MPR focused on a constitutional amend-

ment, and has made several decisions designed to promote democratization. The main points the MPR addressed at its plenary sessions were the introduction of a direct election system for the president and vice president, the reorganization of the MPR and the House of People's Representatives (DPR), and the enactment of Islamic laws. On the question of the direct election system for the president and vice president, the Indonesian Democratic Party for Struggle (PDIP), which President Megawati heads, and the armed forces opposed it and wanted it postponed. However, it was decided to choose the president and vice president through direct elections starting in 2004, replacing the current system whereby the posts are chosen in the MPR. Presidential candidates are to announce their candidacy on the same ticket with their vice president. In case no candidate wins a majority in the first round, a runoff is held between the top two candidates.

Regarding the reorganization of the DPR and MPR, two key decisions were made. One was the abolition of appointive seats (38) reserved for the police and armed forces, and another was the establishment of the Regional Representative Council (DPD). Initially, in 2001, the MPR had decided to maintain the appointive seats until 2009, on the condition that the police and armed forces would not become politicized, but this was brought forward to 2004. With this step, depoliticization of the military was supposed to have made great strides forward. However, the fact that there are a large number of politicians originally from the military, and that President Megawati is cozying up to the military, could slow its depoliticization. Moreover, the lack of political savvy on the part of non-military politicians allowed the military to gain power. The commander of the armed forces is under the direct supervision of the president, putting him on par with a cabinet minister. It will take considerable time to establish the superiority of a civilian rule and professionalize the military, and it is therefore essential to strengthen the governing ability of civilian politicians.

The establishment of the DPD is designed to strengthen national

unity by reflecting the needs of local residents on central government policies. The DPD has the power to enact laws related to local autonomy, and the newly established DPD and the existing DPR make up the dual legislative body. Both are constituted by representatives elected by popular vote.

The MPR is made up of members of the DPD and the DPR, and has the power to amend the constitution. However, it has lost the power to elect the president and has retained only the power to appoint the president and vice-president. The MPR also has the power to dismiss the president, but this is subject to review by the Supreme Court.

Meanwhile, some Islamic radicals and small Islamic parties, such as the United Development Party led by the vice-president, Hamzah Haz, claimed that the corruption of politicians and the failure to observe Islamic law were the root of increasing poverty, the high crime rate and social confusion. They strongly urged parliament to insert in the constitution a provision mandating people to observe Islamic law, and staged demonstrations. However, a large number of MPR members and leading moderate Islamic groups, such as Nahdatul Ulama (NU) and Muhammadiyah, opposed this idea, and it was defeated, thus guaranteeing freedom of religion. Other MPR decisions included compulsory primary education, an allotment of 20 percent or more of the state budget for education, and respect and protection of regional languages.

Due to the MPR's recent decisions, democracy in Indonesia has made great progress, reflecting the rising demand for democratization. The question of amending the constitution will be discussed further by the Constitutional Amendment Committee in the coming months. Proponents of democracy had demanded that the Constitutional Amendment Committee be established according to the formula in Thailand, composed of representatives of the populous, the business community, and other civic groups; but it was finally established within the MPR. There are concerns about this committee, since it was President Megawati and the military, the

very ones opposed to the direct election of the president and the abolition of the appointive parliamentary seats, who called for it to be established. The fact is, they only agreed to it after much haggling, so any constitutional amendments recommended by the committee bear watching as President Megawati and the military may try to restore their political power in the process of amendment deliberation.

(2) Malaysia

In Malaysia, also, a milestone event occurred. At the annual convention of the biggest ruling party, United Malays National Organization (UMNO), in Kuala Lumpur on June 22, 2002, it was announced that Prime Minister Mahathir bin Mohamad would resign as chairman of the UMNO. Although the announcement did not specifically mention his resignation as prime minister, resigning as party chairman means stepping down as premier. This surprise announcement threw the convention into confusion, but at the insistence of party leaders, he withdrew his resignation. In July, however, Prime Minister Mahathir himself officially announced that he would resign both as chairman of the UMNO and as prime minister in October 2003. He also announced that he would not run in the next general election in September, and that he would yield the office of the chairmanship of the UMNO and the premiership to Deputy Prime Minister Dato'Seri Abdullah Haji Ahmad Badadwi.

