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The Geopolitical Situation in East and Southeast Asia

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SOUTHEAST ASIA AFTER THE IRAQ WAR**

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About the Speaker

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THE GEOPOLITICAL SITUATION IN EAST AND SOUTHEAST ASIA AFTER THE IRAQ WAR

The general view of the world in the aftermath of the Iraq War is that the United States has emerged as the undisputed sole global superpower. The war in Iraq saw the United States overcoming stiff opposition at the United Nations, a serious split in the Atlantic alliance, and the anger of millions of people in the streets of major world cities to achieve its more cathartic than strategic goal of toppling Saddam Hussein. Now, a victorious America is threatening to penalize those who obstructed the war effort. Washington has also signalled that it has two other “rogue” states in its crosshairs: Iran and North Korea. The message is clear: if you’re not with us, you are against us — and you will pay a price.

The question is how all the huffing and puffing over weapons of mass destruction (WMD) and terrorism is actually affecting the geopolitics of East Asia. On one level, the US has become strategically more intrusive. “Small nations, particularly Muslim states, are under greatest pressure by the world order that is being created by the United States.....”; incoming Malaysian Prime Minister Abdullah Badawi told delegates at the UMNO Assembly in a June 17th speech. On a foreign policy level this means demands on allies, pressures on perceived foes: a loose bundle of carrots and sticks that is best exemplified by the North Korean nuclear crisis. It could well mean the future deployment of United States forces in places like the Philippines, helping to wage war on Muslim separatists. There are reports of requests to station forward supplies in Thailand, and, of course, the US military now has a foothold in Central Asia.

But on another plane, East Asia is somewhat insulated from the way the Middle East and Europe are buffeted by American power — and that insulation, more like a baffling effect is provided by China. China has astutely supported the United

States in its war on terror and carefully avoided a confrontation over its opposition to the war in Iraq. Thus, China has not drawn heat from Washington in this unsettling period. Not being so preoccupied with managing ties with the US has allowed China to focus on regional diplomacy and the consolidation of its economic power. The focus of this diplomacy in the realm of trade and investment has offered opportunities for other countries in the region to balance reliance on the US through increasing interaction with China. China, in other words, has acted as a surprising source of stability and certainty in a dangerous and uncertain world. At the same time, China has made great strides towards regional primacy — a development that will surely result in counter moves by other major powers.

North Korea

That dynamic should hold, but not if something goes wrong in North Korea. The biggest impact on the East Asian strategic equation has been the aftermath of the controversial “Axis of Evil” declared by President George W. Bush in 2001. This audacious posture prompted North Korea to declare, during talks with US officials in October 2002, that it aimed to possess a nuclear capability. More recently, Pyongyang has said it has enough plutonium to make half a dozen nuclear bombs and intelligence agencies around the world are scrambling to verify this threatening claim. Suddenly, security in Northeast Asia, which had looked remarkably stable in the wake of President Kim Dae Jung’s “Sunshine Policy” of engaging Pyongyang, has taken a lurch into the red zone. Pyongyang’s game of brinkmanship with Washington has undermined Seoul’s efforts to engage the North and raised the prospect of conflict on the Korean peninsula. The situation has put China in the awkward position of having to bring influence to bear on a sensitive regional security issue, and stoked conservative sentiment in Japan, reviving calls for the development of a first strike, possibly nuclear, capability. New legislation passing through the Japanese Diet will permit a significant improvement in strike capability for the Japanese Self Defence Force.

The challenge for East Asian powers for much of the past six months has been to coax North Korea out of its stated aim to join the nuclear club. Equally, for China, Japan and South Korea, there’s a real desire to persuade Washington to tackle the

issue using diplomacy rather than pre-emptive force; an option favoured by some conservative-hardliners in the Bush administration who want to see speedy regime change. So far, it is not clear whether progress has been made towards either of these goals. China hosted a round of talks between the US and North Korea in March that aimed to satisfy Pyongyang's desire for bilateral engagement, and which were dressed up as multilateral to satisfy Washington. The talks acted as a good confidence-building measure, but got nowhere. In July 2003, China's President Hu Jintao increased the pressure on Kim by sending an envoy with a letter to Pyongyang, suggesting that Beijing was fully engaged in finding a solution to the nuclear impasse.

