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SOUTHEAST ASIAN AFFAIRS 2004

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FOREWORD

The year 2003 turned out to be a year of several shocks for Southeast Asia. First was SARS, followed by an increase in terrorist threats. Both led to a depressed economic situation. ASEAN responded by moving towards an integrated economy by 2020. The landmark Bali Concord II was signed in October 2003.

The articles in this volume of *Southeast Asian Affairs* reflect these and other developments. I commend the editors for the speedy publication of this volume.

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

K. Kesavapany
Director
Institute of Southeast Asian Studies

April 2004

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INTRODUCTION

For Southeast Asia, 2003 was a roller coaster year. The early expectations of a gradual economic recovery were badly jolted when the outbreak of the Severe Acute Respiratory Syndrome (SARS) in the first quarter of the year dented several economies and saw a plummeting of confidence and growth rates. But SARS was brought under control within a few months and then petered out. Growth rates and confidence started to recover, helped also by signs of a pick-up in the American economy. For the year, most regional economies expanded by an average of 4.5 per cent. Singapore's real GDP growth of 1.1 per cent was an exception and reflected the devastating impact of SARS on the most open and globalized economy in the region. By the end of the year the American economy seemed to be entering a period of cyclical recovery while Japan's economic performance also improved, generating prospects for a much better year ahead for the region. But concerns about decline in foreign direct investments, in part because of competition from China, continued to be a worrying reality for countries like Indonesia, Malaysia, the Philippines, and Singapore.

The external security environment of the region remained relatively benign, given reasonably good relations between the major powers in Asia, especially U.S.-China relations. However, the American-led war in Iraq, which broke out in March and the deterioration of the situation in that country following the initially easy American invasion and occupation, posed some troubling uncertainties for the region. Iraq was becoming a magnet for radicals and terrorists. If the situation is not stabilized it could give a boost to international terrorism. It has already resulted in an increase in anti-Americanism in Muslim countries, including in Southeast Asia where efforts to come up with a more coherent and co-ordinated response proved to be quite challenging.

Despite regional vicissitudes and sluggish economic performance in the first half of 2003, the Association of Southeast Asian Nations (ASEAN) derived some good dividends from the generally benign atmosphere among the major external powers. Reassuring the region of its peaceful intent, a rising China sought to strengthen its relations with ASEAN. The SARS crisis provided an occasion for China to engage the region co-operatively at summit level in the face of a common threat to human security. China, followed by India and Japan, also acceded to the ASEAN Treaty of Amity and Cooperation (TAC), which enshrined the rules of good conduct in inter-state relations. All three external powers reaffirmed their respective commitments towards negotiations

of free trade agreements with ASEAN. To reap the benefits of growing East Asian interdependence and enhance its own cohesiveness and competitiveness, ASEAN committed itself to a new level of integration through the establishment of an ASEAN Community (in the security, economic, and socio-cultural realms) by 2020. This commitment was expressed in the ASEAN Concord II signed at the Bali Summit in October 2003.

The main security problems facing the region were essentially non-traditional in nature, with the threat of terrorism high on the list. The bombing of the Marriott Hotel in Jakarta by the Jemaah Islamiyah (JI), an Al-Qaeda-linked regional terrorist organization, coming ten months after the Bali bombing, was a sobering reminder that the terrorist threat had not gone away. The JI had over the past few years seen the capture of some of its leaders, including Hambali, the organization's most senior operational leader, who was taken in by Thai security forces in Thailand in 2003 and is now in U.S. custody. But the JI still posed a threat to the region and has shown an ability to replace lost cadres. Islamic radicalism in general was expected to remain a problem in some countries for years, inspired in part by developments outside Southeast Asia. A new development was the outbreak of violence in the Muslim provinces of south Thailand in early January 2004 — generally attributed to Muslim radicals whose exact identity was still unclear.