It is conceivable that at 76, having been prime minister for more than 20 years, he wanted to yield power to the next generation. He previously announced his intention to resign, but missed the opportunity with the arrest of former Deputy Prime Minister Anwar Ibrahim, whom he regarded as his successor. The arrest touched off a wave of criticism over his autocratic rule, resulting in his loss of popular support to the largest opposition party, the Patri Islam SeMalaysia (PAS, Pan Islamic Party). Yet the September 11 terrorist attacks took away popular support from the PAS because it was

suspected of having ties with *Kumpulan Mujahidin Malaysia* (KMM), a terrorist group in Malaysia. This has swung popular and political support back to the UNMO. Perhaps these developments were behind Prime Minister Mahathir's decision to resign. From his earliest days at the helm, Prime Minister Mahathir has continuously pursued the *Bumiputra* policy to raise the status of Malaysians. However, with little improvement seen in the status of Malaysians, despite the *Bumiputra* policy, he stressed the necessity to review the education system. Having to admit to the failure of this policy was another factor behind his resignation. Even if he hands over power to Deputy Prime Minister Abdullah in October 2003, the new government's foreign and economic policies will basically remain the same. With the retirement of another charismatic leader from the ASEAN political stage its cohesiveness will be reduced.

(3) Myanmar

On May 6, 2002, Miss Aung San Suu Kyi, general secretary of the National League for Democracy (NLD), was released from house arrest after one year and seven months. In unconditionally releasing her, the State Peace and Development Council (SPDC) of the military junta allowed her to resume political activities. She has since expressed an interest in starting discussions with the military junta aimed at changing the military administration into a civilian rule. The government indicated its willingness to cooperate with the international community's fight against international terrorism and drug trafficking, and offered a pro-democratic gesture by releasing a large number of political prisoners even after her release.

Behind the government's slight shift to a pro-democratic line was pressure from the international community for its failure to transfer power to the NLD—despite its victory in the 1990 general election—and for having put Aung San Suu Kyi under house arrest. After its 1990 general election, the international community im-

posed economic sanctions against the military junta, devastating its economy and causing an acute shortage of foreign currency. Without foreign aid to reconstruct the economy, the government would lose its legitimacy. Aid from China is mostly military and has made little contribution to the improvement of common people's lives or to economic development. While other countries are cooperating in the fight against international terrorism, Myanmar, a major source of opium, may be designated a country aiding terrorism—unless it stops the outflow of opium. Against this background, a series of peace talks between the military junta and the NLD, brokered by U.N. special envoy Razali Ismail and Prime Minister Mahathir of Malaysia, have born fruit.

The West views the release of political prisoners as simply Myanmar's first step in a long journey toward democratization. When Prime Minister Mahathir visited Myanmar in August, he wanted to see General Secretary Suu Kyi, but his request was turned down, and the government expressed its displeasure at foreign pressure to democratize. Prime Minister Mahathir himself felt that excessive pressure on the military junta at this stage was counterproductive. The release of General Secretary Suu Kyi may or may not be a sign promising the smooth transfer of power to a civilian government.

3. ASEAN Ministerial Meeting—Adopting Measures to Strengthen the ASEAN Regional Forum (ARF)

Since July 29, 2002, a series of meetings have been held, beginning with an ASEAN Ministerial Meeting (AMM). As indicated by the Sultan of Brunei's opening address, antiterrorism cooperation dominated the meetings. Concerning antiterrorism cooperation, Indonesia, the Philippines, and Malaysia concluded an antiterrorism cooperation agreement in May 2002, and held workshops on the prevention of terrorism. Further, ASEAN and the United States signed an antiterrorism agreement at the AMM. Thus, re-

gional cooperation has been strengthened, antiterrorism—the centerpiece of security cooperation. Several other important agreements to strengthen ASEAN cooperation were also reached during the meetings.