As observers we are left wondering where on earth Kim Jong Il will lead us. With so little information available to the outside world, it's hard to read the Pyongyang regime. Some analysts speculate that Kim's nuclear brinkmanship is the product of a deluded and sheltered mind. Others give the reclusive Kim, who went in to hiding for more than a month during the US attack on Iraq, more credit. After all, this was a reviled regime that managed to persuade the world to feed its people, provide them with fuel and build two nuclear power stations. Reflecting on North Korea's strategy over the past decade, Deputy Secretary of State Richard Armitage told the Far Eastern Economic Review recently that "he didn't buy into the position that they've botched it from their point of view....They took a pair of deuces and turned them into a pretty strong hand if you play poker." [*FEER*, June 12 2003]

Some US observers are warning of the dangers of drifting towards war, but most seasoned Asian diplomats foresee a negotiated end to the standoff, one that will somehow allow Kim to survive and suit the interests of all the regional players. The longer-term implications of a conflict scenario on the Korean peninsula are serious. No Asian power wants to see a sudden end to the Stalinist regime in North Korea. South Korea lives in fear of a military provocation that could unleash a North Korean artillery barrage on Seoul. Neither is the South willing to bear the costs of sudden regime collapse and reunification. For China, an unstable and aggressive North Korea is an unwelcome distraction from Beijing's preoccupation with economic growth and consolidation. A sudden collapse of North Korea would also destroy the last truly client state Beijing can really hold sway over, cause an influx of refugees and bring a US military presence to its borders. Japan, meanwhile, worries about the long-term

security implications of a unified Korean peninsula with a vast standing army and newly forged nationalist pride in search of an avenue of expression. It is more likely that a unified Korea will be closer to China than to Japan, its traditional foe.

The Rise of China

Whichever way the Korean drama ends, the key geopolitical variable will be China, for the great force shaping East Asia in the first decade of the 21st century is the growth of China's economy and the re-emergence of China as a great power.

For China, the post-9/11 world leading up to the war in Iraq has been remarkably benign. Remember that China and the US were on the verge of a new Cold War with the forced landing of a US navy spy plane over Hainan Island in May 2001. With the war on terror underway, the US effectively changed tack and put the idea of a competitive relationship with China on hold. What this has allowed is the more or less uninterrupted pursuit of China's strategic goals in East Asia. What are these goals? The primary one is to emerge as a global economic powerhouse. The first step towards this goal is to foster closer economic unity and cooperation in East Asia.

As a result, SARS (Severe Acute Respiratory Syndrome) notwithstanding, much of East Asia is in the process of adapting to a new economic equation. One of the elements of it is: trade with China is growing apace at the expense of volumes of trade with traditional partners like the US and Europe. The International Monetary Fund (IMF) estimates that about 40% of total trade within non-Japan Asia is now intra-regional, and 40% of this increase in 2002 was accounted for by an increase in trade with China. We are also seeing the first signs of a Chinese outward investment strategy in the region. China is short of natural resources to fuel its energy needs, and is also becoming a net importer of food. Like Japan before it, China is using large, often state-linked enterprises, to make strategic investments in the wider region to secure a supply of energy and other strategic commodities. The priority for now is China's economic security, which explains why substantive investments have focused on the energy sector in places like Indonesia, Papua New Guinea and Australia.

As volumes of trade and investment grow, so too does China's economic leverage in the region. China has deployed trade diplomacy to good effect in recent

years in order to cement its influence. There is a Free Trade Agreement with ASEAN in the works, a China-backed foreign exchange swap arrangement to forestall a regional currency crisis, and plans for an Asian Bond, which China backs. On a more subtle level, China is deploying a little-known preferential tariff agreement under UN auspices, known as the 1974 Bangkok Agreement, to build a shadow version of APEC in the region. There is not much in the way of aid, but China is touting counter trade in countries like Indonesia as a way of making up for financing lost from more developed countries. Finally, China is allowing market forces to slowly internationalize the renminbi, with the eventual goal of making the Chinese currency a substitute for the dollar and the yen as a regional trade and reserve currency.

These developments, if unchecked or fatally interrupted, could see China emerge as the pre-eminent power in Asia, its market pulling along the region, its currency used increasingly to underwrite bond issues and investment financing, and its voice representing Asia in international trade fora. How does this affect our perception of China? Clearly the threat perception is still out there, although it is cast more in terms of commercial and economic context, not a military one for the time being. Confounding the strategic forecasts of a decade ago, which feared military adventurism, China is deploying its economic clout to grow influence in Asia and the world. Despite the continued build up of short-range missiles on the Chinese side, there has been no crisis in the Taiwan Straits in a decade. Nor has the confrontation over disputed claims in the South China Sea that preoccupied analysts in the mid 1990s materialized. One possible reason for the lack of any great show of military force is that while China's economy has grown, the military has fallen behind in terms of its technological prowess and strategic reach. Modernisation is underway, but could take decades to achieve. Indeed, China has decided to eliminate 500,000 members of the People's Liberation Army (PLA) — about 20 percent of its force. The plan would cut the size of the army over the next five years to about 1.85 million troops. The Chinese government spends up to \$60 billion a year on defense, comparable to Russian military expenditures. [*Washington Post*, June 11, 2003]

