

THE ECONOMIC CRISIS AND
ASEAN STATES' SECURITY

Sheldon W. Simon

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FOREWORD

Asia's financial crisis has quickly become a global one. Its implications far transcend purely economic or financial considerations. In fact, the crisis that began with the fall of Thailand's Baht in 1997 now embraces the entire world and has caused governments to fall in Asia and Russia. To understand the dynamics of the crisis and its consequences for U.S. security, the Strategic Studies Institute and the National Bureau of Research on Asia organized a conference in Seattle, Washington, on June 9-10, 1998. At that conference Professor Sheldon Simon presented this paper.

Professor Simon outlines the impact of this crisis on the security of Southeast Asian governments and armed forces. He assesses how this situation is affecting defense cooperation in Southeast Asia, the prospects for defense modernization in a constrained environment, and the need for the United States to find new modalities by which to achieve its regional security goals. He also underscores the connection between healthy economies and governments on the one hand and between those features and a robust national and regional defense capability.

Precisely because this crisis will be of long duration and have a profound international impact, Asian security in the future will clearly be unlike what it has been in the past. Therefore it is essential that we keep abreast of the great changes taking place in this critical area of international security and provide solid analysis of how the situation will affect international security in Asia and elsewhere.

LARRY W. WORTZEL
Colonel, U.S. Army
Director, Strategic Studies Institute

BIOGRAPHICAL SKETCH OF THE AUTHOR

SHELDON W. SIMON is Professor of Political Science and Faculty Associate for the Center for Asian Studies and Program in Southeast Asian Studies at Arizona State University, where he has also served as Chair of Political Science and Director of the Center for Asian Studies. Professor Simon is the author or editor of eight books and some 90 scholarly articles and book chapters on Asian international politics and security. His most recent book, coedited with Richard Ellings of The National Bureau of Asian Research, is *Southeast Asian Security in the New Millennium* (Armonk, NY: M.E. Sharpe, 1996). Professor Simon is Director of Southeast Asian Research at The National Bureau of Asian Research (Seattle) and a member of the Executive Committee of the U.S. Council on Security Cooperation in the Asia-Pacific. He consults with the State Department, Department of Defense, and the U.S. Information Agency. Professor Simon is currently preparing a monograph on the same topic as this paper based on new field research in Southeast Asia sponsored by The Henry M. Jackson Foundation and the U.S. Information Agency. It will be published in the NBR Analysis series.

THE ECONOMIC CRISIS AND ASEAN STATES' SECURITY

Introduction.

In the late 20th century, no region of the world has been more successful in improving the standard of living of its populations than the Asia-Pacific. If national security is in large part a function of national well-being, then East Asia has enjoyed an increasingly secure existence. Beginning in the early 1990s, both Northeast and Southeast Asia have experienced aggregate annual economic growth rates averaging 7 percent, more than double those of North America and Western Europe. Politically as well, this region seems to be adapting effectively to the post-Cold War. Regional organizations such as the Association for Southeast Asian Nations (ASEAN), which celebrated its 30th anniversary in 1997, and the Asia Pacific Economic Cooperation (APEC) forum provide regular venues for discussions of regional trade, investment, and security issues—dialogues previously unknown for Asia at the regional level.

Nevertheless, this rosy picture has been marred in 1997-98 by a series of financial and economic crises that spread along the Asia-Pacific rim like a contagious disease. Originating in Thailand in July 1997, financial meltdowns spread quickly to Indonesia, Malaysia, and the Philippines, as well as affecting the much stronger currencies of Hong Kong and Singapore. By the end of 1997, currency depreciation averaged 50 percent against the U.S. dollar since July; and the crisis had extended to South Korea and Japan as well.

The "Asian miracle" was fueled by large scale direct investment from Japan, the United States, and other capital exporters who benefited from favorable production costs in the region. As foreign investment flooded their

economies, most Asian states saw the value of their currencies increase relative to the dollar. But, instead of removing some of their currencies from circulation by raising interest rates, the Asian states actually accelerated domestic monetary supply in an attempt to make exports cheaper on the world market. Ultimately, as the dollar kept increasing in value and Asian current account deficits (debt) kept rising, a crisis of confidence in their currencies occurred. For example, Indonesia, Thailand, and Korea—all running large current account deficits and all dependent on foreign investment to fund their trade—became vulnerable to speculative currency attacks. As the value of their currencies fell, the costs of repaying foreign loans rose; and external investors grew less willing to lend more. Hence, the need for official international intervention via the International Monetary Fund (IMF), Asian Development Bank (ADB), World Bank, and the governments of Japan, the United States, and the European Union (EU).

