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SOUTHEAST ASIAN AFFAIRS 1999

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FOREWORD

We are pleased to present the twenty-sixth issue of *Southeast Asian Affairs*, a comprehensive annual review of the political and economic trends and developments in Southeast Asia.

Designed to be easily readable yet in-depth, informative and analytical, the annual has come to be a standard reference for scholars, policy-makers, private sector executives, and journalists who seek to understand and keep up to date on the dynamics of Southeast Asian developments.

The regional economic crisis was the most important development of 1998, overshadowing everything else. Growth rates plummeted, and Indonesia, Thailand, and Malaysia experienced deep recessions. There was also significant political fall-out in Indonesia and Malaysia. Although signs of recovery appeared towards the end of 1998, it seemed to be patchy and hedged by uncertainties. And there is no early end in sight to the political uncertainty in Indonesia.

I take this opportunity to thank the authors who have contributed to this publication. While the Institute encourages the statement of all points of view in the publication, the authors alone are responsible for the facts and opinions expressed in their articles. Their contributions and interpretations do not necessarily reflect the views of the Institute.

Chia Siow Yue
Director
Institute of Southeast Asian Studies

May 1999

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INTRODUCTION

For the second year in a row, the economic crisis dominated the region. Growth rates dropped precipitously. Unemployment, social problems, and political unrest grew. By the end of 1998 there were tentative signs of economies stabilizing and some success in alleviating social problems. But some of the political fallout had not yet run its course.

Southeast Asian economies experienced drastic declines, including negative rates of growth of 15 per cent for Indonesia, 8 per cent for Thailand, and 7 per cent for Malaysia. Policies at the start of the year emphasized fiscal austerity and high interest rates, but these were gradually eased as deflation became the major problem. By year's end, most indicators suggested that the economies had bottomed. Currencies reached their lowest point against the U.S. dollar in January, but stabilized and even strengthened thereafter. The crisis left questions about managing external openness (particularly large international capital flows), governance (tackling "corruption, collusion, and nepotism"), and sources of growth (the importance of domestic demand and human investment compared to export-led growth).

Politically, ASEAN (the Association of Southeast Asian Nations) was also thrown off course by the crisis. While members initially worked together to address economic problems, co-operation faltered after President Soeharto was forced to resign in Indonesia, and Prime Minister Mahathir Mohamad sacked his deputy, Anwar Ibrahim, in Malaysia. Soeharto's ouster removed an ASEAN founding father. Anwar's sacking, internment, and black eye while in custody, led to unprecedented public criticisms from leaders in the Philippines, Indonesia and Thailand. This, along with a series of bilateral disputes (particularly between Malaysia and Singapore), gave the impression of an organization in disarray. ASEAN attempted to heal the wounds at its Annual Ministerial Meeting in July, and its Sixth Summit in December, but with only limited success.

The broader Asia-Pacific geopolitical environment remained relatively benign. With President Bill Clinton's visit to China, the U.S.-China relationship seemed to improve to a level not seen since 1989. But as the year progressed, disputes over Taiwan, theatre missile defence in Asia, and allegations of Chinese theft of American weapons secrets threatened to negate the gains. The situation in the Korean peninsula was uncertain as suspicions grew that Pyongyang might be cheating on the nuclear accord reached in 1994. South in Australia, threats by maverick politician, Pauline Hanson, to derail increasing integration with Asia, were resolved by her defeat in a general election.

Nowhere were developments more dramatic than in Indonesia. The crisis — aggravated by International Monetary Fund (IMF) policies — caused an escalation

of political violence, directed both at the government and ethnic Chinese. This culminated in large-scale riots, burning and destruction in Jakarta in May, in which over one thousand lives were lost. At this point, important figures in the military and Cabinet withdrew their support for President Soeharto, who after 32 years in office was forced to resign. Political violence and uncertainty continued under President B.J. Habibie. Communal and regional tensions strengthened. The economy remained in dire straits. However, a new era of political openness also came about, in which a discredited military assumed a lower profile. Habibie survived, against many expectations, setting the stage for new general elections in June 1999.

Malaysia was the other country that experienced major political upheaval, although the crisis played a less direct role than it did in Indonesia. At the beginning of the year, Malaysia appeared well able to cope. Economic problems affected the corporate sector more than the population at large, and political stability was frequently touted as one of the advantages the country had over its neighbours. But in September Prime Minister Mahathir Mohamad sacked his deputy, Anwar Ibrahim, from both government and the party, and defied economic orthodoxy by imposing capital controls. By the end of the month, Anwar had been detained under the Internal Security Act, charged with five counts of corruption (abuse of power), and another five of sodomy, and appeared in court with a black eye that attracted strong international criticism. These events unleashed a torrent of domestic protest, with thousands taking to the streets in defiance of a ban on all political rallies. Tough police action had dampened street protest by the year's end, but questions remained about long-term implications, and in particular whether Malaysia's traditionally acquiescent political culture had irrevocably changed.

Thailand, where all the region's troubles started in July 1997, began the year with some optimism that a newly-installed government led by Chuan Leekpai would be able to solve economic problems. Some even hoped that economic reforms mandated by the IMF might succeed in introducing better governance in both public and private sectors. That optimism faded as the economy went into a sharp recession. From the second quarter, the government's popularity began to fade, with intra-government conflicts and a series of corruption scandals adding to a growing gloom. The crisis did open up a debate about the need for more sustainable development policies, and the process of economic and political reform edged forward, supported by a strong civil society. Chuan's personal reputation for probity, his continuing popularity, and an ineffective opposition, prevented growing public unease translating into a threat to the government.

The Philippines, not long ago regarded as the sick man of ASEAN, continued to demonstrate economic and political resilience in the face of the crisis. President Fidel Ramos failed to get his anointed successor elected to office, but the smooth transfer of power following presidential elections in May ended his successful stewardship on a high note. His populist successor, President Joseph

Estrada, won the electoral contest by a landslide. Estrada's appointment of some Cabinet members with a tainted past, and early fumbles took the new administration off on a shaky start. But he gradually consolidated, holding to a steady course on economic reform, and keeping an influential civil society on his side.

The transitional economies of Vietnam, Laos, Cambodia and Myanmar were significantly, though indirectly, affected by the crisis, as investments and tourism from regional countries and trade with them plummeted. Their currencies came under pressure because of the depreciation of other regional currencies like the baht, the ringgit and the Singapore dollar against the U.S. dollar. Economic reform has not been reversed, even though there is little prospect of it accelerating to invigorate slumping growth rates. The economic slow-down in these countries, as well as the political turmoil in Indonesia, has served to increase the sense of vulnerability, and therefore caution, among the governments, though none faced the prospect of any immediate political upheaval.

In Cambodia, the political crisis arising from the events of July 1997 was finally ended through a Japanese-brokered deal. The subsequent elections in July 1998 were to lead to the formation of a coalition government dominated by a sole Prime Minister, Hun Sen. Thus, Cambodia returned to relative political stability. With the death of Pol Pot, the Khmer Rouge ceased to be a political force of any significance.

In Myanmar, the political impasse between Aung Sang Suu Kyi and the military continued, and there were more arrests of the opposition. There were also tense moments as Suu Kyi unsuccessfully attempted to leave Yangon to meet supporters in the countryside. The constitution drafting committee continued its work, but with no indication as to when the new constitution would be ready for adoption.

Southeast Asian Affairs 1999 addresses these issues from a regional perspective in four chapters in the first section of this volume. The rest of the volume includes ten country studies and seven articles with more in-depth analysis of important national issues.

Daljit Singh
John Funston
Editors
Southeast Asian Affairs 1999