At an ASEAN Ministerial Meeting on July 29, ASEAN reached the consensus to continue negotiation with China to conclude the “Declaration on the Conduct of Parties in the South China Sea,” which was drafted by ASEAN. This draft covers the peaceful settlement of territorial disputes, the prior notification of military exercises, and a ban on construction designed to expand any country’s sphere of influence in the region. Members of ASEAN were divided on the question of whether this declaration was binding or not. The draft drawn up by the Philippines was in favor of a binding declaration, whereas that by Malaysia was not. It is not clear which draft was proposed to China, but Malaysia’s looked the more likely to be. Calling for the early conclusion of the declaration, Malaysia also wanted the draft to cover only the Spratly Islands, but Vietnam maintained that the Paracel Islands should also be included. In the end, it was agreed not to specify the islands covered, but to use the term “the South China Sea” instead. Although it is the tendency of the ASEAN that what should serve as a precise international agreement tends to get watered down because of differences of interests among the members, this time the countries deserve credit for hammering out the draft as an expression of their collective will. China was initially noncommittal over accepting the draft, but at a subsequent ASEAN summit in November, it signed the Declaration on the Conduct of Parties in the South China Sea, based on Malaysia’s non-binding draft. However, it is worth noting that China, which had insisted on bilateral negotiations on territorial issues in the South China Sea, wound up accepting this multilateral one instead.

On economic cooperation, which is ASEAN’s most important concern, it was agreed to strengthen the integration of member economies and to promote closer relations with non-ASEAN coun-

tries. The necessity was stressed to accelerate tariff cuts in ASEAN in order to promote intra-ASEAN trade, to take further steps to close the economic disparity among members by providing assistance to new members, such as Vietnam, Laos, Cambodia and Myanmar, develop human resources and an infrastructure. It was agreed to promote a free trade with China and to develop a closer economic relationship with Japan.

At an ARF meeting on July 30, the strengthening of cooperation for preventing terrorism was agreed. It also stressed the need to deal with diverse transnational issues. The measures proposed by Brunei to strengthen the function of the ARF were unanimously adopted. The chairman's statement did not spell out the details, but the measures reportedly contain nine points. Among them are the participation of military leaders in ARF, and the assignment of the ASEAN secretariat to assist the ARF chairman—measures seen as major steps forward. Behind these measures are transnational issues that pose a imminent threat to ASEAN—as symbolized by the international war on terrorism—and ASEAN's regret at not having effectively dealt with the intra-regional problems such as East Timor.

Prior to these meetings, the Institute of Defence and Strategic Studies (IDSS) in Singapore drew up 12 concrete policy recommendations to strengthen the ARF. Based on the IDSS's proposal, Brunei, the chair at the ARF, introduced a proposal that is said to include major points from the IDSS.

Most of the items enumerated in Annex A of the ARF's concept paper—the promotion of a security dialogue, the exchange of a white paper on defense, the exchange of information and personnel between the National Defense Universities of member countries, and cooperation in search-and-rescue operations—are being carried out. However, since little progress has been made implementing the concrete measures enumerated in Annex B—the establishment of a regional security research center, building a database for maritime affairs, the formation of a cooperative area in the South

Reference

**The IDSS's 12 Policy Recommendations
to Strengthen the ARF**

1. The ARF should consider implementing measures that were outlined in Annex B of the 1995 Concept Paper.
2. A panel of the ARF Experts/Eminent Persons Group should undertake a review of the 1995 Concept Paper.
3. The ARF should encourage frank and constructive exchange of views, and not ignore contentious issues or "sweep them under the carpet."
4. The ARF should pursue a thematic and problem-oriented agenda.
5. The ARF should establish a Secretariat.
6. The ARF should introduce greater flexibility in the relationship between the ARF Chair and the ASEAN Chair.
7. The ARF should set up a Risk Reduction Center (RRC).
8. The ARF should build closer relationships with the United Nations.
9. The ARF should promote enhanced defense cooperation.
10. The ARF should develop closer networking with other regional institutions in the Asia Pacific.
11. The ARF should pay more attention to transnational security issues, especially terrorism. It should create a special task force on terrorism.
12. The ARF should strengthen links with Track-II forums.