The currency crises exposed inefficient and corrupt national financial institutions closely tied to political leaderships and prominent family-owned conglomerates which kept building industrial capacity even as the global demand for their products declined. Bad bank loans accounted for almost 20 percent of loan portfolios in 1997, making East Asia's banking system its biggest potential liability. Nor will attempts by political leaders to find foreign scapegoats for their current problems work. As both Malaysian Prime Minister Mahathir and South Korea's newly elected President Kim Dae Jung discovered, allegations against foreigners and the IMF only accelerate capital flight from their countries.

Heavy foreign exchange debt—much of it short term—and declining local currency values—which have increased the actual repayment costs—have forced Thailand, Indonesia, and South Korea to seek international bail out arrangements. APEC's November 1997 meeting in Vancouver endorsed the IMF's leading role and implicitly its conditions which include increased taxes, higher interest

rates, and budget cuts. As a result, a number of high profile construction and infrastructure projects in these troubled economies have been put on hold. Moreover, the IMF and World Bank are also insisting on greater accountability from financial institutions, more responsible lending and investment practices, and a move away from the back-room deals that had brought great wealth to politicians and favored businessmen. By coordinating macroeconomic policies, the ASEAN states are becoming directly involved in each other's affairs, a situation which heretofore has been assiduously avoided.

The reforms being forced on many East Asian countries could well be a blessing in disguise. In effect, they say that to participate in the global economy, your country must be well managed. And, well-managed countries require political reform. Even the more authoritarian Asian regimes of Indonesia and Malaysia appear grudgingly to be accepting this necessity. If the reforms succeed, Asian economies could emerge even stronger within several years. Fundamental strengths remain. Labor costs continue to be well below those in Japan and the West. Labor forces are hard working and thrifty; and taxes remain well below those of the developed world. However, the crisis demonstrated that countries with basically sound macroeconomic fundamentals can still succumb to overvalued currencies, poorly managed financial institutions, and dysfunctional relationships between political leaders and favored businesses.¹

Washington's delayed recognition of the magnitude of the crisis has elicited a good deal of criticism from Southeast Asian officials.² The weak U.S. response, combined with the Clinton administration's apparent inability to convince the U.S. Congress to authorize an additional contribution to the IMF's capital base, have led some regional elites to conclude that the United States is either indifferent to the region's plight or, worse, hoping to take advantage of it by both pushing the "American model" and buying up bankrupt enterprises at bargain rates.

China, so far, has avoided the financial crisis even though its banking system is more strapped with bad debt than any of the Southeast Asian banks. Because its financial markets are not yet open to the outside world, inflation is low, its savings rate high, and its foreign currency reserves buoyant. Beijing has contributed to Southeast Asia's recovery primarily by not devaluing its currency, thus avoiding setting off any disastrous chain reaction of devaluations.³ Meanwhile, China's exports remain strong because foreign buyers are not yet returning to Southeast Asia. Regional banks have insufficient funds to issue letters of credit. And Indonesia is avoided because of political instability.

Nevertheless, the IMF foresees a moderate rebound among the ASEAN 4 (Malaysia, Philippines, Thailand, and Indonesia). After an aggregate decline of -2.7 percent in 1998, the Fund projects a growth rate of 2.5 percent in 1999 as investors take advantage of financial restructuring.⁴ Demonstrating a new sensitivity to Indonesia's social instability, the IMF relaxed its strictures against government subsidies for rice and fuel in March 1998, though sporadic riots and demonstrations persist. Indeed, IMF-imposed requirements on the lifting of subsidies for daily necessities undoubtedly contributed to the social upheaval in Jakarta and other cities that led to the demise of Suharto's 32-year presidency in May 1998.

This economic turmoil has obvious security implications. At the local level, primarily in Indonesia but conceivably also in Thailand and Malaysia, rising unemployment and popular frustration could be directed not only against the government but also against indigenous Chinese who make up much of the merchant class throughout Southeast Asia. (In Indonesia this has already occurred with tragic consequences.) The army's role in containing local outbursts has been particularly prominent in Indonesia with a reemphasis on internal security. The prospect in Indonesia of more than ten million unemployed out of a work force of 90 million, and possibly over one million returnees from other

parts of Southeast Asia, has increased the potential for large-scale violence. In Malaysia, with an estimated 1.2 million Indonesian workers, three-quarters of whom are illegal, large-scale deportations initially led to violence, though the repatriation procedure became more orderly by mid-1998. The situation is similar in Thailand which is home to about one million illegal workers, most from neighboring Burma. Unemployment in Thailand is projected to double to more than two million; and Thai authorities plan to expel some 300,000 foreign workers this year.⁵

These massive population movements are creating strains both within and between nations. As Malaysian Foreign Minister Abdullah Ahmad Badawi put it: "It is dangerous to have too many people unemployed. It can cause instability in Malaysia socially and even politically. We have to take care of our own people first; charity begins at home."⁶ Thus, in addition to expelling illegals, Malaysia has also mounted a small flotilla of naval vessels to repulse new arrivals. Tension between Indonesia and Malaysia could result from these actions, though both governments are working to avoid that outcome.

