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CHINA AND LONG-RANGE ASIA ENERGY SECURITY: AN
ANALYSIS OF THE POLITICAL, ECONOMIC AND TECHNOLOGICAL
FACTORS SHAPING ASIAN ENERGY MARKETS

ENERGY AND CONFLICT IN CONTEMPORARY ASIA

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Introduction

The focus of this paper will be on contemporary areas of international and domestic conflict in East and Southeast Asia with an emphasis upon issues related to energy security and the impact of the current Asian economic crisis. The major international conclusions to be analyzed will be that; 1) almost all high and medium intensity conflicts that took place in the first several post-war decades arose primarily from post-colonial and cold war factors that are no longer present; 2) contemporary international points of conflict in East and Southeast Asia are potentially low intensity, with the exception of the Korean peninsula and possibly the Taiwan issue; and 3) the economic downturn facing Asia today has exacerbated many traditional animosities and limited regional cooperation. In terms of energy, none of these past and present conflicts has involved energy as a contentious issue. Energy is not likely to be a major factor for the next several years at least, given low prices and surplus supply and the fact that, aside from the South China Sea issue, potential near term conflicts in the area are not energy related. At the domestic level, the Asian economic crisis has led to the fall of several governments in democratic systems and to a major change in one non-democratic regime, Indonesia. It has also tended to increase a sense of nationalism and anti-globalization, led to internal scapegoating, and created a weakening of the safety net for the poor and middle class. If the economic downturn continues for several more years we can expect further international and domestic tensions, but it is unlikely that the vast majority of these will be energy related. This paper will first address past and current international conflict issues in Asia and their relation to energy security and then turn to domestic tensions rising out of the present economic crisis. Finally, an effort will be made to assess how these international and domestic issues may play out during the next five years and their

Chapter 1: Past and Present International Issues

A. Post-Colonial International Disputes

In order to provide a framework for a discussion of contemporary issues, it is useful to provide some historical background. A variety of disputes arose from efforts of colonial peoples to achieve independence and from territorial issues that developed following independence.¹ The

most violent colonial wars that ultimately came to the attention of the international community were the Indonesian independence movement from 1945 to 1949 and Indo-China conflict against French colonial rule from 1945 to 1954 and the later second Indo-China war that ended with the fall of South Vietnam in 1975. Following the attainment of independence, which took place in almost all of Southeast Asia by the mid 1950s, there were a variety of territorial issues that generally did not lead to violent conflict. Those peacefully settled included border disputes between Burma and China, confrontation between Thailand and Cambodia over ownership of a temple, decided by the International Court of Justice, and differences between Malaysia and Singapore over minor islands. There were other demands for territorial adjustments that had little chance for success, such as Cambodia's claims on Cochin China, and Thailand's desire to reclaim territories taken by the British and French in the nineteenth century and reclaimed by Thailand during World War II.

More serious problems arose over the formation of Malaysia in 1963 from an amalgamation of Malaya, Singapore, Sarawak and North Borneo (Sabah). The Philippines claimed sovereignty over (Sabah), leading to a temporary suspension of diplomatic relations and decades of demands by Filipino politicians for the return of Sabah to the Philippines. Indonesia saw in Malaysia a continuation of British colonialism and launched a series of ill-fated attacks that only stopped with the fall from power of President Sukarno of Indonesia in the mid 1960s. Also serious were the conflicts that arose after the unification of Vietnam. There were several years of low and medium intensity confrontations between Vietnam and China and, after border incidents between the Pol Pot regime in Cambodia and Vietnam, the latter invaded Cambodia and established a government friendly to its interests. The presence of Vietnamese troops on the border of Thailand led to a number of firefights between their respective armed forces. Finally, border issues between China and India and China and the Soviet Union both led to violent clashes during this period.

Almost none of these initial post-colonial disputes involved energy resources as a point of contention. The only case where energy was a factor was the disputed sea boundaries between Cambodia and the former South Vietnam. Uncertainty as to the exact line of demarcation between the two countries meant that foreign companies exploring for off-shore oil did not wish to become involved in the disputed areas. The other area of contention that will be reviewed in

detail later in this paper was the South China Sea, which has territorial claims from many countries in the region, but has not gone beyond minor actual conflict.

The other major international issues leading to violence in the first decades after independence were part of the Cold War. These involved the most deadly interstate confrontations in post-war Asia including the aforementioned second Indo-China war and the Korean War. Again, energy resources were not points of contention in either case as neither had known important oil or gas reserves and neither were in control of essential sea-lanes.

B. Contemporary International Conflicts

During the past decade there have been few cases of international conflict leading to violence or even suspended diplomatic relations in the region. In Southeast Asia all the major powers have withdrawn their armed forces from bases in the region. The French left after 1954, the British when they withdrew from "East of the Suez", the Americans from Vietnam in 1973 and from the Philippines in the 1990s, while the Australians abandoned their base in Malaysia in the same decade (although they continue to rotate planes into the area). The collapse of the Soviet Union led to the end of a Soviet intelligence and naval presence in Vietnam. The only non Asian military permanent involvement remaining in East and Southeast Asia has been United States armed forces in the Republic of Korea and Japan and the Russian military in their own Far Eastern territories.

1) Territorial Disputes

Territorial disputes remain relatively insignificant in most of East and Southeast Asia. There are minor island claims that continue to lead to some minimal tension, but the only two places of major international contention regarding ownership of land or sea territories are the northern islands of Japan taken by the Soviet Union at the end of World War II and the South China Sea. The question of sovereignty over the former Japanese islands is a continuing area of tension and negotiation between Russia and Japan and has led to diplomatic and economic repercussions in the past. While there has been no real threat of armed conflict from either side, the situation has inhibited oil development in the area.