Source: Tan See Seng, et al., *A New Agenda for the ASEAN Regional Forum*, IDSS Monograph No. 4, p.13

China Sea, studying measures to prevent disputes, the establishment of a center for reducing risks in the region—the IDSS proposal is contingent on implementing the items in Annex B. The main items recommended by IDSS are: (1) encouraging frank and constructive exchange of views; (2) a review of the 1995 Concept Paper by a panel of the ARF Experts Eminent Persons Group; (3) the pursuit of a thematic and problem-oriented agenda; (4) the establishment of an ARF secretariat; (5) the establishment of a Risk Reduction Center (RRC); and (6) paying more attention to security issues, and creating a special ARF task force. (For more information about the IDSS's 12-point proposal, see Reference: The IDSS's 12 Policy Recommendations to Strengthen the ARF.)

At that ARF meeting, participating countries completed registering with the panel of the ARF Experts Eminent Persons Group, and were supposed to discuss ways to effectively utilize the system.

Observers noted that the ARF had been activated by the issue of terrorism and had started to be aware of the importance of dealing with security. Following the adoption of measures to strengthen the ARF, and the progress in the integration of the region's economy, it was expected that ASEAN would move forward, strengthening the comprehensive cooperative relationships not only within ASEAN but also within the Asia-Pacific region. However, since the ARF's consensus formula—which is one of the principles of the ASEAN Way—remains unchanged, the functional effectiveness of the ARF is still in doubt.

At the Post Ministerial Conference (PMC), the importance of eliminating the root causes of terrorism—poverty and economic disparity—was stressed, and the seriousness of non-traditional threats, such as human and drug trafficking, piracy, environmental degradation, and epidemic diseases was emphasized, and multilateral cooperation to deal with these issues was strongly urged.

4. The Resumption of an Arms Race?

(1) Defense Spending

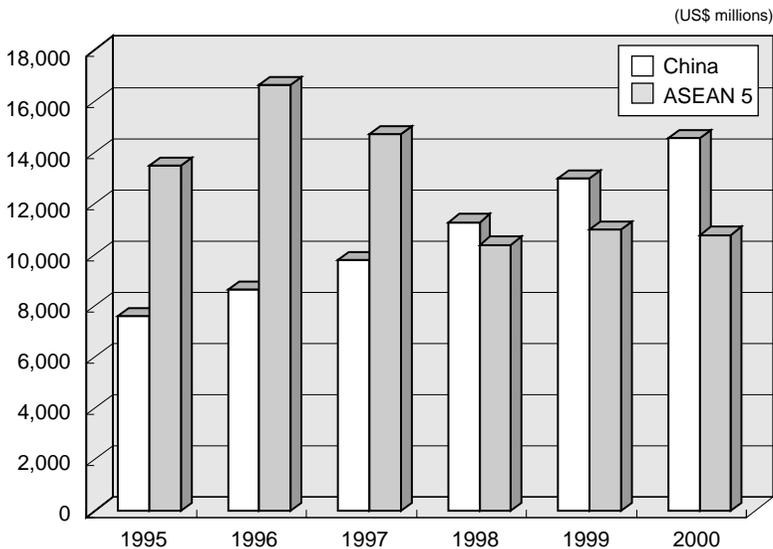
Along with economic recovery, ASEAN's defense budget started to increase, which once again raises the possibility of an arms race in the region.