The Economic Crisis and ASEAN Arms.

In 1996, the year before the economic crisis took hold, Asian countries spent \$165 billion on their armed forces—nearly double their 1990 outlays and some 20 percent of global defense spending. In that year, Asians also accounted for almost half of all worldwide purchases of large conventional weapons such as combat aircraft, armor, ships, and submarines—up from 20 percent in 1990.⁷ Thailand, Malaysia, Indonesia, Singapore, and the Philippines were all involved in major upgrades of naval and air forces.

By 1998, as Asian defense budgets plummeted, U.S. arms exports to the region are estimated at no more than \$4 billion despite efforts by exporters to accommodate Asian needs through countertrade and stretched-out payments.⁸

The precipitous drop in Southeast Asian weapons acquisitions highlights the fact that military modernization has been driven less by threats than by the availability of new-found wealth and the desire for national prestige. Thailand has cut its 1998 defense budget from U.S.\$2.6 billion to about U.S.\$2 billion. Indonesia has suspended weapons purchases entirely; Malaysia anticipates a more than a 20 percent defense budget cut for 1998; and, although the Philippines originally allocated \$2 billion in 1996 for military modernization, so far no contracts have been awarded for large purchases.⁹

ASEAN states are concerned with both *external* and *internal* arms balances. The former address power relationships outside ASEAN with Asia-Pacific powers such as China and Japan. The latter focus on military relationships among neighbors as they relate to boundary disputes, exclusive economic zones (EEZs), smuggling, piracy, and illegal immigration.¹⁰ ASEAN has not created an external balance for a variety of reasons: (1) no Association-wide military collaboration exists; (2) interoperability among ASEAN armed forces is minimal and based exclusively on bilateral exercises; and (3) neither China nor Japan is identified as a threat. Moreover, with respect to the People's Republic of China (PRC), political engagement, not confrontation, is ASEAN's policy. Among themselves, ASEAN members rely on diplomacy to resolve disputes. Their arms buildups, then, are based on the need for national resource protection rather than any offensive strategy.

While ASEAN arms could be employed against one another, intra-ASEAN security strategies emphasize cooperation and reassurance rather than deterrence and confrontation. The idea is to build *non-provocative defense* (NPD), that is, strategies and force configurations that emphasize deterrence by denial rather than punishment.¹¹ Deterrence by denial is defense-dominant and therefore provides no incentives for an opponent to engage in a pre-emptive attack. For NPD to succeed, transparency is

essential so that all sides know one another's doctrine and capabilities. The problem is that the longer-range aircraft and frigates being acquired by most ASEAN forces can be employed offensively as well as defensively. Hence, the need to reveal doctrine and invite observers to exercises.

By 1995, ASEAN and the ARF endorsed the publication of national defense policy statements. A Track II Council on Security Cooperation in the Asia-Pacific (CSCAP) working group is devising common guidelines for such statements so that doctrine and order of battle can be compared across countries.¹² Transparency and reassurance go hand in hand if military modernization is seen as each state developing the capacity to control its own air, land, and sea spaces. Optimists would conclude from this assessment that regional states are not arming against each other but rather for an uncertain future.¹³ Thus, arms buildups are insurance policies against unforeseen challenges that could arise both from within ASEAN as well as from without. Contingency planning for the former, however, cannot be openly discussed because such discussion would suggest that ASEAN members remain suspicious of each other. Therefore, complete military transparency can probably never be achieved. Nevertheless, as David Dewitt and Brian Bow point out:

The best available option for each country is to establish clear markers for what they deem to be "defense sufficiency," to articulate those in both doctrinal and operational terms, to link arms acquisitions and deployments to this schema, and then to engage in regular dialogue with the regional partners to ensure that the match between perceived needs and available capabilities is understood.¹⁴

Because Southeast Asian arms acquisitions are driven substantially by strategic uncertainty and defense sufficiency, Dewitt and Bow's advice would be well taken.

None of the ASEAN states, despite a decade of defense modernization, possesses sufficient power projection to aspire to regional hegemony. Nevertheless, in the

aggregate, they currently match and possibly even surpass China in weapons capabilities. For example, Malaysia and Singapore hold Harpoon and Exocet surface-to-surface missiles (SSMs) which, combined with fire control and guidance systems on their warships, surpass the People's Liberation Army Navy's (PLAN) most modern counterparts.¹⁵ Moreover, Singapore's E-2C airborne-early warning aircraft with over the horizon targeting capability could coordinate ship-based missile attacks. Should there be an all-out conflict in the South China Sea—highly improbable for at least the next decade—Malaysian airbases on Borneo could provide ASEAN air forces with local air control, while most Chinese combat aircraft would have little loitering time over the islands.¹⁶