In the face of China's growing economic clout, the United States and Japan could see their economic influence diminish in the region. A weak dollar and a sluggish US domestic consumption are already helping this along. In addition, the

fallout from the war against terror and the war in Iraq has complicated US ties with some countries in the region — and could do so for some time to come. Malaysians are concerned that a cooler relationship with Washington will erode the 30% share of trade and investment that originates from the US. Indonesia is feeling the effects of a strained relationship with the US that dried up financing from the US-Exim bank and denied access to military training and resources. Thailand's once close strategic and economic ties with Washington have been eroding since the Asian Financial Crisis in 1997. South Korea, which plays host to a critical American military presence, has seen the rise of anti-US sentiment and persuaded Washington to reconsider the deployment of forces. Only Singapore and the Philippines stand out as stalwart American allies and both have been rewarded. Meanwhile, a US foreign policy that lays stress on helping friends and allies and shunning critics, contrasts greatly with the global free trader image embracing all of Asia in the early 1990s under the APEC framework.

The Eclipse of Japan

Japan's economy is mired in a financial funk mostly of its own making. There is clearly an awareness of the way China is embracing East Asia using strong economic growth, investment and market access, yet Japan is too weak to counter with its own free trade and investment strategies. Sensible policy prescriptions to clear up the mountain of bad debt and steer the economy back to growth exist, but the principal problem is one of political will. Moreover, the parts of the Japanese economy that still function, the hi-tech and auto manufacturing sectors, are increasingly being sucked into China's orbit. By 2004, China is expected to be producing over one million automobiles — that is 2% of the world's total production [Fusion Consulting, Press Release. Singapore 27 June 2003]. Interestingly, East Asia's exports to Japan have shrunk from 20% of the total in 1980 to 12% in 2000, according to a World Bank study. The Allocation of Japanese Bank Lending to East Asia declined from 59% in 1990 to 33% in 2000. [*Can East Asia Compete: Innovation for Global Markets*, Shaid Yusuf and Simon J. Evenett, World Bank 2003] Quite apart from dealing with its own internal economic problems, Japan is deeply concerned about China's lengthening shadow.

Of course, there are caveats to this long-term scenario of China's growing influence in East Asia. SARS is a reminder to us all that China's growth trajectory is vulnerable. In addition to the havoc created by this vicious infectious disease, we must remember that China's banking system is mired in non-performing debt — perhaps as much as 50% of total loans. Reform of the creaky state sector is slow and the government is spending huge sums on infrastructure and services that is building up a sizable debt burden. Many analysts are predicting that China's economy will have to work harder to sustain growth rates in excess of 8%. There are also question marks over long-term political and social stability.

Also, the new equation of US power in the world cannot be totally ignored. The crisis on the Korean peninsula and Washington's quiet strategic embrace of India, the other 800lb gorilla on the block, could well effect a gradual containment of China. The world is forever waiting for India to emerge from its chrysalis. Yet economic growth is catching up with China — India's being underreported, China's over reported. And there are distinct signs of a thaw in the potentially destabilizing India-Pakistan relationship. More significantly, India and the US are drawing closer, which some observers see as a prelude to a China containment strategy. One caveat: India is unlikely to feel comfortable nestled too deep in the American bosom. The government's decision not to send Indian troops to Iraq was a popular one. There are economic reasons also, given the economic attractions of a booming China for its IT sector. Under new immigration rules, Indian nationals will find it harder to work in the US while companies like Wypro and Infosys are building research centres in China.

More significantly, the June visit by Indian Prime Minister Atal Bihari Vajpayee to Beijing marked a warming of Sino-Indian relations, which could significantly alter the strategic picture. "Mr Vajpayee and his advisers have understood that a full normalisation of relations with either Pakistan or China would result in a dramatic restructuring of the national security environment and release India's energies for a larger role in the region and beyond," wrote C. Raja Mohan, strategic affairs editor of *The Hindu* in his newspaper. [*Straits Time*, June 28, 2003]

Closer to China there are signs that the US is making efforts to hook back into the regional economy and that American economic diplomacy is warming up after a

long interruption in the wake of September 11 2001. The signing in Washington of the first Free Trade Agreement in the region, with Singapore was a clear example of the new US policy of “working with friends.” Singapore’s Prime Minister Goh Chok Tong called the landmark deal a “trans-pacific bridge between the US and East Asia.” US officials say they are keen to conclude FTAs with Thailand and Malaysia as well, in a move that signals US concern about the ground that China has taken in the region.

The Impact of Sars

This brings us to the legacy of SARS. In my view, the economic effects of SARS will be short-lived. Growth has bounced back and the travel industry and service sector, which took the biggest hit, have almost fully recovered. Many observers saw the SARS outbreak as a pivotal event for the region — much like the 1997 Asian Economic Crisis. Before 1997, Asia was the darling of foreign investors, the region was awash with capital and enjoying the fruits of a liberal bonanza. After 1997, the political climate froze somewhat, economic liberalization slowed down, and the role of the state in trade and economic policy returned with a vengeance. Many economies fell back on domestic consumption to fuel economic growth instead of foreign direct investment.