The issue of the South China Sea may have more potential for trouble and remains a situation where the question of oil is one of the underlying causes for strain. The core of the debate comes from Beijing's assertion (similar to that of Taiwan) that most of the South China Sea, and particularly the Spratly and Paracel Islands, is Chinese territorial waters. This is based upon early exploration and has been reiterated over the decades and was underscored by the 1992 Peoples' Republic of China "Law on Territorial Waters" which claimed both the South China Sea islands and the Diaoyutai (Senkaku) Islands from Japan. Initially, this was primarily a China-Vietnam dispute as first South Vietnam and later a united Vietnam laid claim to islands in the area. This was followed by claims by Malaysia, Indonesia, Brunei, and most particularly the Philippines. All parties justify their claims based upon the United Nations Convention on the Law of the Sea.

There have been military confrontations in the area including a 1988 Vietnamese-Chinese naval clash costing 72 lives, the 1995 Chinese occupation of the Mischief Reef located within the Philippine economic zone and the 1997 Chinese naval landing on Scarborough Shoal.² There has been no violence in the past eight years. The Philippines has considered itself the most affronted Southeast Asian nation in these issues and areas taken by the Chinese have fallen into its planned oil concession area. China has not been interested on dealing with the region multilaterally, although it has attended Association of Southeast Asian Nations (ASEAN) meetings involving the issue. It seeks bi-lateral agreements in which it would have a more dominant role. The most recent example of the difficulties in solving this issue could be seen in the January 1999 American offer to hold a meeting of all six protagonists. China, desiring only bi-lateral negotiations refused to participate. Vietnam and Malaysia also opposed the meeting, arguing that the problem should be settled within the region.

At one level, the South China Sea dispute appears relatively benign, given statements by all sides that it should be decided peacefully. Informal meetings of the parties on the issue have continued over the years. On the other hand, China's neighbors have disputed Beijing's its peaceful intentions and perceived in its actions a willingness to expand its military presence in the area. Also disturbing was the statement by an oil exploration company representative that he had been assured by top Chinese officials that China would provide naval protection.³ This issue continues to simmer, but must be analyzed against both general PRC intentions towards its neighbors and military capability, both of which will be discussed in greater detail later. Finally,

many observers have seen in the dispute more of a question of sovereignty and military power than resource acquisition. The insistence of China on ultimate sovereignty over much of the area has been particularly disturbing to its neighbors. At the same time, the South China Sea is rich in fish products and there are various interpretations regarding the amount of the oil reserves present in the disputed area. Chinese sources place the possible reserves as larger than those of Kuwait, while others see them as considerably lower. There are also questions as to where possible reserves might exist in the South China Sea and the political consequences. The geographic pattern of reserves appears to some to resemble a doughnut, with possible rich reserves on the periphery of the Sea rather than in area far off-shore. To others it is more like a crescent, with the best known resources on the eastern and southern sides of the South China Sea, bordering Vietnam, Malaysia, Brunei and Indonesia. The area with the least potential would appear to be to the west, where the Spratly's dispute has been the most contentious.

2) Divided States

Two places that appear to provide the greatest danger of developing into major international conflict relate to divided states, the Korean Peninsula and Taiwan. It is not the intention of this paper to go into any detail as to these hostile arenas. Past actions of the North Korean government, the presence of large military units on the North-South border, the potential nuclear threat from the North, and the present dire economic situation in the North, all are reasons for worry with regard to the Korean peninsula. However, if we look at these problems from an energy standpoint only, we may see some positive elements arising out of the present economic and oil glut situation in Asia. North Korea is without any substantial domestic oil resources, or the hard currency to easily acquire petroleum products, and is heavily dependent upon the provision of oil by China. This energy weakness is by all accounts a serious hindrance to any extended North Korean military actions. On the other hand, the price and surplus of oil world-wide allows China to provide oil to North Korea without major sacrifices of its own and that minimal support may keep Pyongyang from desperate foreign adventures.

The final status of Taiwan has been a volatile issue since the mainland came under communist control in 1948. There is no reason to believe that in the near future China will surrender its claim that Taiwan is an integral part of its country or that Taiwan will agree to China's terms for

amalgamation. There have been threats by Beijing that any declaration of independence would bring a military response. If oil became scarce because of conflict in the Middle East, Taiwan, with Japan, could be a major competitor to China for oil supplies.

3) Bilateral Tensions

When analyzing bi-lateral tensions arising out of the present economic crisis, one is struck by a sense of *déjà vu*, in that many of these strains have historic antecedents. The three foci of this analysis are rising tensions between Singapore and its neighbors, attitudes among other Asian states toward China, and Asian responses to Japan's role in Asia. It must be emphasized that none of these problems rise to the level of military conflict and, at this point, none are primarily energy related.

The facts that the vast majority of Singapore's population is Chinese and the island nation has been the most prosperous country in the region have underlain decades long negative reactions from its largely Malay neighbors, Malaysia and Indonesia. Anti-Chinese rhetoric was frequent during the Confrontation between Malaysia and Indonesia when the former was formed and at one time included Singapore. Singapore was pushed out of Malaysia in part because of perceived efforts by the Chinese dominated political leadership of Singapore to form alliances with Chinese on the peninsula. Since that time there have been frequent periods of strained relations between Kuala Lumpur and Singapore interspersed with important economic cooperation.

During the past two years there have been further strains on Singapore's relations with its neighbors, in part derived from the present economic difficulties in the region and in part rising from personal views of leadership. Immediate points of conflict with Malaysia come from such issues as disputes over two islands and the placement of a customs post, as well as comments by prominent Singaporeans deemed pejorative by Malaysians. The publication of the memoirs of former Singapore Prime Minister Lee Kuan Yew casting aspersions at Malaysia's founding Father Tengku Abdul Rahman and his statement that its ruling party was behind 1963 race riots in Singapore were not perceived as constructive.