Motivations for ASEAN arming vary. Vietnam and the Philippines must replace obsolescent and inoperable equipment while also creating a minimal capability to defend their Spratly Islands claims. Indonesia has five million square kilometers of sea space to monitor with the coming into force of the U.N. Law of the Sea Convention in 1994, including the energy-rich area around the Natuna Islands. Malaysia has a large maritime area to control as well as its Spratly Islands claim. And Thailand is concerned about energy reserves in the Gulf of Thailand and its west coast responsibility in the Andaman Sea. Finally, Singapore seeks to maintain a qualitative edge over all its neighbors, a task made more difficult by Thailand's F-16s and Malaysia's F-18s and Mig-29s.¹⁷

All the ASEAN states are concerned that China has not foresworn the use of force in the Spratly Islands, though the ASEAN claimants have. In fact, in 1992, the People's Republic of China (PRC) National Peoples Congress enacted a "Law on the Territorial Waters and Their Contiguous Areas" which specifically authorized the use of force to back China's sweeping claims in the South China Sea. By contrast, Taiwan has endorsed ASEAN's 1992 Declaration on the South China Sea which commits its signatories to the nonuse of force.¹⁸

Steady arms acquisitions in Southeast Asia were drastically slowed in the Fall of 1997 as the region's currency crisis took hold. Malaysia, Thailand, and Indonesia have all delayed or cut back arms purchases for the next several years. Military officials within ASEAN, however, are exploring the possibility of pooling procurement funds and cooperatively purchasing standard ammunition and avionics upgrades of common aircraft such as the F-5. Least affected by the economic crisis, Singapore is continuing with its purchase of 12 F-16s to make a total of 50, the most formidable frontline fighter force in Southeast Asia.¹⁹

In effect, Southeast Asia's creation of modern air forces and navies has been retarded in mid-course. ASEAN's unstated concern, however, is that China's arms buildup continues unabated.

China's Armed Forces and the Economic Crisis.

Southeast Asia's concern about China is based on the belief that it is a rising hegemon dissatisfied with the territorial *status quo* ranging from an independent Taiwan through the South China Sea islands. Moreover, China is seen as inexorably, albeit gradually, committed to developing the capability to dominate the air and sea spaces in the region while extending its control over the Spratly Islands and interjacent waters from the China mainland. China's rise to power *per se* is not the issue. Rather, it is to what purposes that power will be directed. It is noteworthy that China does not consider its 1988 and 1995 military actions in the Spratly Islands to be on foreign territories but rather the assertion of control over its own space.²⁰ China's small seizures in the Spratly Islands—salami tactics—may antagonize individual claimants such as Vietnam and the Philippines but do not elicit a *regional* military response. And, Beijing has also attempted to neutralize any possible U.S. reaction by insisting that the PRC's Spratly policy in no way is meant to threaten freedom of the sea lanes.²¹

The intractability of China's South China Sea claims is based on their designation as a sovereignty issue; therefore, any PRC leader suggesting a willingness to compromise becomes vulnerable to the charge of abandoning the country's patrimony, an inexcusable offense after the century of humiliation.

Despite China's claims to the South China Sea islands, most strategists agree that the PLAN's ability to implement these claims is decades away. The small Spratly islets are beyond the reach of Beijing's land-based aircraft. Without air cover, China's navy is vulnerable to the air and naval forces of several Southeast Asian states, particularly Malaysia, Indonesia, and Singapore. Nor would possession of the Spratly Islands enhance China's ability to dominate Southeast Asia. As Robert Ross has noted, the islets cannot serve as a base for ships or aircraft. They are too small to be logistics centers. Defending them would be a drain, not an addition, to China's overall regional position.²² Moreover, the PLA's modernization is proceeding only fitfully. While up-to-date Russian destroyers, submarines, and Su-27 aircraft are being acquired in relatively small numbers, the PLA's ability to reproduce these systems on its own is years away. What is more, without the AWACS aircraft to detect and assign targets, it is unlikely that combat patrols would be effective over the South China Sea. If China's obsolescent bombers were deployed, they would be vulnerable to Southeast Asian land and sea-based missile defenses as well as regional air force air-to-air missiles. Paul Godwin estimates that a genuine blue water PLAN and related air arm will not be available until about 2050.²³

Nevertheless, the PLA has a long-term naval strategy designed to bring Southeast Asian waters into China's defense perimeter. PLAN expansion of both surface combatants (destroyers, frigates) and submarines equipped with guided missiles and advanced electronics will permit the navy to operate for extended periods at sea and to establish a sea control strategy along China's defense periphery sometime after 2020.²⁴

While Southeast Asian defense funds stagnate during the economic crisis, the PLA official defense budget is set to enjoy a 10th year of double-digit growth. An almost 13 percent rise to \$10.99 billion is earmarked for 1998-99. This increase is compounded by a cut of 500,000 personnel.²⁵ Most of the additional funding will be spent on navy, air force, and strategic missile forces. China's four new Kilo-class submarines and two Russian Sovremenny-class destroyers armed with SSMs give the PLA an attack capability in the South China Sea it has not had before, although the PLA's ability to coordinate air and naval arms is unproven.