The effect of SARS is a little more complex. Clearly China’s boom has been briefly interrupted — but only briefly. Forecasts based on the rapid rebound of exports now suggest the impact on a growth will be less than anticipated. Look for long-term social and political fallout instead. We could see a more assertive labour force, emboldened by coping with government mismanagement of the SARS outbreak, leading to more frequent incidents of unrest. This in turn could speed up political change — the new leadership of Hu Jintao and Wen Jiabao has already signalled a desire to be more responsive to popular needs. Spending on welfare will increase, imposing a new strain on the budget.

On the plus side of the equation, Southeast Asian leaders are trumpeting a new and more equal relationship with China. Prime Minister Wen Jiabao came to the SARS summit in Bangkok in a spirit of candour and responsibility; he told his fellow Asian leaders that China had learnt a lesson from the way it had mismanaged the

initial outbreak of SARS, endangering the world with a lethal infectious disease. The long term consequences of this humbling of China's new leadership in the eyes of his Asian peers, could well be significant — moderating the tone, but ultimately strengthening the framework of China's relations with the rest of Asia. There is also a mild degree of optimism in Southeast Asia that SARS will encourage investors to diversify and not put all their eggs in the China basket.

On balance, the plus side of this equation outweighs the negative, in my view. Tragic as it has been, the SARS outbreak will help prod China towards domestic reform and a constructive role in the global economy. The popular protests on the streets of Hong Kong are in some sense a by-product of SARS. It took a public health crisis to stir up strong feelings of communal interest and solidarity. The ineptness of the Hong Kong government under the leadership of Tung Chee Wah ensured that public dissatisfaction with the poor handling of SARS was quickly focused on the threat to freedom posed by the proposed National Security legislation. The Hong Kong protests have put democracy firmly on the political agenda and posed a serious challenge to the new leadership in Beijing.

Taiwan

Next year is a year of elections in East Asia, and none will be more closely watched than in Taiwan. President Chen Shui-bian will almost certainly run for re-election against K.M.T. chairman Lien Chan and People First Party leader James Soong. It is a tough electoral battle that could well unsettle the cross-straits calm that has reigned for the past few years. This is because to win these elections Chen's Democratic Progressive Party needs to cater to pro-independence sentiments that appeal to the 30-40% of the country's 12 million voters who voted for Chen in 2000. The more Chen whips up sentiment against mainland China, the less likely there will be progress towards establishing the direct links with the mainland that many in the business community believe Taiwan needs to sustain growth and transform the economy. Economic growth is stable at around 3%, but there are worries that Taiwan is losing its competitive edge to the mainland. Foreign investors are leaving, and domestic investment is focused on the US\$100 billion that Taiwanese have invested on the mainland. About half a million Taiwanese now live in mainland China, and almost

one third of people seeking work expressed a desire in a recent survey to move across the strait. Whilst Chen, in a recent interview with the *Far Eastern Economic Review*, called the slow progress on direct links “an inconvenience” and the concern of only a “minority”, there is little doubt that the costs of indirect links and the threat of a conflict in the Taiwan Strait does little to inspire confidence in Taiwan’s economic future.

However, for all of the government’s attempts to provoke China and resist economic integration with the mainland, in the short to medium-term it is in neither Beijing nor Washington’s interest to escalate tension over Taiwan. Despite conservative sentiment demanding a more proactive defence of Taiwan’s sovereignty, the US needs a healthy relationship with Beijing to help contain and defuse North Korea. Beijing for its part needs a benign, constructive regional image to keep foreign investment on track. In the longer term, however, Taiwan could still act as a trip wire. For the US, the issue of Taiwan’s sovereignty is an effective way to exert leverage over China, and an invaluable part of any containment strategy, for the leadership in Beijing lives in fear of a reversal of Washington’s one China policy.

About the Speaker

Chin Kin Wah obtained his B.Sc. (Econ) and Ph.D. in International Relations from the London School of Economics and Political Science. He is a Senior Fellow in the Regional Strategic and Political Studies Programme at the Institute of Southeast Asian Studies. Prior to this he was an Associate Professor in Political Science at the National University of Singapore. Dr Chin has held visiting appointments at the Harvard-Yenching Institute, the London School of Economics (at the Centre for International Studies and the Asia Research Centre), and the University of Toronto. From 1992 to 1996 he served as a resource member for the Government Parliamentary Committee for Defence and Foreign Affairs, Singapore. He has been a member of the Singapore National Committee for CSCAP (Council for Security Cooperation in the Asia Pacific) and is a member of the International Institute for Strategic Studies, London.