On the economic front, Malaysia's decision on capital and currency controls are said to have severely hurt the Singapore economy as brokers and banks lost heavily.⁴ Prime Minister

Mahathir denied trying to beggar Singapore and stated that the island nation "should learn to manage itself [without] undermining its neighbors" accusing it of raising interest rates thereby causing a drying up of liquidity.⁵ The continued relative prosperity of Singapore has further antagonized many Malaysians

The stark economic problems of Indonesia have also led to frictions with Singapore. In Singapore, there have been fears that the economic catastrophe in Indonesia could lead to hordes of refugees fleeing the archipelago. Attacks on the Chinese minority in Indonesia have been given heavy press in Singapore. In addition there was worry about pro-Muslim sentiments of Indonesia's new leadership and questions as to the viability of the new power elite.⁶ Many Indonesians have felt that the island nation has not sufficiently reached out to aid their impoverished country, although early in the crisis Singapore did offer economic aid. However, the aid did not come to early fruition. President B.J. Habibie commented that "A friend in need is a friend indeed. I don't have that feeling [from Singapore]."⁷ Racial and religious elements have also come to the fore as the President referred to Chinese and non Muslim Singapore when he stated "Look at the map, all the green is Indonesia and that red dot is Singapore."⁸ The economic crisis in the region has also led to the deportation of surplus workers out of both Malaysia and Singapore, sending them back to a country unable to cope with the unemployment it already has in abundance. Relations between Malaysia and Indonesia have been further disturbed by charges of brutal treatment of illegal Indonesian immigrants in Malaysian detention camps.

The subject of the relationship of China with its neighbors is too complex to elaborate in detail in this paper. However, suffice to state that present interaction tied to the economic downturn must be seen against the backdrop of extensive Chinese involvement in Southeast Asia including a thousand years of control over Vietnam, pre-twentieth century demands for tribute from other states in the region, and antagonism against the domestic economic role of Chinese throughout the area. In the first decade after the Communist victory on mainland China many Asian observers saw positive elements to the new regime including its support for anti-colonial activities, a cooperative international policy in the region, and its own seeming success in uniting the country and rebuilding its economy. However, there were also negative reactions to the threat of communism, China's aggressive atheist position and support of international communist

movements. The failure of the Great Leap forward and chaos of the Cultural Revolution only reinforced the fears of neighbors.

More recently, China's relations with its southern neighbors have developed under different circumstances. There is no long fear of Chinese communism and ideological issues are almost dead. There are latent worries about future Chinese military dangers, but these tend to come out more during periods when those supporting increased military appropriations have sought reasons for support. Thus, when communist insurgency basically ended in Southeast Asia a decade ago, there were demands for increases in conventional air and naval power to meet possible problems from a re-armed Japan, Indian activities in the Indian ocean and Chinese military power. Increases in Chinese military spending has been duly noted, as has the overwhelming military balance in favor of the PRC in comparison with the ASEAN armed forces. At the same time, others noted China's failures in its armed conflict with Vietnamese irregular forces in the 1970s and the weakness of China's ability to extend its military power far from its shores. The latter point was made by Paul Godwin with regard to China's ability to project its naval and air power in a conflict over the Spratly Island. He wrote in 1993 that China did not have the amphibious capability to successfully launch a major operation with the air cover capability it had at the time.⁹ More recently Sheldon Simon has observed that the Spratlys "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..."¹⁰

The recent economic crisis has underscored more salient economic fears among some of China's neighbors, arising from its own economic successes. Southeast Asians have worried about what they see as major foreign investment entering China to their own possible detriment. China had also become a major competitor for exports to the West and particularly to the United States. Prior to the current crisis this competition was seen as relatively benign from outside the region, given the strong patterns of growth at the time.¹¹

As Asian economies have attempted to export their way out of the present crisis this competition for exports has become even more intense. However, political tensions have been held in check in part by the Chinese discipline in avoiding currency devaluations on either the mainland or Hong Kong. This fiscal policy has, in fact, led to approving comments by leaders of neighboring

states For example, in August 1998, Prime Minister Mahathir of Malaysia, while expressing concern over pressures on the Chinese currency, stated that he was "very grateful" that Beijing had not devalued.¹²

Japan's relations with the rest of Asia were seriously clouded by memories of its actions during World War II and particularly previous Japanese imperial involvement in China and Korea. The decades after the war brought Japan back into the region as the premier economic player trading partner and investor in Southeast Asia and increasingly important economic force in neighboring Northeast Asia.¹³ From less than four billion dollars in import/export trade with Southeast Asia in the early 1970s, Japan's trade with the region rose to some \$68 billion in 1984 and \$109 billion in 1996, prior to the economic crisis.

Japan's foreign direct investment in Asia as a whole saw similar growth until the recent downturn. Manufacturing Foreign Direct Investment (FDI) to Asia rose from only 320 million dollars for all of 1951 to 1970. By 1994 Japan's cumulative FDI in the region had grown to \$74.7 billion. At the same time, it is important to note that Japan's FDI in Asia was only about forty percent of that with North America in 1994 and less than its investment with Europe for that year. Even so, Japan's FDI was the core of foreign investment for most Asian countries. Japan became second to the United States in China and has been the traditional primary investor in most of Southeast Asia. Unlike China, and against Marxist dogma, this economic dominance was not accompanied by political or military involvement. Japan avoided political interference through the first several post-war decades and only became involved in regional political events during recent Cambodian problems in conjunction with ASEAN and the United Nations and more recently in issues related to North Korea.