China's still buoyant economy permitted the PLA to sign approximately \$1 billion worth of contracts for Russian weapons in 1997. In addition to the destroyers, submarines, and aircraft mentioned above, the new contract also includes airborne early warning aircraft. All of these purchases will be paid for in hard currency. Nevertheless, these modern systems will constitute only a small proportion of total PLA forces. The two Su-27 regiments will comprise only 2 percent of the PLA Air Force (PLAAF) front line strength.²⁶ Moreover, both the Chinese Air Force and Navy depend on Russian technicians to maintain these sophisticated platforms, thus draining even more hard currency beyond the initial purchase prices.

China's acquisition of these new weapons, while potentially challenging Southeast Asia's forces in the long run (10-20 years) is much less alarming in the near term. From bases in southern China, even the Su-27 would only be able to loiter about 30 minutes over the Spratly Islands. Nor is there any evidence that the PLAAF will master aerial refueling in the near future. Moreover, so far at least, China's Su-27 pilots have not trained over open ocean. It would be a challenge for them to navigate over such a large, featureless expanse to a set of distant coordinates. Nor have PLAAF pilots trained in a joint role with the Navy to provide air cover for surface vessels. Even when the PRC begins licensed production of the Su-27, their actual serial

production will still be years away. China has not had good experiences with such production in the past, the relatively simple Mig-21 taking 6 years to enter the Air Force in its locally produced form.²⁷

For a balanced assessment, it should also be noted that China is not alone in extending its occupation of the Spratly Islands. Vietnam has garrisons on 25, including a port on the Spratly Island which can accommodate naval vessels. Most of the claimants' fishing fleets ply the waters around the islands, using their countries' facilities where available. China and the Philippines have also agreed to resolve their overlapping claim peacefully; and the PRC expressed willingness to discuss the Spratly Islands claims at the 1995 ARF. Indeed, China has stated it is willing to negotiate a code of conduct for the South China Sea based on the 1992 ASEAN Manila Declaration as well as discuss conflicting claims through ASEAN's Senior Officers Meetings (SOMS).²⁸ This is not the behavior of a country seeking a military confrontation. Still, by setting territorial baselines around the Paracel islands (which a continental power may not do under the 1982 Law of the Sea Convention) and announcing that it may set more baselines "at another time," presumably around the Spratly Islands, Beijing may be waiting for its power projection abilities to catch up with its political ambitions.²⁹

ASEAN States' Defense and the Economic Crisis.

The economic crisis has differentially impacted ASEAN arms acquisitions. The two most seriously affected, Indonesia and Thailand, have absorbed the largest defense cuts. Malaysia and the Philippines—somewhat less devastated—have experienced some cutbacks, while Singapore's defense upgrades continue unabated.

Indonesia. Facing its most serious political and economic predicament since the abortive communist coup in the mid-1960s, Indonesia's possible economic meltdown coincides with concerns over political succession and a

regime that refused to address massive corruption and cronyism tied to the former president's family. Consequently, unlike most of its ASEAN counterparts, Indonesia's armed forces are redirecting their energies to internal security, protecting the regime from student protests and food riots. A combination of the poor, the landless, thousands of unemployed young people, disillusioned intellectuals, and that portion of the business community which does not have leadership connections is potentially volatile and renders Indonesia's political future a major challenge to ASEAN's vaunted concept of regional resilience.³⁰

Prior to the current crisis, Indonesia had 20 years to gradually create a navy and air force capable of monitoring its far-flung archipelago. Small numbers of submarines, light frigates, and fast attack craft equipped with Harpoon anti-ship missiles and torpedoes are the basis for a strategy designed to control the country's strategic straits and counter smuggling, piracy, and illegal fishing. The navy's small size, however, has meant that these missions have been difficult to achieve. The air force is built around U.S.-manufactured platforms, including C-130s for airlift and surveillance; OV-10F Broncos for ground attack; F-5s, A-4s, and 12 F-16A/Bs for aerial combat. Additionally, two reconfigured Boeing 737s provide maritime surveillance.³¹

Over the past 2 years, Indonesia has inaugurated some major air and naval exercises around its Natuna islands, probably motivated by China's 1995 seizure of Mischief Reef adjacent to the Philippines. China's archipelagic maritime claim based on the Paracel Islands particularly worries Indonesia. If that claim is extended to the Spratly Islands, then China can contend its EEZ covers the gas-rich seabed north of the Natuna Islands. The recent Indonesian exercises were undoubtedly designed to demonstrate that Jakarta has the capability to defend its claims. The 1995 Indonesian-Australian security treaty may also have China in mind. This new tie to Australia indirectly links Jakarta to the long-standing Five Power Defense Arrangement and

the Australia-U.S. security relationship. Thus, Indonesia's plan to proceed with a natural gas mega-project in the Natuna Islands by negotiating a contract with Exxon is based on a commitment to ensuring maritime stability in the area.³²