THE GEOPOLITICAL SITUATION IN SOUTHEAST ASIA AFTER THE IRAQ WAR

What kind of geo-strategic environment does Southeast Asia face in the aftermath of the Iraq war? What major geopolitical influences define the strategic environment and what are the dangers and/or opportunities that regional states have to reckon with? There are six major geo-strategic trends that regional states are confronted with in the post Iraq war era:

1. Primacy of the United States

The most significant fact of geo-strategic life today is the primacy of the United States. The manner, instruments and speed with which it pursued the war in Iraq resulting in the rapid dismantling of Saddam Hussein's regime are stark reminders to regional states and to other major powers, of the awesome technological might of the US. American determination to pursue the war without UN authorization and with a limited coalition of the willing, suggests that where its security interests are perceived as being threatened it will determine its own course of action (read "unilateralism") whatever the restraining voices even from friends and allies (witness the resultant strains in NATO's intra-mural relations). To be sure the US will increasingly feel the need for a truly international, UN sanctioned approach to peace building in Iraq as both the financial costs (officially estimated at US\$3.9 billion a month) and loss of human lives (since early May 2003 the number of US troops killed in Iraq had already exceeded the totalling the peak of the war) of being an occupying power escalates. But to an ascendant neo-conservative policy making elite in Washington, there remains a strong temptation to read in the war an affirmation of the utility of political assertiveness and value in the use of military force. Here the national catharsis and

subsequent patriotism which 9/11 triggered have defined a critical moment in America's national security perspectives and makes for a more ready domestic acceptance of the administration's attempts (among other justifications including the barbarity of Saddam Hussein's regime and its alleged possession of weapons of mass destruction) to conflate the war against Saddam Hussein with the war against international terrorism. It widened domestic acceptability of the notions of regime change and pre-emptive war no matter how controversial they might have been externally. And it underlay the popularity of George W. Bush's handling of Iraq in domestic opinion polls. Post Iraq war revelations of hyped-up intelligence of Saddam's weapons of mass destruction as justification for war, May not hurt president Bush as much as it has hurt Prime Minister Tony Blair. Indeed regional governments will probably have to live with the prospect a second George W. Bush administration come 2004 if the American economy does not go into steep decline with a corresponding rise in unemployment and Iraq does not turn out to be an unbearable quagmire for the occupying power.

2. Repositioning of the other major powers

The United States today not only enjoys strategic primacy but also stable relations with all the other major powers, which in their own ways are having to adjust to the "king of the jungle". The challenge of adjustment (or the accommodation among powers) weighs heavily with an ascendant China, which has had its run-ins with the US in the early days of the George W. Bush administration. Arms sales to Taiwan, cross Taiwan straits tensions, differences over human rights, the collision of a US reconnaissance plane with a Chinese jet fighter over the South China Sea, — had variously sparked nervous tensions within Southeast Asia. It was 9/11 however, which provided China an opportunity to reset relations with the United States in a more positive and cooperative direction. The threat of international terrorism (though felt with much lesser intensity within China) was turned into a point of converging security interests between Beijing and Washington. Indeed after 9/11 the old "China threat" refrain practically vanished from American foreign policy rhetoric – although economic differences especially over trade issues may emerge as troubling elements in Washington's relations with Beijing.

China for its part saw good tactical sense in avoiding external complications to its impending entry into the WTO and domestic leadership transition. Awareness that America's global security preoccupation after 9/11 had shifted away from the so-called "China threat" also made for an easier adjustment. Their heightened concerns with international terrorism were reflected in intelligence sharing. There was cautious Chinese support for American military action in a third country (i.e. Afghanistan) and muted acceptance of a new American presence in central Asia as well as the re-emergence of a limited American military profile in the Philippines. The US in turn sought to restrain Taiwan's independence rhetoric, refrained from opposing China's bid for the 2008 Olympics and in concession to China's security interests added the Eastern Turkistan Islamic Movement in Xinjiang to its list of terrorist organizations. China reciprocated by tightening controls on dual-use missile technology export and further regulated exports of dual-use chemical and biological materials. Former Chinese President Jiang Zemin's visit to the United States in October 2002 and his being the first Asian leader to be received at President George W. Bush's Texas ranch at Crawford marked a high point in warming Sino-American relations.

Chinese leaders were nevertheless careful to emphasize to the US, the importance not only of restraint in the use of force but also for a multilateral approach in the war against terrorism. China was also reluctant to openly back the American-led war against Iraq although it did not oppose it. In a sense the American "pre-emption" of the UN Security Council in pursuit of war with Iraq spared China from having to make an open and invidious choice between publicly opposing the war and maintaining good relations with the US despite George W. Bush's "for us or against us" rhetoric.

The Iraq war has been a sobering reminder to China of the immense gap in military prowess between itself and the sole remaining superpower. It is unlikely that the gap will be significantly narrowed in the foreseeable future. Nor does China wish to engage in a conventional arms race with the US although a progressive build-up of Chinese naval power and ballistic missile capability could be expected. But the impact will be felt most of all by China's neighbours and regional states. More significantly China will seek to narrow the strategic advantage of the US by investing in what some strategic analysts call "asymmetrical warfare" capabilities such as in

electronic warfare and human intelligence. But in the short run China has benefited from improved relations with the US and acquired breathing space to consolidate on both diplomatic and economic confidence building with ASEAN. Despite its economic rise much less has been said openly of the China threat although China is increasingly factored into a competitive economic dynamic with the region and with Japan.