In the wake of the Asian crisis, ASEAN members were compelled to cut their defense budgets drastically, with the result that military modernization, which had been fueled by rapid economic growth and a continuous foreign currency flow, tailed off. Meanwhile, China, free of the currency crisis fallout, has steadily increased defense spending of its own. As a result, fear has mounted since 1998 of China's overwhelming military power tipping the region's balance. Having to contend with the territorial disputes in the South China Sea, China's arms buildup has been a serious concern of the ASEAN. However, the military modernization of ASEAN members is not only designed to counter a possible threat

from China, but more importantly, to strengthen law enforcement capability as seen in Indonesia, and to cope with the security dilemmas that might occur between Singapore and Malaysia.

Until 1997, the total defense spending of five ASEAN members (Indonesia, Malaysia, the Philippines, Singapore, and Thailand) was larger than that of China. More specifically, the combined defense spending of these nations in 1996 had increased to an all-time high of \$16.6 billion, almost double that of China (\$8.7 billion). However, in 1998, their total defense spending decreased sharply, falling below that of China. In the ensuing years, the defense spending of these five nations has not recovered much, and the superiority of China's defense spending continued. However, defense spending figures officially publicized by the Chinese authorities are highly suspect. In the *Annual Report on the Military Power of the People's Republic of China*, issued in July 2002, the U.S. Department of Defense says that China's actual defense

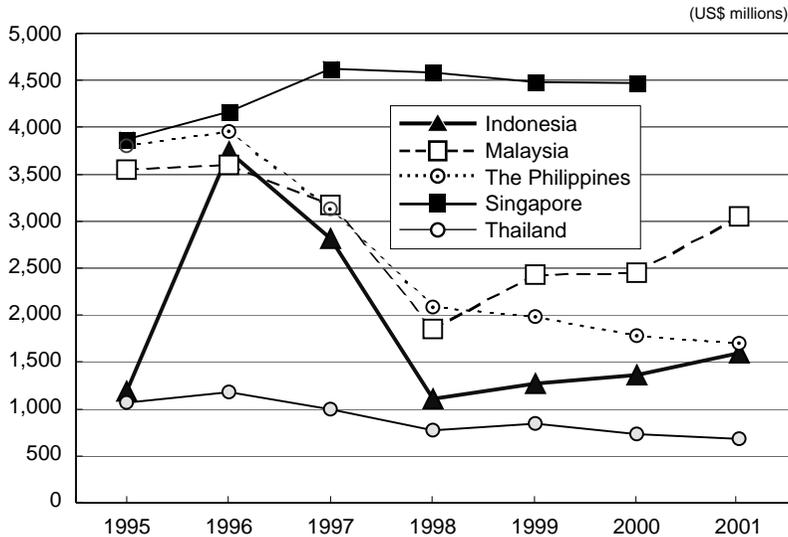
Chart 7-1. Defense Spending of ASEAN Countries and China



spending is three times higher than released by the Chinese government. If this is credible, China has spent more on defense than the combined total of the ASEAN five even before the Asian crisis.

Among the ASEAN five, Singapore and Thailand are the largest spenders, and defense spending of the ASEAN other than Singapore decreases steeply after the Asian crisis, particularly for Indonesia, Thailand, and Malaysia. Singapore's growth rate of defense expenditure has remained level off since 1997. The defense spending of Malaysia and Indonesia has recovered since 1998. Malaysia's defense expenditure reached \$3.1 billion in 2001, which is close to its highest level of \$3.6 billion in 1998. Malaysia's economic recovery began in mid-1998, earlier than other ASEAN members, and the government increased defense spending to make payments on previously signed contracts. Indonesia had to increase its defense spending, because of its need to cope with the political and social unrest resulting from the Asian crisis. Thailand's econo-

Chart 7-2. Defense Spending of ASEAN Countries



Note: Defense spending of Singapore in 2001 is not available.
 Source: ADB, *Key Indicators of Developing Asian and Pacific Countries 2002*.

my lagged behind others in recovering, yet in 2002 it began to pick up, raising the possibility of increasing its defense spending. The Philippines is handicapped by a chronic shortage of foreign reserve, and has no financial leeway to boost its defense spending. For the time being, it will have to rely on military assistance from the United States.