Air and maritime buildups have encountered a severe setback, however, with Indonesia's 1997-98 economic crisis. Jakarta has suspended the planned purchase from Russia of 12 Su-30 fighters and 8 Mi-17 multipurpose helicopters. Plans for additional submarines from Germany have also been abandoned. Additionally, the armed forces have cut back training and operations expenses. Cooperative exercises with neighboring countries are scheduled to continue but at a reduced tempo. Meanwhile, the armed forces have stated their primary concern is the prevention and control of domestic violence once again. By January 1998, an additional three million people had been added to the nation's jobless ranks.³³

The economic crisis has also strained Indonesia's relations with Malaysia as the latter forcibly repatriates thousands of illegal Indonesian immigrants who, for years, had come to the Malay peninsula to find work in what had been a labor-scarce economy. Malaysia's own economic malaise has led Kuala Lumpur to detain large numbers of illegal Indonesians in detention camps where some riots have occurred. After eight Indonesian detainees were killed in the course of a camp disturbance, one Indonesian official described the treatment of his countrymen as "a human rights violation," though he also acknowledged "on the question of deportation, that is the right of the state."³⁴ Indonesian migrants from Aceh claim they face political persecution if they return home. Repatriation of illegal immigrants has unfortunately become, therefore, a new source of stress in intra-ASEAN relations. International human rights groups have also entered this picture, criticizing Malaysia for not differentiating between political and economic refugees.³⁵

Thailand. The evolution of Thailand's armed forces from counterinsurgency to conventional warfare began in the 1980s. The shift reflected the demise of the Thai Communist Party, Vietnam's withdrawal from Cambodia, and increased concern over maritime security with the discovery of oil and gas deposits in the Gulf of Thailand and Andaman Sea. Additionally, Thailand had to develop a capacity to monitor its 200-mile EEZ attendant upon the 1982 Law of the Sea Convention. Thailand also has long-standing fishery conflicts with Vietnam, Malaysia, and Burma.

Beyond creating a two-ocean capability, Bangkok plans to build a naval base in Krabi province to protect its Southern Seaboard Development project. In the 1980s, the navy sought to expand its surface and ASW operations through the acquisition of three ASW corvettes and six Chinese Jianghu frigates (the only Southeast Asian navy to buy Chinese weapons).³⁶

The Thai navy is also developing an air arm centered on the helicopter/STOL carrier it acquired from Spain in 1997. While the carrier is equipped with American Seahawk helicopters and Spanish AV-8 Harriers, the financial crisis has kept the ship moored at Sattahip, for there are no operational funds.

Indeed, defense budget cutbacks following Thailand's July 1997 economic crisis has led to the suspension of all arms purchases. Among the procurement plans that have been indefinitely shelved are the purchase of 295 armored personnel carriers, 8 additional F-18s, an AWACS plane, 100,000 new infantry rifles, a satellite to monitor the country's borders, two submarines, light tanks, and long-range artillery.³⁷

Thailand continues to experience security problems along its land borders: refugees from Burma and Cambodia, Muslim separatists on the Malaysian border, and Burmese and Cambodian forces raiding refugee camps on the Thai side of their respective frontiers. Dealing with these territorial issues means that much of what remains in a

downsized Thai military budget must go for army-based internal security, leaving air and maritime forces with reduced resources even for routine operations. Moreover, Thailand's 1999 fiscal year defense budget similarly keeps new procurements to the bare bones, the lowest ever in the modern history of the Thai armed forces. The overall appropriation went from \$25 billion in fiscal 1998 (before the crisis) to \$20.3 billion in fiscal 1999.³⁸

Although the United States is Thailand's closest external security partner with the annual *Cobra Gold* exercise among the most sophisticated conducted by the United States in Asia, Bangkok was disappointed with Washington's initial response to Thai economic turmoil. U.S. Secretary of Defense William S. Cohen was even told that the United States should no longer count automatically on the use of Thai air and naval bases for transit either to the Persian Gulf or Northeast Asia. On the other hand, the Thais have hinted that they could be more accommodating if Washington would help find a way to delay or cancel contracts the Thai military has made with American defense manufacturers.³⁹ Finally, the United States came through for Thailand in March 1998 with the Clinton administration's unprecedented decision to cancel Thailand's F-18 purchase contract. Moreover, if the United States can find another buyer, the Thai armed forces could even get back its \$74.5 million down payment.⁴⁰

The United States has also agreed to underwrite a military training and exercise package which would have been canceled because of IMF-directed budget constraints. Additionally, as a reward for Thai compliance with IMF-mandated economic reforms, Washington has extended an additional \$1.7 billion in aid.⁴¹