Initially, the rise Japanese economic power did not resonate positively in Southeast Asia. There were anti-Japanese riots in the 1970s in Thailand and Indonesia and there were accusations of sharp dealing and personal behavior similar to the charges in the "ugly American." Japan attempted to meet these characterizations by becoming more attuned to Southeast Asian interests, increasing its development aid until it became the biggest aid giver to the region, and by expanding its cooperative economic relations. By the 1980s both Malaysia and Indonesia declared "Look East" policies which saw in Japan, South Korea and Taiwan models of

development to be copied at home. There remained worries about the size of Japanese military expenditures and possibilities of future military mobilization or even nuclearization, but for Southeast Asia, these were not realistic near or mid-term dangers. This is particularly true given Japan's stated policy of establishing a nautical 1,000 mile limit for naval and air operations.¹⁴

The importance of Japan as trade partner and investor in the region has highlighted its centrality during the present economic crisis. The long downturn in the Japanese economy is a matter of considerable worry to other Asian economies that look to Japan to purchase their products and invest in their industries. Thus, unlike the thirties and forties, when Asia was concerned with Japan's political and military dominance, or the sixties, seventies and eighties when there was worry about Japan's economic power, today there is considerable disquiet regarding the ability of Japan to come out of its economic doldrums and find a successful plan for growth. Japan, on its part, has sought to mitigate the economic crisis in the rest of Asia by offering a thirty billion dollar aid package, a successor to the Asian Monetary Fund proposed earlier and attacked by the United States. Again it should be noted, at this point in time energy security issues are not significant in Japan's relations with its Asian neighbors.

C. Regional Organizations

Recent decades have shown an increased awareness in Asia of the interconnection of their various economies. The recent economic crisis has underscored the importance of this relationship. As intra Asian and intra Pacific trade and investment have grown markedly in the past several decades, regional organizations have come forward to deal with this new environment. Intra East Asian exports as a percentage GDP rose from 1.3 to 8% from 1965 to 1995. ASEAN exports to member states rose from \$2.8 billion to \$75.6 in the same period and ASEAN exports to other East Asian states went from \$2.4 billion to \$96.6 in those same years. Chart A gives some details of export patterns prior to the Asian economic crisis.

Data on trade and investment with specific countries is also dramatic. Total trade between ASEAN and the United States rose from \$23 billion in 1980 to \$80 billion in 1996 and between 1990 and 1994 grew by 14.1% a year. Between 1988 and 1996 Republic of Korean (ROK) trade with ASEAN grew on an average 22% per annum. ROK direct investment also grew markedly

until 1991 when it became more involved in investment in China. Of course, Japan has long been the major trader and investor in ASEAN and elsewhere in Asia. In 1996 trade with ASEAN amounted to \$109 billion and between 1993 and 1995 foreign direct investment in ASEAN countries rose from \$3.49 billion to \$5.15 billion.

The two regional organizations directly involved with these trade and investment issues under discussion here are ASEAN which includes all of Southeast Asia except Cambodia and the Asia-Pacific Economic forum (APEC) which includes most Pacific rim states. Both of these groups have been negatively effected by the economic crisis, although their past and present efficacy in determining the course of economic events in the region can be questioned. ASEAN was formed in 1967 with primarily political goals, but also had ancillary cultural and economic interests. During its first decades, there was little interest in developing economic cooperation that would lead to the kind of regional economic systems such as the European Union or even then existent free trade experiments in Latin America. In 1976 ASEAN formed the Preferential Trading Arrangement, but it was not particularly effective. It was not until 1992 when economic conditions in the region made tariff agreements more acceptable and competition from the European Union and NAFTA led to concern over foreign competition that the organization formed the ASEAN Free Trade Area (AFTA). Initially AFTA looked to end tariffs and non tariff trade barriers by 2008, but later shortened the period to 2003.¹⁵

While there was considerable progress in AFTA's first years, there were also obvious growing pains as the organization attempted to develop cooperation among such diverse economies as Singapore, Indonesia and Vietnam. Outside observers gave AFTA credit for early successes but emphasized the need to move more quickly in instituting its programs. The Asian economic crisis has made implementation of AFTA's goals considerably more difficult. ASEAN exports from 1996 to 1997 grew only 6.34% compared to an average growth of 16.5% from 1993 to 1996.¹⁶ Intra ASEAN exports grew only 4.65% from 1996 to 1997 compared with an average of 28.8% for 1993 to 1996. Exports to major markets varied with strong growth to the United States, China and Korea and a continued decline with Japan and the European Union. What aided the balance of payments for ASEAN was a major drop in imports, as damaged economies were forced to cut back. ASEAN imports declined by \$31,500.32 million in 1996 and \$21,894.57 million in 1997. Although there have been pledges to speed up tariff reductions at ASEAN

meetings, there also have been calls to slow tariff reduction from some quarters and domestic economic problems have taken precedence over regional cooperation. While ASEAN has been challenged by economic problems of its members, political issues have also been seen as weakening the organization. A debilitated Indonesia no longer appears to provide the strong foundation for the organization it had in the past. ASEAN's expansion to include Vietnam and Myanmar has provided serious transitional problems. In addition, the organization has been faced with internal political rifts over questions of non interference in the internal affairs of members, particularly with regard to issues of human rights and the arrest of Malaysia's Anwar Ibrahim. All of this has led to a spate of articles expressing serious concern over ASEAN's future.¹⁷

APEC was formed in 1989 as a forum primarily focusing upon economic issues facing the Pacific community. By the time of its meeting in Kuala Lumpur, Malaysia in November 1998 it had expanded to include 21 states on both sides of the Pacific. From the beginning its annual gatherings were the arena of contestation between the Anglo-American framework of neo-liberalism and a more organic Asian view emphasizing the integration of the state, economy and community. Political heterogeneity and a lack of strong organizational institutions has also characterized APEC.¹⁸ Differences at annual gatherings have often been covered by domestic political spins that have frequently led to major variations in interpretation of their results. Thus, by 1998 there were numerous Asian observers expressing the view that the organization had not achieved meaningful goals.