(2) An Increase in Arms Procurement

As the ASEAN economies gathered momentum, members have moved to increase their arms procurement since 2002. Preventing terrorism and controlling illegal immigrants and drug trafficking also seem to be the driving elements behind these moves. Particularly, the increase in arms procurement for the navy and air force is evident.

Since the United States has stopped supplying weapons to Indonesia since 1998, due to human rights abuses committed by Indonesian armed forces in East Timor, shortages of spare parts for its navy have become particularly acute, and the obsolescence of an increasing number of its vessels has worsened the situation. Only about 30 percent of Indonesia's 113 naval vessels and 30 percent of its military aircraft are believed to be in operating condition. As Indonesia consists of numerous islands, an obsolete navy hinders the maintenance of its national unity, makes it difficult to prevent the activities of terrorists and pirates, and undermines cooperation activities within the region. On top of this, reduction in its defense spending results in pay cuts for military personnel, hurting morale and causing some to involve themselves in illegal activities. The attack on a local police station by about 100 soldiers in northern Sumatra was triggered by the arrest of soldiers by police for allegedly selling drugs. The armed forces had sought an increase in the military budget on repeated occasions, but their request had not been granted. In fiscal 2003, an increase in the defense budget, including a 10 percent increase in military pay, was authorized. Due to the U.S. arms embargo and budgetary constraints, the

armed forces are considering buying weapons and spare parts from the Czech Republic and other Eastern European countries. It also plans to procure them from China, and in September, Defense Minister Matori Abdul Djalil of Indonesia reached a basic agreement with Defense Minister Chi Haotian of China, on the import of weapons from China.

In fact, Indonesia plans to purchase \$650 million worth of fighters and helicopters from Russia, and planned to procure 24 reconnaissance planes to strengthen its maritime patrol. Although former Indonesian President Wahid expressed discomfort over the purchase of four Swedish-made submarines by Singapore, Indonesia itself plans to purchase submarines. Meanwhile, Malaysia also plans to procure two French-made submarines in response to Singapore. In addition, it has earmarked \$2 billion for the purchase of helicopters, multipurpose fighters, and tanks. Singapore continues to procure military equipment, and in 2001 it purchased AH-64 attack helicopters, F-16 fighters, and European-made reconnaissance planes. In 2002, it planned to replace 50 A-4 attackers, and upgrade F-5 fighters. With no sign of increased defense spending, Thailand's purchase of military equipment is likely to be limited, but it is planning to buy additional F-16 fighters and upgrade its F-5 fighters. Thailand is likely to acquire a number of helicopters to monitor the flow of drugs across its borders, and is also keenly interested in purchasing submarines.

A *Scorpene*-class submarine purchased by Malaysia (Courtesy of DCN International)

Depending on its degree of economic recovery, the amount of arms procurement varied from one ASEAN member to another. Although Malaysia's procurement has recovered somewhat, the slow economic recovery has put the brakes on increases in the defense spending of other ASEAN members, with the exception of

Singapore. However, the military modernization of ASEAN members is not intended merely to deal with outside threats, but more importantly to sustain the arms procurement race among ASEAN member countries. In fact, there is no clear sign of any threat that justifies the acquisition of submarines and combat aircraft—terrorism can certainly not be used as a justification—so it might be difficult to say that these weapons were procured purely for practical reasons. One is left with the impression that they are partly designed to enhance the military's status and image. These nations, however, should improve the benefit programs for their military personnel and upgrade their code of ethics to stamp out illicit activities within the military.

RSS Conqueror of Singapore
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