As in Malaysia, Thailand is cutting back on foreign workers, including some 800,000 from Burma—mostly illegal. Repatriation is necessary to free jobs for an estimated two million Thais who will lose their jobs because of the economic troubles. Collaboration with the Burmese

government is essential for the repatriation; and, as in the case of Indonesian workers in Malaysia, there is also a political dimension. Burmese migrants include political dissidents and members of the Karen ethnic community who are battling the Rangoon government for autonomy. Human rights groups are keeping a close watch on how the Thais deal with this situation.⁴²

Malaysia. Kuala Lumpur has managed successfully to negotiate overlapping EEZs with Thailand and Vietnam, while agreeing with Indonesia and Singapore to submit separate territorial disputes over adjacent small islands to the World Court in The Hague. Therefore, Malaysian officials insist that the country's armaments plans are neither targeted against neighbors nor directed against any particular adversary.

Since the mid-1990s, the Malaysian armed forces (MAF) have focused on the creation of a Rapid Deployment Force (RDF) able to move between the peninsular and insular portions of the country and engage in joint operations among the three services.⁴³ Bilateral joint exercises with Thai, Indonesian, and Singaporean services also take place on a regular basis.

By the latter part of the 1990s, Malaysia committed to the creation of a power projection force, including a combination of Hawk-2000, F-18, and Mig-29 multi-role fighters for deep interdiction/maritime strike; maritime patrol aircraft; long-range air transport; new generation frigates; airspace surveillance radars; and a nationwide C³I system. Armed forces leaders are careful to insist that these new capabilities threaten no one but rather "should be seen as Malaysia's contribution towards maintaining peace and stability in the Southeast Asian region."⁴⁴ The combination of modern air, transport, and military intelligence capabilities makes the MAF one of the best balanced services in Southeast Asia. To enhance self-sufficiency, Malaysia also requires technology transfer to accompany all new weapons purchases with the goal of engaging in

licensed manufacturing sometime after the turn of the century.

Kuala Lumpur's Spratly Islands claims and EEZ protection are the responsibility of new missile equipped corvettes and frigates, a potent combination given the Malaysian navy's proximity to these claims. The navy would like to acquire submarines to complete its plans for operating in all environments.⁴⁵

Although Kuala Lumpur had completed much of its defense modernization before the financial crisis hit in the Autumn of 1997, in December the government cut the defense budget by \$83 million (10 percent) and warned that another 8 percent cut in 1998 was probable. Malaysia has shelved plans to acquire 27 offshore patrol vessels, helicopters, a low-level air defense system, and new submarines.⁴⁶ Despite the economic doldrums, however, Malaysia continues with plans to build offshore patrol boats locally at a private dockyard near the new Lumut Naval Base. The PSC-Naval Dockyard hopes to hire at least 1,000 technical and engineering personnel over the next decade to build new patrol craft for delivery in 2002.⁴⁷

With the privatization of much of Malaysia's defense industry, the Ministry of Defense is looking for a niche market for its products. They include aircraft maintenance for which a contract exists with the U.S. Air Force to service its C-130s; armored ground vehicles; and offshore patrol vehicles (OPVs). The emphasis on maritime surface patrol grows from Malaysia's South China Sea claims and concern over piracy in the Malacca Straits.⁴⁸

The economic crisis has created a new task for the navy. Four ships and two air force helicopters currently supplement police efforts to block an estimated influx of 300 illegal Indonesians daily escaping the economic conditions in their own country. Malaysian police believe that several thousand Indonesians are waiting for boats on various islands off the coast of Sumatra across from peninsular Malaysia. Other officials point out that the additional costs

of monitoring, capturing, registering, detaining, and then deporting these illegals may be beyond the government's financial capacity since its 1998 20 percent budget cut. Because Indonesia's unemployment rate is approaching ten million, this problem will not soon go away.⁴⁹ (Tension between the two ASEAN partners over the treatment of the illegals is discussed above in the Indonesian section.)

Singapore. The only ASEAN state defense budget not significantly impacted by the economic crisis has been Singapore. With a security doctrine that combines outsiders (the United States, Great Britain, and Australia), collaboration with neighbors (the Five Power Defense Arrangement and ASEAN Regional Forum), as well as self-reliance, the island city-state seems to have covered all bases. Most recently, Singapore seems to be strengthening its link to Washington by promising to give the United States access to the new Changi Naval Base which will become operative in 2000. Changi's size will even permit the U.S. Navy to dock its aircraft carriers.⁵⁰ Malaysia has informally reacted negatively to the new agreement, following a statement by Prime Minister Mahathir that he did not want to see an enhanced American military presence in the region.⁵¹ By contrast, Singapore may view a beefed-up U.S. presence as an insurance policy against the economic turmoil spilling over into regional political conflict.

