

REGIONAL OUTLOOK

**Southeast Asia
2004–2005**

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PREFACE

R*egional Outlook* was launched in 1992. Designed for the busy executive, professional, diplomat, journalist, and interested observer who face 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 forthcoming two years.

The year 2003 was a difficult one for countries in this part of the world. The SARS virus not only took lives but also dramatized how a non-conventional security threat could spread so easily and quickly. One blessing in this crisis was that it helped the countries in the region to work closely together to contain the virus. In contrast, the U.S. war in Iraq was a rather more contentious issue. When it came to finding common ground in ASEAN, there was none. Member states took very different positions, which only served to underscore the deep strategic differences lurking beneath the appearance of a united ASEAN. Terrorism continues to cast a long shadow. Indonesia, not quite recovered from the Bali bomb incident in October 2002, had another major terrorist attack in its capital Jakarta on 5 August 2003. All these resulted in a more complex and uncertain strategic environment.

Southeast Asia suffered a set-back on its road to economic recovery in 2003. Regional economies were particularly affected by the Iraq war and the Severe Acute Respiratory Syndrome (SARS) outbreak. Nevertheless, the impact of SARS on the region has turned out to be less damaging than earlier anticipated. The epidemic which broke out in March 2003, was largely contained by July 2003. Although concerns continued to prevail that SARS might re-occur in the near future, the region's public health sector appeared to be better prepared to deal with the disease.

The relatively quick passing of these two major events as well as the economic recovery in the United States and Japan augur well for the region's economic outlook in 2004 and 2005. Furthermore, at the recent ASEAN Summit in Bali, ASEAN leaders agreed to the establishment of an ASEAN Economic Community (AEC) by 2020. The AEC could provide the means for Southeast Asian economies to revitalize and remain competitive in the face of growing economic challenges.

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K. Kesavapany
Director
Institute of Southeast Asian Studies

15 November 2003

INTRODUCTION



Three key political features of 2003 will continue to mark the regional climate in 2004. They are the U.S. war in Iraq, the spectre of terrorism and leadership changes in a few ASEAN countries.

When the United States asked for support for its war against the Saddam Hussein regime in Iraq, it was evident that ASEAN could not work out a common position on this as there were members who were willing to join the U.S. "coalition of the willing" and others who opposed the U.S. action in no uncertain terms. These differences will continue to be tested as the U.S. action drags on in Iraq.

The fortunate thing is it has not disrupted the common will to fight Islamic terrorist groups operating in the region. Terrorism remains the region's foremost security threat and while it is not acute enough to immobilize any daily routine in the ASEAN countries, it does have serious implications for foreign investors' confidence in the region. Some progress has been made in the bid to arrest key personnel in terrorist groups and disrupt their operations. However, when a bomb went off in Jakarta in August 2003, less than a year after the October 2002 bombing in Bali, everybody is reminded that the spectre of terrorism is very real and can strike anywhere any time. In May 2003, Cambodia with a minority Islamic community of 700,000 joined the list of ASEAN countries that have to take security action against people with connections to Islamic terrorist organizations.

In the midst of these bracing times, three major ASEAN countries — Indonesia, Malaysia and the Philippines — face national elections. In all cases, the incumbents are the favoured candidates to win, thus guaranteeing a measure of continuity. But in two of these three cases — Indonesia and the Philippines — the electoral outcomes are not likely to produce any reliable solution to ineffective governance. The 2003 national election in Cambodia has produced another hung legislature which can only prolong the political disorder of that country. In those parts of Southeast Asia where elections are not an accepted way of political life, regime legitimacy, as with the case of the junta in Myanmar, is extremely problematic. Taken in total, all ASEAN members are grappling with issues of how to handle the challenge of leadership change.

The region also suffered a setback on the road to economic recovery in 2003. Economies were particularly affected by the Iraq War and the Severe Acute Respiratory Syndrome (SARS) outbreak. However, the relatively quick passing of these two major events as well as economic recoveries in the United States and Japan augur well for the region's economic prospects. Economic outlook over the next two years looks optimistic with regional economies poised for a moderate rebound in 2004.

At the Ninth ASEAN Summit in Bali, ASEAN leaders have agreed to establish an ASEAN Economic Community (AEC) by 2020. It is envisaged that the AEC will be a single market and production base with free flow of goods, services, investments, capital and skilled labour. Numerous initiatives with clear timelines were unveiled at the Summit to expedite the economic integration process within ASEAN. All these initiatives seem to indicate that ASEAN is committed to ensuring that the AEC project is realized as soon as possible.

Deeper integration to realize the AEC is clearly a positive move with potential long-term economic benefits for Southeast Asia. It could provide the means for Southeast Asian economies to revitalize and remain competitive in the face of growing economic challenges.

Also, an integrated ASEAN market with the size of 500 million people would surely retain the region's attractiveness as an FDI destination.

Southeast Asia seems to be making the right strategic moves in pursuing deeper regional economic integration as well as forging closer economic linkages with the emerging economies of China and India. However, strong political will is absolutely vital to achieve these bold and ambitious goals.

Russell H.K. Heng

Denis Hew

Editors

15 November 2003