

SOUTHEAST ASIAN AFFAIRS 1988

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SOUTHEAST ASIAN AFFAIRS 1988
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FOREWORD

Southeast Asian Affairs 1988, like its fourteen predecessors, is a review of significant developments and trends in Southeast Asia, with special emphasis on the ASEAN countries. Readable and easily understood, the publication aims at giving the enquiring reader a broad grasp of major political, economic, social, and strategic developments within the region

The contents of *Southeast Asian Affairs 1988* fall into two broad categories. There are those of a background nature, which attempt to review and where necessary comment upon and explain significant developments during 1987 in the individual countries of Southeast Asia and in the region generally. Then there are the articles of more specialized current interest. These are not necessarily focused on events in 1987 alone. They deal with topical problems of concern to those who desire to know more about the region and its affairs than is possible from background articles. The emphasis has been on background papers, including regional surveys. These, however, have been supplemented by topical articles of the type described above.

To the best of our knowledge, *Southeast Asian Affairs* is the only publication of its kind wholly devoted to Southeast Asia. It is perhaps also unique in that, unlike many other annuals, its discussion of issues is from the vantage point of the area, most of the contributors being in and of the region. Moreover, though scholarly in their approach and analyses, the authors have been encouraged to aim at accuracy and readability and to handle their subjects in a direct manner. Footnotes and tables have been kept to a minimum and a conscious effort has been made to avoid too ponderous a style. If *Southeast Asian Affairs 1988* helps to generate and enliven interest in, and a better understanding of, the affairs of the region, then its purpose would have been well served.

I would also like to take this opportunity to thank the authors and the members of the Editorial Committee, as well as others who have, in one way or another, helped to make this publication possible. While the Institute encourages all points of view, needless to say, the individual authors are exclusively responsible for the facts and opinions expressed in their respective contributions, and their interpretations do not necessarily reflect the views and policies of the Institute itself or its supporters.

Kernal S. Sandhu
Director

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INTRODUCTION

Despite the long-term importance of economic trends in Southeast Asia during 1987, political development tended to be the primary focus of concern within the region. In addition to the ASEAN Summit and the Kampuchean issue, there were significant developments within the domestic political arenas of some of the regional countries. These included the UMNO crisis in Malaysia, the election in Indonesia, and the abortive coup in the Philippines.

The ASEAN Summit held in Manila in December was an event of major significance in the region. This gathering was meant to be a reaffirmation of faith on the part of the participating heads of government in the continuing utility of the Association and of their intention to move regional co-operation to a higher plane. It was also a vote of confidence in the Aquino government by the visiting dignitaries who, following President Soeharto's lead, decided to attend the meeting despite the security risks involved as a result of the unstable situation in the Philippines.

Once again, the Kampuchean issue continued to dominate the international political relations of the region. While ASEAN was able to continue to deny legitimacy to the Hanoi-installed regime in Phnom Penh, little seems to have changed in terms of the political and military balance within Kampuchea as between the PRK and the CGDK. Prince Sihanouk's leave of absence from his position as head of CGDK did provide him with some flexibility of manoeuvre. He held two meetings with the PRK Prime Minister, Hun Sen. However, these negotiations were bogged down for a number of reasons, including the question of Vietnamese participation in the talks with the Kampuchean protagonists.

On the domestic political front, one of the most critical events was the battle for the top positions in Malaysia's premier political organization and the dominant partner in its ruling coalition — UMNO. This was an unprecedented affair both in terms of the magnitude of the challenge posed to the incumbents, especially to Prime Minister Mahathir, and their narrow margin of victory. While on the one hand this could be interpreted as demonstrating the health and vigour of the democratic spirit among the dominant Malay community, on the other it could mean the splintering of the Malay political consensus which has provided the major underpinning for the democratic political process in multi-ethnic Malaysia. This drama is, however, far from over and the directions which political developments will or may take in Malaysia, especially within the Malay community, during 1988 remain to be seen.