The rise of China contrasts quite sharply in the popular mind to the perceived decline of Japan and its loss of diplomatic profile in the region. Its confidence seems to have been eroded by persisting recession at home and failure to effect deep economic and financial reforms. Yet such apparent “stasis” belies its very sizeable economic stakes in the region. Japan’s economy is the second largest after the US, almost five times larger than China’s and eight times larger than all ASEAN economies combined. Japan is currently ASEAN’s largest source of imports and second-largest export market while constituting one of the largest sources of foreign direct investments to the ASEAN region. The lengthening shadow of China but more seriously, the great uncertainty and danger posed by North Korea has enhanced the value to Japan of its military alliance with the US. Indeed in the wake of 9/11 and the Iraq war Japan has sought to give meaning to its role as a supportive ally. More with North Korea in mind, the Japanese defence establishment has even found appeal in the concept of pre-emptive war.

Under the hurriedly passed Anti-Terrorism Special Measures Act which came into effect the previous November, Japan provided unprecedented rear-guard assistance by deploying 3 destroyers and 2 naval supply ships to the Indian Ocean to support allied forces engaged in combat in Afghanistan. As the Iraq war approached Tokyo further signalled support by dispatching an advanced Aegis-class destroyer to replace one of its three destroyers in the Indian Ocean.

Despite deep suspicions of the strengthening US-Japan alliance, China has underplayed its public responses although with reference to the Japanese naval deployment its Foreign Ministry hoped that Japan would “strictly abide by its exclusively defensive defence policy...and exercise prudence over these matters.” (*Straits Times*, 6 December 2002). The post-Iraq war strategic environment is witnessing a further stretching of the constraints imposed by a post World War II

peace constitution. Most recently Japan's Lower House of Parliament, despite domestic unpopularity encountered passed a bill to send troops to Iraq (where military operations are still under way even though the war is declared over) to assist in reconstruction efforts. Japan is also reported to be planning to build two small aircraft carriers — which will be the first of such acquisitions in more than 60 years. A missile defence system may not be too far away. Such developments against the uncertainties of the Korean peninsula and possibly too, the rise of China could well suggest a nascent competitive dynamic, which will have long-term strategic implications for the region. In this respect keeping a benign power such as the US, strategically engaged in the region continues to be an important long-term balance-of-power consideration despite a growing tendency in Japan not to take its alliance with the US for granted.

Since the end of the Cold War, Russia's profile in the region has been much diminished despite its attainment of dialogue partnership with ASEAN and membership in the ASEAN Regional Forum (ARF). However the post-9/11 climate of improving external power relations, owed as much to Russia's attempts to work cooperatively with the US and NATO while strengthening links with China. In the immediate aftermath of 9/11 President Putin sought to reset the framework of cooperation with the US. As Russia and the US found common cause in their respective wars against terrorism and with Russian interest changing towards a new positive relationship with an expanded NATO, they were able to sideline the hitherto contentious issue of national and theatre missile defence systems to focus instead on nuclear force reductions and their so-called new strategic relationship.

Unlike China, Russia has strongly criticised America's war against Iraq. Having to cope with a hegemonic America in a unipolar world points to the usefulness of a closer Sino-Russian strategic and economic partnership as reflected in Putin's visit to China in December 2002 on the heels of China's leadership transition. In their joint declaration, both veto wielding members of the UN Security Council reiterated that the Iraq question could only be resolved through political-diplomatic means, as well as in keeping to UN Security Council resolutions. As the major powers adjust to American hegemony in a post Iraq war phase, regional states will be reminded that Russia too is a factor not to be dismissed.

But the lack of strong fundamentals in Russia's economic relations with the region hampers a broadening of linkages with ASEAN and even with a traditional friend like Vietnam. Financial constraints have forced Russia to announce that it would relinquish in 2004, its lease of the previously American-developed Cam Ranh Bay naval base — the most visible symbol of Moscow's strategic presence in the region during the Cold War. It's economic influence pales in comparison with the growing importance of China to the emerging economies of mainland Southeast Asia including Myanmar. The more tangible manifestations of its commercial presence has been in the realm of big-ticket item arms sales on a counter-trade basis (Mig-29s, Sukhoi-30s) providing an alternative avenue to some regional states (Malaysia, Indonesia, even Myanmar) which for various reasons have chosen not to or are precluded from buying American.

