

**SOUTHEAST
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AFFAIRS 2003**

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FOREWORD

The editors are to be commended for publishing the thirtieth issue of *Southeast Asian Affairs* at a timely moment.

The articles contained in this issue are a reflection of the rapid and dramatic developments that have occurred over the past one year, both within and outside the region. The region remained preoccupied with the economic downturn, terrorism, and militant Islam. Efforts to revitalize ASEAN continued, with some hopeful signs that the major powers were paying more attention to the grouping.

I hope, as in the past, *Southeast Asian Affairs* continues to be a journal of interest for scholars, policy-makers, the business community, and the media.

While thanking the authors for their articles, the views reflected therein do not necessarily reflect the views of the Institute.

K. Kesavapany
Director
Institute of Southeast Asian Studies

June 2003

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INTRODUCTION

The year 2002 opened with expectations of economic rebound in Southeast Asia after a year of generally sluggish growth but by the second quarter it was becoming clear that the three traditional engines that drove regional economic growth were spluttering — the U.S. economy did not sustain the hoped-for growth; Japan continued to be mired in recession; and Europe was experiencing economic slowdown. The political and economic dynamics were further complicated by the spectre of international terrorism, which acquired strong regional resonance after the devastating Bali bombings in October. The Bali bombings refocused attention on the connections between regional and global networks of terror. While not all regional governments necessarily shared the same domestic concern with Muslim militancy or radicalism, the challenge of resurgent political Islam and the intensified religiosity among Muslim populations in the region could not be dismissed.

Fortuitously the external security environment of Southeast Asia remained relatively stable during this time. The new global challenge posed by terrorism resulted in a positive shift in relations among the major external powers — most notably between the United States and China. The threat of international terrorism became a point of overlapping though not necessarily congruent major power security interests. It also tempered somewhat, especially after the Bali bombings, regional differences towards security co-operation with the United States. But differences in domestic political circumstances did complicate attempts at a coherent regional response. If 2002 began with regional anticipation of the political fallout of the war against international terrorism, it ended with nervous tension over the imminence of war in Iraq.

The year also saw ASEAN continuing to address the sense of drift. Persisting economic strains, the pressure of domestic politics, and a new intramural competitiveness also had their negative effects on certain bilateral relations. Malaysia–Singapore differences centred on the pricing of Malaysian water supplied to Singapore and rival claims over Pedra Branca/Pulau Batu Putih were among the irritants that resurfaced during the year. Malaysia's relations with Indonesia and the Philippines also soured over Kuala Lumpur's mass deportations of illegal Indonesian and Filipino migrants. In mainland Southeast Asia border tensions between Thailand and Myanmar led to the closure of their common border for nearly five months. However, strains in bilateral relations did not immobilize ASEAN. Also, one hopeful development in 2002 was that extra-regional powers had not written off ASEAN as a collaborative region for mutual economic gains. China, Japan, the United States, and India courted ASEAN with offers of free trade agreements and new economic

partnership pacts. Such overtures underlined for ASEAN the importance of enhancing regional integration and competitiveness if it were to ride on such opportunities.

Among the more important factors shaping the fortunes of the individual countries of Southeast Asia to varying degrees were the lingering consequences of the Asian economic crisis of 1997–98, the pull of foreign direct investments to China, the challenge from political Islam, and the threat of terrorism. However, equally important were the quality of institutions and governance and the will to carry out reforms.

Indonesia, the region's biggest country and key member of ASEAN, presented a mixed picture. On the positive side, macroeconomic stability was maintained, there was a new recognition of the reality of the terrorist threat to the country, significant progress was made in uncovering the network behind the Bali bombings, the Malino peace agreement was signed to end the fighting in Maluku, and a ceasefire agreement, though fragile, was reached with the Aceh rebel movement. However, investor sentiment, the key to economic recovery, was weak. Foreign and domestic investment approvals declined significantly, and there were reports of Japanese and Korean companies relocating investments out of Indonesia. Implementation of the necessary legal and economic reforms was either lacking or slow. With calls mounting for the end of the International Monetary Fund (IMF) programme when it runs out at end of 2003, the future prospects for continued reform did not look good, especially since the run-up to the elections of 2004 is likely to lead to populist posturings.

Malaysia registered a relatively healthy 4.2 per cent economic growth, cleaned up most of the bad loans in the banking system, and made progress in financial restructuring. It was also on top of the terrorist problem within its borders through effective action by an efficient Special Branch. The year saw Dr Mahathir Mohamad signalling the coming end of an era when he announced that he would step down from his government and party posts at the end of October 2003. His successor, Deputy Prime Minister Abdullah Ahmad Badawi, will inherit formidable challenges. They include economic sustainability and survival in an era of severe competition for export-oriented production from low wage countries like China, Vietnam, and India, and the challenges from political Islam, including winning back the Malay ground lost to the Parti Islam SeMalaysia (PAS) in the 1999 general election. Economic imperatives demanded further opening up of the country to market competition but such a course could erode the special position of Malays, making recovery of Malay support for the United Malays National Organization (UMNO) more difficult. This, together with UMNO's greater dependence on the non-Malay, especially Chinese, political parties in the multi-ethnic coalition, the Barisan Nasional, could place new strains on race relations.

Thailand saw a robust consumption-led economic growth, though this was expected to moderate in 2003. However, restructuring of bank debt has been

slow and high corporate and public debts remained a source of concern. Prime Minister Thaksin Shinawatra and his Thai Rak Thai party-led coalition strengthened their positions in the political system. Evident was the emergence of a strong government with Thaksin's personal stamp promising to deliver economic and social change. Critics were however concerned about its authoritarian tendencies and the centralization of power under Thaksin. In the Philippines, President Gloria Macapagal-Arroyo continued to struggle against almost impossible odds. The economy faced declining foreign investments, corruption, poor tax collection, and weak infrastructure. The situation was compounded by political violence and acts of terrorism by the Abu Sayyaf Group and the Moro Islamic Liberation Front, both with links with the Al-Qaeda. Meanwhile the New People's Army of the Communist Party of the Philippines remained a threat.

The integration of the newer members into the ASEAN mainstream seemed slow and problematic. Myanmar essentially remained in the state of stasis that it has been for over a decade. The year 2002 saw the release of National Democratic League leader Aung San Suu Kyi from house arrest, and the placing under house arrest of former General Ne Win, a decisive influence in Burma for over four decades, together with his influential daughter Sandra Ne Win. The implications of the latter development for the Myanmar power structure were still unclear at the end of the year when Ne Win passed away. The release of Aung San Suu Kyi on the other hand did not lead to any significant breakthrough in the political impasse between her and the junta. The preoccupation in Vietnam, the largest country on the mainland of Southeast Asia in terms of population, was to make the economy and governmental system work more efficiently and with greater accountability, but within the ambit of one-party Communist rule. In Cambodia Prime Minister Hun Sen strengthened his dominant position but the country continued to be plagued by poor governance and major social problems. Laos, resisting the necessary reforms, was suffering economic stagnation.

Southeast Asian Affairs 2003 comprises ten country surveys and six special theme articles. Issues are also examined from a regional perspective in the first four chapters of this volume.

We thank the authors for their contributions. We also thank ISEAS Research Assistants Gerard Ong, Ravi Menon, and Maghaisvarei Sellakumaran for editorial assistance for some chapters in this volume.

Daljit Singh
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Editors
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