The election to the Indonesian Parliament followed a much more predictable course with the ruling GOLKAR party improving upon its past performance at the expense of the Mulsim-based PPP. The latter's poor electoral performance had been foreshadowed by the withdrawal of support to it by Nahdatul Ulama in 1986. A limited revival of the Soekarnoist PDI was another noteworthy feature of the election, but its significance lay more in mass rallies than in electoral support.

The Philippines, on the other hand, provided considerable reason for concern. In addition to the communist and Muslim insurgencies, the Aquino government faced repeated attempts from segments of the military aimed at its destabilization. The abortive coup led by "Gringo" Honasan in August formed the culminating point of this process.

On the economic scene, Southeast Asia, with the possible exception of the Indochinese states, registered higher growth rates in 1987 compared with the preceding year. While growth rates varied between countries, there was nevertheless a sense of higher expectation in the region as a whole as the 1985 recession faded into the background. The most significant improvement came from the manufacturing sector, made possible by

the high consumption of imported manufactured goods in the United States. There were also increases in the production, export, and prices of primary commodities, although prices for palm-oil and crude petroleum, two very important commodities for Indonesia and Malaysia, remained relatively depressed at least for the first three quarters of the year.

The region, however, continues to depend heavily on the market in the United States, which is not only enacting more restrictive trade legislation in manufactured products but also providing higher subsidies to its agricultural sector, specifically in the production of rice and beet sugar. As a result of these and other factors, the external debt in the region has been increasing rapidly. Indonesia with an estimated external debt of US\$50 billion at the end of 1987, for example, has had to curtail drastically its development expenditure as a result of the rising burden of debt servicing. Similar problems have been experienced by the Philippines, Burma, and the Indochinese states.

One area of particular concern has been the agricultural sector. Any decline experienced in this sector is likely not only to slow down overall economic growth but, more importantly, also to depress the incomes of farmers and smallholders who make up the bulk of the population of most Southeast Asian countries. In addition, the problems faced by the agricultural sector in the region are not likely to be temporary. The outlook for the millions of farmers and smallholders is, therefore, not promising.

For the market economies of the region, the incentive to restructure has thus never been greater. Given their high dependence on both export-oriented industrialization schemes and agricultural exports, the increasing uncertainties in the world economic environment must surely be cause for concern. These uncertainties, resulting from sharp shifts in exchange rates and increasing protectionism in developed countries, have been manifested in worsening debt servicing problems.

Domestically, there is also the recognition that the public sector has grown far too large and in many instances has been bleeding the state coffers dry. This realization has led to the call for more active participation by the private sector. The shortage of state revenues resulting from depressed commodity prices together with the call on the private sector to be the engine of growth has resulted in accelerated attempts to privatize public enterprises. Unfortunately the gathering momentum to privatize was abruptly dissipated in the aftermath of the world-wide stock market crash of 19 October.

In the short to medium term, the main thrust for economic growth will have to come from the manufacturing and services sectors. Signs of recovery in these sectors have definitely been positive in 1987. Furthermore, the impetus for growth and restructuring in the region has been significantly enhanced by several factors. These include low inflation rates, a sharply appreciating yen which will continue to see the greater relocation of industries from Japan to the region, the recycling of Japan's huge trade surpluses for possible investment in the region, and a US\$2 billion initial commitment of investment fund by Japan to assist ASEAN development.

Many of the themes outlined above have been dealt with in one or more chapters in this volume. Most of these political and economic themes are not novel in character. However, their respective salience tends to vary from one year to the next. In this sense, *Southeast Asian Affairs 1988* should not be viewed in isolation from its preceding volumes. Like them, it attempts to portray the complex realities of the region as they manifest themselves from year to year particularly highlighting those themes that have dominated economic and political developments in Southeast Asia in 1987.

Mohammed Ayoob

Ng Chee Yuen

Editors

Southeast Asian Affairs 1988