In the post Iraq war era India sought to deepen its strategic footprint in Southeast Asia. It has been moving closer towards security cooperation with the US on the back of the anti-terrorism campaign while at the same time demonstrating a capacity to project naval power beyond the Indian Ocean to the outer limits of the South China Sea (which bears the clear “strategic footprint” of China) and within the strategic environment of ASEAN. In April 2002 India began deploying its navy to escort commercial shipping carrying “high value cargo” through the Straits of Malacca, to US forces operating in the Arabian Sea and Persian Gulf. The following month it conducted joint exercises with the US involving Indian paratroopers and Special Forces from the US Pacific Command. On the economic front, not to be out-paced by China, New Delhi has come forward with offers of a free trade agreement with ASEAN and cooperation to counter international terrorism. Indeed at the 2002 ASEAN Summit in Phnom Penh, India for the first time made its presence felt at the highest level of participation as a dialogue partner.

3. Defining diplomatic/strategic space

The foregoing snap-shot of major power re-positioning after the Iraq war suggests that in the face of American hegemonic power and the perceived prevalence of American unilateralism, the lesser powers have sought elbow room for manoeuvre where they can and strengthened strategic partnerships with the US where they must. One

outcome of the accommodation process has been a general improvement in relations among all the major players despite underlying competitive dynamics. For the Southeast Asian region where external power rivalries and conflicts in the past had either fuelled or exacerbated intra-regional conflicts, this is a positive development. Stable Sino-American relations helps underpin the wider stability in ASEAN's strategic environment and makes it possible for regional states with interest in good relations with both external powers to avoid having to make invidious choices. Recent improvements in Sino-Indian relations and Indo-Pakistan relations make India a more constructive (or less Pakistan-obsessed) security partner in the eyes of ASEAN and facilitate multilateral security cooperation in the area of counter-terrorism. Whatever might be said about the American unilateralist impulse a hopeful development for East Asia, as a whole has been that the US continues to appreciate the utility of a multilateral approach that includes a crucial Chinese role, towards resolving the security challenges posed by North Korea – a vexing factor in the equation of stability in North East Asia with security ramifications across the whole of the Asia-Pacific.

4. An incipient geo-economic competition

ASEAN has been courted by offers of free trade pacts and new economic partnership agreements by China, Japan, the US, Australia, New Zealand, South Korea and most recently India. Such overtures come at a time when multilateral efforts to negotiate free trade through the WTO are running into heavy weather. They suggest recognition of the latent economic opportunities in ASEAN and its continued relevance to others. Within East Asia, China has caught the limelight with its much-publicised FTA offer to ASEAN. Such efforts may among other things, have an economic confidence-building agenda considering the underlying regional sense of economic threat (in terms of its economic competitiveness and capacity to divert investments away from ASEAN) from a rising China.

On the political front China's security confidence building with ASEAN was advanced by the signing at the Phnom Penh summit of the Declaration on the Conduct of Parties in the South China Sea pledging self-restraint. Though not a binding code of conduct the declaration symbolised at least a political desire to avoid activities that

could escalate tensions in areas such as the Spratlys where sovereignty is disputed. China and ASEAN agreed that such disputes would be resolved peacefully.

While SARS and the prospect of its future occurrences overhang both the region and China as reminders of lurking threats to the tourism-related industry, economic growth and foreign investments, China's economic rise (with annual growth rates of 7 per cent) and natural economic integration with the region are prompting other external powers to strive for a part of the action in a growing East Asian region. Incidentally, China has also managed to adroitly turn the SARS crisis into an opportunity to strengthen cooperation with ASEAN (as reflected in Prime Minister Wen Jiabo's attendance at the SARS summit in Bangkok and his almost contrite admission of early mismanagement of the outbreak in China with consequences on Southeast Asia). One may look at the proliferation of FTA offers in "soft balancing" terms among the external players but the effects on the region would be beneficial.

5. The spectre of international terrorism

Since 9/11 the spectre of terrorism has gained much attention as a global concern and as a non-state actor driven security threat. Nowadays the terrorism threat overhangs most regional security discourses and definitely so in discussions of security cooperation between the US and the region. Indeed as Assistant Secretary of State for East Asian and Pacific Affairs James Kelly once put it, "there is no question [that] as with all dialogues nowadays with the American government...global efforts against terrorism [are] certain to be front and centre in the topics [to be discussed]" (*Straits Times*, 30 November 2001). For Southeast Asia, the awakening moment was the Bali bombings in October 2002, which marked a conjunction between global destabilization generated by a trans-national terrorist movement such as the Al Qaeda and local insecurity stemming from the activities of regional Islamic extremists. The threat of terrorism also sharpens attention on a broad spectrum of related trans-national, non-conventional security threats such as money laundering, arms trafficking, sea piracy, illegal movement of peoples across national borders, and threat of disruption to shipping and maritime trade — challenges that regional states are

increasingly under pressure to address as part of a comprehensive war against terrorism.