Singapore's arms purchases continue unabated. It is buying 12 new F-16C/Ds, bringing its total to 42 current models of the strike aircraft by 2000. Singapore is also acquiring three submarines from Sweden. The F-16s are equipped with beyond visual range PGMs and advanced global positioning systems. Their acquisition will sustain Singapore as the region's most potent air force.⁵²

Philippines. Philippine defense capabilities perennially have been a standing joke within ASEAN. Lacking modern air and naval forces, the islands have been rife with smuggling, piracy, and fishery poaching. By the mid-1990s, President Ramos gambled that internal insurgencies could

be controlled politically so that army manpower could be substantially reduced. The savings would be reallocated to an ambitious 15-year modernization program which would emphasize maritime patrol ships and aircraft, a national radar surveillance system, and at least one fighter interceptor squadron.⁵³

Manila's inability to force the Chinese off Mischief Reef and continued Chinese fast attack craft operations around the Reef underscore the Philippines' inadequacies.⁵⁴ Nevertheless, the modernization program has been put on hold with the economic downturn. The peso has declined from 25 to the dollar in 1995 to 40 in 1998. Consequently, no procurement contracts have been signed in 1998; and the navy faces a 25 percent budget cut.⁵⁵

To fill these gaps, the Philippines is purchasing second-hand and surplus aircraft from South Korea at nominal rates, including obsolete but serviceable F-5A fighters and T-41 trainers. Earlier modernization plans calling for 24 multi-role combat aircraft have been put on hold. Even with the South Korean additions, the air force will probably be able to fly only five F-5s at any given time, hardly sufficient to monitor an archipelago twice as large as the continental United States. The Philippines will remain the most vulnerable militarily among the Spratly Islands claimants for the indefinite future. America's exit from the Philippine bases in 1992 has only exacerbated that vulnerability.

Conclusion.

For Southeast Asia, the past year has been overhung with dark clouds, literally from the forest fires of Sumatra and figuratively because of the currency crisis that has also spread like wild fire through the region. Once again the prospect of social instability stalks this territory. In Indonesia, armed forces are returning to internal security, while the problems of illegal economic migrants in Malaysia

and Thailand also demonstrate that security problems in Southeast Asia remain for the most part internal.

The defense modernization and arms acquisitions of the past 15 years are now being significantly cut back. Replacement of obsolete systems is being delayed. Overall, modernization has been put on hold as financial resources disappear. Sales to Asia from Europe and North America must now include not only lower prices but an ever larger share of the price in countertrade. Because almost all of the Southeast Asian countries are experiencing economic setbacks together, China's unimpeded arms buildups appear all the more ominous.

If a disparity in arms balances develops over time between the PLA and ASEAN armed forces, China could be tempted to behave more boldly in the South China Sea. Offensive military actions to occupy largely unpopulated islets against multiple potential adversaries could lead to buck passing among the latter—one of the classic risks under multipolarity.⁵⁶ ASEAN navies and air forces have not exercised jointly in a scenario against a common adversary in the South China Sea. Nor have they addressed interoperability among their services. And, the more they diversify acquisitions of combat platforms from the United States, Europe, and Russia, the more difficult interoperability becomes. Competitive pricing from a variety of international suppliers may stretch defense budgets but it also increases the difficulty of collaboration.

Still, there is some evidence that China will not necessarily take advantage of Southeast Asia's current troubles. Beijing has displayed interest in military confidence-building by co-chairing with the Philippines an ARF Intersessional Working Group on that subject and by signing in 1996 a pre-notification agreement on military exercises and the exchange of military observers—a major concession for the PLA which has always been quite secretive about military maneuvers. China has also responded to a March 1997 ASEAN protest about oil and gas

exploration in disputed seas off the coast of Vietnam by removing a PRC ship from the area.⁵⁷

Thus, there are undoubtedly elements within the PRC leadership who wish to purvey the image of China as a responsible great power prepared to follow the U.N. Convention on the Law of the Sea and negotiate its territorial claims with others. By contrast, however, hardliners—probably found in the Party and the PLA—may be behind China's straight baseline seaspace claims from the Paracel Islands that invoked a principle most experts consider applicable only to archipelagic states. This PRC claim, if unchallenged, could establish a precedent for claiming much of the South China Sea between the Paracel Islands and the Spratly Islands.

In sum, the signals emanating from Beijing are mixed on whether the PRC will take advantage of the ASEAN states' economic crisis. For the optimists, China has refrained from exacerbating ASEAN's export-led recovery strategy by not devaluing the renminbi. Beijing has also shown increasing interest in adhering to the new U.N. Law of the Sea which treats overlapping EEZs as issues to be negotiated. Beijing is also supporting general counter ballistic missiles (CBMs) for the Asia-Pacific. The pessimists, however, see no letup in China's military modernization and force projection development. With ASEAN arms procurements at a virtual standstill, the timetable for the PLA to catch up with and perhaps surpass its Southeast Asian neighbors may well be accelerated.

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