The Asian economic crisis underscored the political and economic differences that were already apparent in APEC. Statements by American participants regarding human rights were met with silence or antipathy by many Asian and Western Pacific delegates. North American desires for a general liberalization of tariff structures were thwarted as Asian states expressed concern over their battered economies. The main obstacle to the Clinton administration goal of a fast track on trade liberalization was Japan. Under domestic political pressure, Tokyo did not want to lower tariffs on fish and forest products. Supporting Japan were a number of Asian countries including China, Indonesia, Thailand and host Malaysia.¹⁹ Many nations prior to and during the Kuala Lumpur gathering expressed concern over trade liberalization endangering already weakened economies. In the end, it was difficult to paper over a meeting that garnered few positive results.

In sum, by the end of the twentieth century, international conflicts with the potential for violence had decreased markedly from what had existed in the period from 1930 to 1975. Tensions are not absent as evidenced by Singapore's relations with its neighbors, potential problems between Taiwan and the PRC and problems on the Korean Peninsula. However, few conflicts during the last half of the twentieth century arose from energy related issues, the primary exception being the South China Sea dispute.

Chapter 2: Domestic Issues

This section will assess two areas related to the effect on domestic the politics of Asian states arising from the economic decline in the region; 1) how domestic factors helped foster recent economic problems and 2) the impact of contemporary economic forces on the political situations of selected Asian states to this point.

A. Political Causal Factors

There can be no doubt that a number of political conditions fueled the development of the present economic crisis, although it would be incorrect to present them as the primary causal factor. These factors included cronyism, corruption, and fragile political coalitions, all of which reinforced one another. Most analyses of levels of national corruption place many Asian states in the high level category. Those defined as having high levels of corruption include both non communist states such as Thailand and Indonesia, as well as communist systems such as Vietnam and China. While there are credible arguments that some forms of corruption have not been necessarily antithetical to economic development, there can be little doubt that corruption as practiced in Asia has led to a weakening of transparency and made serious inroads on the ability to regulate financial institutions. When tied to political cronyism, the best example being Suharto's Indonesia, we have seen an unwillingness to control banking institutions or to properly supervise financial practices. The weakness of Asian banks and lack of control over the large amounts of capital coming into the region in the 1990s were significant factors in generating the crisis.

It needs to be emphasized that the degree to which a country adheres to democratic processes has not been a factor in determining economic success in meeting the present Asian economic crisis. In fact, where multi-party coalition politics has been the pattern, democratic regimes have been particularly prone to elements of both corruption and cronyism. Thus, strong ties between Thai political parties and financial institutions delayed necessary controls over banking practices and relationships between the ruling Liberal Democratic Party in Japan and banking interests have caused severe problems with regard to making difficult economic decisions. Of course several non-democratic economies have also shown severe problems in dealing with the crisis, including Indonesia, Vietnam and North Korea. Simply put, the economic crisis has not shown any one political system to be immune from its deleterious impact.

B. Domestic Impact

We can establish four contemporary major political repercussions from the present Asian economic downturn; 1) political instability and factionalism, 2) growing nationalism and anti-globalization; 3) scapegoating of minorities, and 4) a weakening of the national safety net. It needs to be emphasized that in most of these cases there has been a long history of tensions that have only been exacerbated by current economic problems.

Political Instability:

The developing economic crisis brought severe pressures on several governments in Asia that were already showing signs of weakness. Three democratic states saw changes in leadership influenced by perceptions of defective economic policies. In South Korea the victory of Kim Dae-jung in the 1997 national elections was aided by the economic problems that were besetting the country at the time. The serious deterioration of the Thai economy after mid 1997 also led to political change. Thailand had grown an average of more than 8% during the 1990s slowing to 6.7% in 1996. However, growth figures were negative for 1997 and are estimated to be -8.5% in 1998 (in spite of early estimates of 2% growth.) Chuan Leekpai succeeded Prime Minister Chavalit after the latter was perceived to have badly mismanaged the Thai economy. Chavalit appeared to show an unwillingness to act decisively when Thailand was hit by the severe economic crisis in mid 1997. It was argued that he was unwilling to change a cabinet that was

closely tied to financial institutions that were in part responsible for the situation and was not prepared to listen to knowledgeable technocrats. In the end a new coalition led by Chuan replaced Chavalit in November 1997

Japan has experienced a long economic crisis that has seen little growth in the economy since 1994 (ranging from a 0.6% growth in GDP in 1994, 1.4% in 1995, 3.5% in 1996 and 1.1% in 1997). A parade of economic problems has provided serious difficulties to the ruling Liberal Democratic Party and its leadership. Recent elections for the upper house saw disillusionment among Japanese voters with regard to the ability of the LDP to solve economic problems. In 1998 a new Prime Minister was selected and in early 1999 a new coalition took over power.

While the victory of former movie actor and Vice President Joseph Estrada as President of the Philippines was not supported by the old Filipino economic elite, and took place during a period when that country was caught in the Asian economic crisis, the downturn itself was probably not a key factor in Estrada's victory. More important was the fact that former President Ramos could not run again and a fractionalized opposition to Estrada proved to be ineffective. As well, while the Filipino currency did devalue, the depth of past economic problems in the Philippines meant that its devaluation and economic adjustment was not so great as its neighbors. Philippine GDP growth did not show the high level of growth seen in other ASEAN states during the 1990s (through most of the decade GDP remained less than 4.5% and was -0.6% as late as 1991).