6. Resurgence of political Islam

While not all regional governments necessarily share the same domestic concern with Muslim militancy or radicalism (not all of which manifested in terrorism) the challenge of resurgent political Islam and the intensified religiosity among Muslim populations in the region will have to be reckoned with particularly in the political calculus of Muslim-dominant multi-ethnic states. And while the vast majority of Muslim populations in the region are overwhelmingly moderate, globalisation has sharpened their sensitivities towards and awareness of discontents in the Muslim world and resentments of America. It is the work of the extremist few that wreck the most destructiveness. While regional states have voiced condemnation of terrorism not all are supportive of the war against Saddam Hussein. Regional states differ in their handling of Islamic militancy, which may manifest itself in political and social opposition though not necessarily terrorism — a distinction that was lost in Bush's "with us or against us" rhetoric. Those (such as Indonesia, Brunei and Malaysia) with sizable Muslim constituencies have sought to balance their condemnations of and response to terrorism in all its forms, with circumspection in their support for any American-led war against the Al Qaeda and subsequently, Iraq — lest they came across to their domestic Muslim publics as being embroiled in a "crusade" against the Islamic world. Even those such as Singapore, the Philippines and Thailand which have more evident defence ties with the US were not unmindful of possible Muslim-non Muslim fault lines within their respective societies and the strains that could be exerted on these fault lines by a prolonged war followed by a prolonged US occupation of Iraq. In the event the war was swift but the post war occupation remains uncertain and if prolonged will fuel resentment and a sense of humiliation in the Islamic world. America's determination to rely primarily on military means to fight terrorism rather than address the conditions that nurture it also caused unease among regional governments.

Implications for the region

1. Continuing improvement in relations among the major powers has contributed positively to ASEAN's external security environment. Moreover there are no disruptive conflicts or disputes between the region and the major external powers. One hopeful development has been that extra-regional powers have not written off ASEAN as a collaborative region for mutual economic gains. Overtures of free trade agreements by China, Japan, the US and India are reflective of a new dynamic on the geo-economic plane. They open up new opportunities for ASEAN in search of growth and economic security. More importantly they underline for ASEAN the importance of enhancing regional integration and competitiveness if it were to ride on such opportunities. The need to deepen economic integration led Singapore's Prime Minister Goh Chok Tong to spell out a vision at the 2002 ASEAN summit, of transforming the regional association into an ASEAN Economic Community (AEC) by 2020 — by which time ASEAN would be a single market with zero tariffs and free movement of goods and services.
2. Regional integration also calls for a closing of the gap between the developed and developing states of ASEAN. For Myanmar, Laos, Cambodia and Vietnam — the less developed new members of the association — their development priorities may be quite different and distinct from the others. The Initiative for ASEAN Integration (IAI) Work Plan adopted by the ASEAN leaders in 2000 was intended to address the needs of the new members to help them integrate and keep up with the more developed members. This said, internal developments in the new members and especially Myanmar have a significant bearing on the image of the regional association as a whole. More and more the internal political stasis and repression in Myanmar are turning it into a regional liability and has led to attempts within ASEAN itself to nudge Yangon towards softening its treatment of Aung San Suu Kyi. In the process the whole question of non-intervention in the so-called ASEAN way is again being revisited.
3. On the political side a proposal being suggested by Indonesia to turn ASEAN into a security community by 2020 to complement the economic community is indicative of an on-going search for underpinnings to regional resilience and recovery of regional credibility. While the modalities, framework and roadmap towards such an objective are open to debate such a proposal at least suggests that regional states should re-examine long held ways of political cooperation — based on narrowly defined state sovereignty and principles of non-intervention — which may not be conducive to conflict resolution or addressing the new generation of trans-national security threats or problems generated by the negative effects of globalisation which all regional states are currently confronted with.
4. Regional states will also have to live with an assertive post-Iraq war America while seeking to keep it engaged in the region. A hopeful development has been that despite certain sharp criticisms of a unilateralist, insensitive and interventionist America (the most voluble of which have come from prime minister Mahathir of Malaysia) there is sufficient regional pragmatism to sustain ongoing regional cooperation with the United States in a long-term war

against international terrorism. In a sense the direction that political Islam takes or can be channelled will have an important bearing too in the war against radical elements and their militancy. The broader war against any appeal of Al Qaeda's political ideology will call for ways to strengthen the moderate ground among the Islamic communities of the region while addressing local grievances and sense of inflicted injustices. Given the American tendency to focus heavily on the military option in dealing with international terrorism, Washington will need to be reminded that there is also a battle for hearts and minds, which relate to the need to address the root causes of terrorism.

5. Leadership transition in Malaysia during this year and the heating up of political contestations for national leadership in Indonesia and the Philippines in the coming year can complicate the process of regional cooperation and create new uncertainties over the direction of regional integration. The unleashing of nationalist fervour in the midst of political contestations may adversely affect bilateral relations if existing problems with neighbours become further politicised. Will the locus of regional leadership shift and with what consequences? More than ever ASEAN will have to re-look the need to get its own house in order.

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