Political activity in several countries in the region was anticipating important elections due in 2004 — in Indonesia, Malaysia, and the Philippines. Malaysia saw a significant leadership change when Dr Mahathir Mohamad stepped down as prime minister at the end of October 2003 after being at the helm of the country for twenty-two years. His successor, Abdullah Badawi, was already beginning to cast a stamp of his own on the country in the last two months of the year, but had to legitimize his position in a crucial general election expected for March or April 2004 and the party (United Malays National Organisation) election a few months later. While there was little doubt in the case of Malaysia that the ruling party would be returned to power with a strong majority, elections in Indonesia and the Philippines posed some uncertainties about the future leadership. Although a general election is not due in Singapore until 2007, the Republic was being prepared for a leadership change following Prime Minister Goh Chok Tong's announcement in August of his intention to make way for his deputy Lee Hsien Loong to assume the premiership by mid-term of the present parliament.

The issues of domestic stability and quality of governance have shaped external perceptions of Southeast Asia to a significant degree and have been important factors in the business decisions of foreign investors. From this perspective Thailand, given the strong pro-business leadership of Prime Minister Thaksin Shinawatra and a robust economy, gave cause for optimism. In Malaysia the actions of Abdullah Badawi in the first two months of his

premiership generated hopes of better governance, more corporate transparency and enhanced domestic stability. However, Indonesia, the largest country of Southeast Asia, presented a mixed picture. While macroeconomic trends seemed positive, the growth rate was still too low to make a dent on unemployment. Since business confidence, investment flows, and governance remained weak there seemed little prospect of more robust growth rates in the near term. Even oil-rich Brunei was feeling the need to renew efforts at attracting foreign direct investments and reduce its traditional dependence on oil and gas for economic growth. The Philippines, already plagued by insurgency in the south, poor governance and inadequate reform, faced a new and troubling uncertainty over future leadership. Many fear that if movie star Fernando Poe Jr. is elected president in 2004, there could be a re-run of the Estrada presidency.

Among the new ASEAN members, Myanmar remained mired in economic stagnation and political deadlock. While sanctions tend to hurt the ordinary people more, especially textile workers, they will not necessarily change the regime's policies, much less bring it down. There was a faint hope that 2004 would see some progress because the national convention will reconvene to consider the drafting of a new constitution. However, no progress is possible unless Aung San Suu Kyi endorses the process, especially since the West, in particular America and Britain, will take the cue from her. Political deadlock was also witnessed in Cambodia where the general elections in July resulted in uncertainty, a hung parliament, and failure to form a government as the incumbent Prime Minister, Hun Sen, despite a convincing victory by his Cambodia Peoples' Party, was denied a two-thirds majority. Neither of the two rival parties — the royalist FUNCINPEC party and the Sam Rainsy Party — would agree to enter into a coalition government, with Hun Sen continuing as the Prime Minister. In the first quarter of the year turbulence marked Cambodia's relations with Thailand following the outbreak of serious anti-Thai riots in Phnom Penh, which saw the sacking of the Thai Embassy. This culminated in a temporary closure of the Thai-Cambodia border.

In Vietnam, concerns over the quality of governance was reflected in re-emphasized efforts to reform the economy and combat corruption, which threatened its social and economic development. Hanoi's target of becoming a full member of the World Trade Organization by 2005 also meant that it would have to sustain economic reform and opening up in the mean time. Though short of its own target, Vietnam's economic growth at 7 per cent merited the World Bank's description of it as the second fastest-growing Asian economy after China. There were, however, clear limits to the tolerance of domestic political dissent, some of which was also being registered in cyberspace. Of the new ASEAN members, Laos has been among the slowest in maintaining the economic reform momentum although the year saw a constitutional revision giving recognition to private property. The government also established the first special economic zone in the country. Like Vietnam,

Laos continued to enjoy relative domestic political stability — a welcome development considering that it will assume the rotating ASEAN chairmanship in June 2004.

Southeast Asian Affairs 2004 addresses a broad range of domestic and political issues from a regional perspective in the first four chapters. These are followed by the country surveys (including one on Timor Leste) and the special theme articles on some of the countries covered.

Daljit Singh
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Editors
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