Finally, Malaysia in 1998 remained under the leadership of Prime Minister Mahathir and the ruling Barisan Nasional coalition continued to hold over two-thirds of the seats in Parliament, even with loosing several recent by-elections. However, dominating Malaysian politics was the sacking and later arrest of Deputy Prime Minister and Finance Minister Anwar Ibrahim. His arrest was based upon charges of corruption and sodomy and his dismissal from the cabinet was at least in part due to Mahathir's worry about Anwar's possible political challenge to his power. However, the immediate cause of his sacking appeared to be in large part due to disagreements over the direction of Malaysia's policies to meet the growing economic decline in the country. Malaysia had averaged over 8% in the 1990s and reached as high as 10.1% in 1995. However, estimates for growth in 1998 are approximately -4.5% and the ringgit came under severe pressure, loosing 40% of its value against the dollar in the months following the Thai devaluation.

Anwar's answer to these challenges was to severely cut government programs and expenditures and to provide major incentives for investment and savings. Mahathir saw a conspiracy of international financial speculators, and particularly targeted George Soros as the culprit behind the fall in Malaysian currency. In the end, Mahathir put into place currency and investment controls, which further increased tensions between himself and his Deputy Prime Minister. The Prime Minister later stated that reasons for Anwar's dismissal were not due to the latter's challenge to his policies and power, but because of moral turpitude. The subsequent arrest and trial of Anwar has severely tested the government coalition and strengthened opposition to Mahathir both within and without the government. Future implications will be discussed later in this paper.

Finally, we have also seen stress put upon non democratic systems in Asia by the economic crisis. However, while economic growth has not been as high as originally projected in Vietnam or China and North Korea remains an economic debacle, there have been no signs of political change at the top in these states resulting from economic decline. The one significant regime fall as a consequence of economic factors has been Indonesia. More than thirty years of rule by President Suharto of Indonesia came to an end in 1998, largely due to his inability to bring Indonesia out of severe depression and public blame for the role of he and his family in the decline. Through most of the 1990s, the Republic had grown on the average over 6% and was even projected to increase its GDP in 1998 by 5.2 to 7%. However, the reality was that estimates for 1998 show a decline of GDP of 15 to 16% with a downturn in manufacturing of 19.3%, agriculture of 2.4%, finance and banking of 22.6% and hotels and trade of 22.6%.²⁰

As the economy continued to slide and issues of cronyism, corruption and anti-democratic policies grew more central, there arose country-wide discontent. The role of Suharto family owned business activities and the fact that weak banking industry were at first not targets of governmental reform added to discontent. Ultimately the rupiah declined from a 1997 average of somewhat less than 2500 to the dollar to over 15,000 and large numbers of Indonesians fell below the poverty line. The resulting dissatisfaction and street violence led Suharto to resign from office in mid 1998.

Thus, by 1998 most countries in Asia had shown increased political instability, although this did not endanger the continued maintenance of power in nearly all the non democratic regimes. As the chart below shows, at least one political risk analysis, the Hong Kong based Political Risk and Economic Risk Consultancy, found that only Taiwan, the Philippines and Vietnam were perceived as more stable in 1998 than in 1997.²¹

Chart B

Political Stability in Asia		
Country	1998	1997
Singapore	1.5	1.06
Japan	2.0	1.33
Taiwan	2.0	3.59
Hong Kong	2.0	3.9
Philippines	4.0	4.46
Vietnam	4.5	5.5
China	5.5	5.03
India	6.0	5.57
Thailand	6.0	4.08
South Korea	7.0	6.07
Malaysia	7.5	4.13
Indonesia	9.0	6.61

Grades are 0 to 10 with zero a very low risk and 10 very high risk.

It should be emphasized that none of these domestic political crises had any fundamental relationships to energy issues. They were not related to any shortage or high price of oil or gas and, in fact, the economic downturn led to a severe decline in the purchase of new vehicles in most of Asia and a decrease in the price and consumption of oil. The closest we can come to any energy related factor would be IMF demands for an end to food and gasoline subsidies in Indonesia, which increased political tensions in the country.

C. Growing Nationalism

One of the noteworthy consequences of the economic crisis has been the growth of nationalism and anti-globalization that has appeared in contemporary Asia. Both of these elements have been present in Asian domestic politics for decades, but several aspects of the crisis have exacerbated them. It is argued by many Asian politicians and intellectuals that the present situation is the result of foreign economic and political forces seeking to weaken Asian states or take advantage of their dire circumstances. In the latter case, efforts of foreign investors to obtain bargains by purchasing Asian assets cheaply has resulted in strong criticism of those seen as exploiting the suffering of the region.

It is also argued that the crisis and its continuation have been the result of external manipulation and inappropriate policies. Currency speculators such as George Soros have been targeted as scavengers exploiting economic weaknesses and attempting to debilitate local economies. This has been the particular argument of Malaysian Prime Minister Mahathir who further appears to believe that this has been part of a Jewish conspiracy to weaken Muslim governments. Meanwhile, many non governmental regional organizations have attacked globalization as one factor in the Asian crisis and during the 1998 APEC meetings in Kuala Lumpur the Asian Peoples' Assembly met to attack globalization. This counter APEC gathering included some 24 local and 16 regional NGOs and received wide press coverage.²²

Another international organization coming under strong attack has been the International Monetary Fund (IMF). Aside from charges that the IMF recommendations did not fit Asian needs, there have been assaults on that organization as a surrogate of Western, and particularly American, political and economic interests. Intellectual and political spokespeople in Indonesia and Thailand in particular have articulated these complaints. They have accused the IMF and Western governments of supporting corrupt regimes, putting increasing pressure on the poor, driving them further into poverty, and projecting materialist and immoral attitudes.

