

# **REGIONAL OUTLOOK**

**Southeast Asia  
2002–2003**

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### **REGIONAL OUTLOOK** **Southeast Asia** **2002–2003**

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# PREFACE

**R***egional Outlook* was first launched in 1992. Designed for the busy executive, professional, diplomat, journalist, and interested observer under severe time constraints, this annual offers a succinct analysis of political and economic trends in the countries of Southeast Asia and the outlook for the prospective two years.

In this endeavour, it is impossible not to be overtaken by events. An analysis such as this serves best when it indicates patterns of development, offers some insight into the unfolding complex dynamics, and puts its finger on emerging issues and areas of change. In this way *Regional Outlook* looks to provide the necessary background for the reader to interpret new information and data.

The year 2001 saw the economic recovery in Southeast Asia lose some of its momentum, weighed down by a worsening global economic backdrop and particularly the sharp slowdown of the U.S. economy. The banking and corporate sectors in a number of Southeast Asian economies remain relatively fragile, and ongoing reform programmes need to be sustained in 2002–2003. For the first time since the end of the Cold War, the region's geopolitical landscape was reshaped by the 11 September terrorist attack on mainland United States, thereby highlighting new challenges for regional security, and adding complexity to the domestic political calculus of many regional states. The economic rise of China, its entry into the World Trade Organization (WTO) and the prospect of an ASEAN-China free trade area also pose new business and economic challenges for the countries of Southeast Asia.

*Regional Outlook 2002–2003* was written by a team from within the Institute and without. We thank Rajenthiran Arumugam, Emiliano Bolongaita Jr., Derek da Cunha, Soedradjad Djiwandono, Nick J. Freeman, John Funston, Russell Heng, Denis Hew, A.V.M. Horton, Lee Hock Guan, Sakulrat Montreevat, Mya Than, K.S. Nathan, Adrian Panggabean, Ramkishan Rajan, Daljit Singh, Anthony L. Smith, and Tin Maung Maung Than for their contributions. We also thank Tin Maung Maung Than and Nick J. Freeman for editing the volume.

Professor Chia Siow Yue  
*Director*  
*Institute of Southeast Asian Studies*

7 November 2001

# INTRODUCTION

**F**or Southeast Asia, the year 2001 heralded a much less benign external backdrop than in previous years. World economic growth went from being fairly robust in 2000 to decidedly anaemic in 2001. China's and Taiwan's entry into the World Trade Organization (WTO) in November was one of the few good pieces of news emanating from the Asian region during the year.

On the political front, both Indonesia and the Philippines saw changes of leadership in 2001, with Indonesian Vice-President Megawati Sukarnoputri replacing President Abdurrahman Wahid, and Vice-President Gloria Macapagal Arroyo succeeding deposed President Joseph Estrada. Singapore's ruling party was returned to power with an overwhelming mandate that far exceeded expectations.

The terrorist attacks in New York and Washington on 11 September 2001 and the subsequent U.S. campaign against Afghanistan have affected both domestic and regional security concerns. The U.S. call for a definitive stand in choosing sides in its war against terrorism in general, and its military campaign in Afghanistan in particular, has created both challenges and opportunities for the regional states. Many now realize that domestic and international issues in security and politics have become increasingly intertwined. Depending on the duration, extent and intensity of the U.S. campaign in Afghanistan, the region faces varying degrees of uncertainty and tension in 2002–2003.

In last year's *Regional Outlook* we noted that Southeast Asia's economies remained vulnerable to externally induced shocks, even three years after the Asian financial crisis of 1997–98. We suggested that such shocks might include a bumpy landing for the U.S. economy, a pronounced downswing in the electronics sector cycle, or the withering of the green shoots of economic recovery in Japan. The year 2001 saw all three of these potential shocks become very apparent. Partly as a result of these, a number of Southeast Asian economies are currently hurting.

Although the kind of finance sector-induced regional economic crisis of 1997–98 is unlikely to be repeated in 2002–2003, Southeast Asia is confronted with considerable new economic challenges, nevertheless. In the near term, these include maintaining — and in some cases, actually reviving — much-needed business and economic reform momentum, necessary to bolster the still fragile banking and corporate sectors in a number of countries. In the longer term, Southeast Asia's policy-makers will need to re-evaluate the kind of economic development policy template that has served so well for the last 20–30 years, and consider whether new policy prescriptions are now required for the region in the twenty-first century.

The increasing economic might shown by China, and its seeming ability to “hoover up” an increasingly large proportion of total capital inflows to Asia, is broadly perceived in Southeast Asia as a new economic challenge for the region. However, it will not be a zero-sum game, and over time China's anticipated role as Asia's largest workshop should also bring opportunities to neighbouring Southeast Asia, as well as competitive challenges. In this regard, Southeast Asian economies will need to find ways of leveraging off China's economic growth trajectory, rather than positioning themselves as direct competitors.

Deserved or not, post-crisis perceptions of ASEAN as an organization lacking much dynamism and unity of purpose still persist. The welcome fruition of AFTA (the ASEAN

Free Trade Area) in 2003 is unlikely to wholly dispel such notions. However, it is conceivable that the challenges currently facing the organization may ultimately galvanize ASEAN into reinventing itself in the years ahead. Despite the rallying effort of the ASEAN leaders at the Brunei summit in November 2001, the organization faces a divisive future in 2002–2003 in relation to its members' perceptions and responses to the challenge of globalized terrorism and U.S. actions.

Different authors have contributed to this volume and we would like to thank them for their contributions.

Tin Maung Maung Than

Nick J. Freeman

*Editors*

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