There have also been comments by Asian observers that China may take advantage of this growing antagonism against what is perceived as Western and particularly American dominance. There have been suggestions that China has sought to bring together Asian states dissatisfied

with the IMF, international pressure on human rights, and Western rhetoric that appeared to state that they are on the right side of history. This has appeared to also be an attempt to show China as the real future leader of Asia, rather than Japan, which is characterized as too close to the United States.²³ Given Japan's economic power in the region and its trade and investment dominance in comparison to China's, any leadership role sought by Beijing is likely to be more symbolic than real. This is particularly true in the light of growing nationalism elsewhere in Asia and long-term suspicions of China's ambitions in the region.

D. Internal Scapegoating

A particularly unfortunate result of the present crisis has been the attack on groups who have become scapegoats for the crisis. Historically, the Chinese in Southeast Asia have been the targets of local communities during hard times. The Chinese have been dominant economic elements at the local level where they have been the commercial and financial elite. In many Southeast Asian countries, they have also been economic partners of those in political power. The Chinese have been called the "Jews of Southeast Asia" and, like their European counterparts, targets of pogroms in hard times. This situation has become particularly prevalent in Indonesia during the past year. Killing, arson and rape have led to strong protests from ethnic Chinese states such as China, Singapore and Taiwan, weakening the resolve of these stronger economies to aid Indonesia.

Other scapegoats have been legal and particularly illegal immigrants in once prosperous Southeast Asian states. As the need for a larger labor pool has dried up there have been demands that foreign workers be expelled. Malaysia is estimated to expel 200,000 by the end of 1998, Thailand has targeted 300,000, and South Korea has deported 150,000.²⁴ [See Chart C below] Not only has this caused personal problems for the deportees, but also it is likely to further destabilize their homeland. Thus, Indonesia projected an unemployment rate of 15 million by the end of 1998, further exacerbating the political and economic turmoil that country faces.

Chart C

Unemployment Trends Among Local and Guest Workers in East Asia 1997-98				
Countries	Unemployment rate % 1997 / 1998	Total Jobless in 1998	Among Local Workers	Among Migrant Workers
Hong Kong	2.9 / 4.0	133,600 (5/98)	6,000 (6/97 - 5/98)	No mass deportation, 27,200 foreign domestic helpers terminated (6/97- 3-98)
Indonesia	14.2 / 16.0	15.2 million	2 million (6/97 - 12/97)	-
Malaysia	2.3 / 3.7	500,000	36,000 (6/97 - 5/98)	10,000 deported (6/97 - 1/98); 3,030 laid off (1/98 - 5/98); 200,000 to be expelled in 1998
Philippines	7.9 / 8.4	4.3 million (4/98)	1.2 million (yr to 5/98)	-
Singapore	1.8 / n/a	-	>2,000 (6/98 - 5/98)	3,161 undocumented immigrants arrested (1/98 - 3/98)
South Korea	2.8 / 6.5	2 million (forecast)	276,000 (6/97 - 1/98)	300,000 deported (6/97 - 1/98) 1,000 more to be expelled in 98
Thailand	3.0 / 6.0	2.7 million (7/98)	200,000 public employees (forecast)	6,000 Burmese expelled (6/97 - 1/98); 300,000 to be expelled in 98

Note: The Asian Migrant Centre, a HongKong-based non profit ... predicts that in all, there will be 24m Jobless workers in 1998 from seven Asian countries alone (21.8M in Indonesia, Thailand and Malaysia; 2.1 m in Hong Kong and South Korea.) Over 3.54 local workers lost their jobs from 6/97 to 5/98 due to the crisis; while more than 933,000 migrant workers will be laid off or deported by the of 1998.

Source: Asian Migrant Centre Information Bank quoted in Business Asia, August 10, 1998 pp. 1-3.

E. Weakening Safety Net

The economic crisis has produced two major groups of victims who may very well have a significant influence on the political and economic life of Asia. During the past two years we have seen a large number of people in Southeast Asia fall below the poverty line. A World Bank expert has projected that by 2000 those living below the poverty line in Indonesia, Malaysia, Thailand and the Philippines could increase from 40 million to 90 million.²⁵ This may even be an optimistic projection since Indonesian government sources in late 1998 foresaw some 95.8 million of Indonesia's 206 million population falling below the poverty line and by January 1999 official sources projected 130 million. Even by mid 1998 the number was said to have risen to

79.4 million. This needs to be compared with only 11 percent below the line prior to the crisis, a more than five-fold increase. While poverty statistics are relative and, particularly at this time, not totally reliable, there can be no question that there has been a significant economic setback for large numbers of people in the region. In addition, in Indonesia about 20% of all pupils had to drop out of school for financial reasons, and the United Nations believed that about 40 million Indonesians were facing critical food shortages in 1998.

What may be of even greater long term political impact has been the large number of middle class Asians who have seen their fortunes falter. This has not only effected the middle class in Southeast Asian countries such as Thailand and Indonesia, but has also hit South Korea and other NICs. As James Castle of the Jakarta based Castle Group has noted, "when you look at political unrest, the primary source is the middle class, not the poorest or the wealthiest."²⁶

Most of Asia has not developed a strong safety net to meet economic crises such as is now being faced in the region. Unemployment, housing, health and other welfare schemes are often weak. This means that those suffering economic problems find little government support and the impact of the present crisis may very well be similar to those in the West who face the Great Depression. The historic consequences of that period on Europe were profound. Short-term political repercussions are already apparent.

If we ask what role petroleum based energy has played in domestic problems of the region, it is necessary to look at oil producing and oil importing states. For major producers such as Indonesia, Malaysia and Brunei, the low price and easy availability of oil has brought a decline in revenues and further pressure on their economies and the ability of their governments to meet national needs. For example, Pertamina estimated that average prices for Indonesian crude fell from US\$19.88 bbl in January 1996 to US\$11.83 in June 1998. As for the importing nations, the low price has eased somewhat economic and political pressures. Availability is also a less salient issue, given the decrease in energy consumption in most Asian economies.

Chapter 3: Future Implications

There are a wide range of assessments as to the length and depth of the present Asian economic crisis both at the regional and country level. To the extent that consensus exists. Regarding the economic future of the region, it is believed that positive growth will be reached in the next two years. At the same time, very few knowledgeable observers would expect an early return to the level of growth seen prior to the crisis. This assessment does not hold for all countries in East and Southeast Asia and even positive growth for Indonesia by the end of 2000 appears unlikely. Divergence of opinion comes as to when Asia will return to the economic vitality it displayed in the first half of the 1990s and how fast individual economies will fully recover.

We can assess future political ramifications against two scenarios. The first, and probably the most likely, is that China and Taiwan will continue to grow, with slight temporary downturns. The rest of Asia, with the exception of Indonesia, will reach positive growth figures by 2000, and at the end of five years there will be significant growth in almost all Asian economies. This does not necessarily mean that the region will develop at the heady pace of pre-crisis years. The second scenario is one of long term recession. Under this view, growth is only possible IF China does not devalue, IF Japan is able to solve its economic problems. and IF the American economy remains robust. If the two foundations of trade and investment, Japan and the United States were to seriously falter, then we could face the second scenario, a long-term recession with little or no growth for the region.

Under either scenario there should not be a significant rise in demand for energy in Asia during most of the next five years. Given the first scenario, the earlier expectation that rising Asian oil demand would put pressure on global oil capacity would be delayed possibly for five years. Under the more pessimistic scenario there would be a longer period be an even longer period before total Asian oil demands rose. The continuance of low priced and readily available oil, are, of course dependent upon conditions in other petroleum producing regions.

If either of these scenarios proves correct and there is no major stoppage of Middle Eastern oil supplies, several consequences need to be considered. These include, a longer period before predictions of conflict over oil in Asia might come to fruition, a limit upon defense procurement

further constraining possible military hostility, and conceivable increased domestic turmoil, particularly under scenario two.

A. Conflict Over Oil

There have been several analyses of future conflict in Asia over limited supplies of oil.²⁷ Most of these projections were made prior to the present oil crisis. They pictured rising demand for oil from Asian states and possible tension over increasingly shorter supplies. At the very least, the aforementioned scenarios would put off any conflict a further five to ten years. An analysis by Robert Manning of the Council of Foreign Relations sees little probability of meeting the original projection of an increase in Asian oil demand of one million b/pd.²⁸ He projects only modest growth in demand for China, Taiwan, Hong Kong, and possibly India to 2002. In Manning's analysis, flat growth was predicted for most of ASEAN and Japan was seen as having diminished oil demand to 2001-2. Moreover, Manning speculates that it is possible that new technologies will lead to flat growth for the medium-term future. A continued weak oil consumption pattern could only exacerbate the already low price and high availability of world petroleum. If these conditions persist during the medium-term future, it is difficult to see the development of conflict in the near and medium term over any short supply of energy.

B. Defense Procurement

Kent Calder has presented an excellent review of the defense buildup that took place in Asia during the years prior to the economic downturn²⁹ and Sheldon Simon has up-dated our understanding of more recent defense expenditures in the region.³⁰ One of the consequences of the present economic crisis has been a decline in defense expenditures throughout most of Asia. ASEAN countries have been forced to implement severe cut backs in military development. Thailand, Indonesia, Malaysia and the Philippines have all slowed their arms modernization programs. By early 1998 Thailand had cut its defense budget from \$1.04 billion to \$800 billion and stopped further arms purchases, dropped out of joint naval exercises with the United States, and even had to compromise its anti-piracy and anti-smuggling operations.³¹ Indonesia suspended purchase of Russian aircraft and the armed forces have cut training and operations costs.³² Malaysia cut defense expenditures by 10% and stated that it might cut another 8%. The

Philippines has maintained a very weak defense establishment, although it has threatened to increase expenditures to meet the Chinese threat. China and Singapore have continued to expand their military power, although Singapore's activities have been defensive in nature. While China continues arms purchases, Simon believes that its challenge to Southeast Asia is not near term but more in the next ten to twenty years.³³

This decline in military expenditures further weakens the possibility of conflict in Asia in the short term, particularly the launching of any large-scale naval or air operations. It needs to be emphasized that, even with the growth in military budgets in earlier years, the capability of any Asian state to project its naval/air power abroad in the near future is limited. Even if we look at the four countries with the largest naval and air forces, China, Japan, South Korea and Taiwan, we find naval power with primarily coastal defense capabilities. Although Beijing would like to extend its naval power abroad, according to John Lewis and Xue Li Tai, PRC planning in 1997 foresaw moving from a coastal defense strategy to off-shore ability by 2000 and a blue water navy by 2050.³⁴ It is in the process of strengthening its naval and air capabilities through purchases of vessels and planes from Russia and its neighbors to the south do not possess comparable weapons. Japan's naval power is primarily based upon destroyers and smaller vessels, although it has developed tanker re-supply capabilities. However, it has not sought to build or purchase cruisers or aircraft carriers. Korea and Taiwan do not have a strong naval presence, although Taiwan is going to build new German-designed submarines. None of the four has the capability to launch major amphibious operations against overseas neighbors. All four have modern air forces that would have the potential to do significant damage to their neighbors and, of course, China is a nuclear power. As noted previously, the most likely deployment of these forces in an aggressive or defensive move would be between Taiwan and China and on the Korean peninsula. At this point, aside from minor operations in the South China Sea there has been no use of naval or air power related to energy security. There is even disagreement as to China's ability to effectively project its air power easily in the Spratly dispute, given the distance of the islands from China and their closer geographic relation to the air bases of some of its neighbors in the area.³⁵

Present air and sea weaknesses of the protagonist in the South China Sea should not inhibit us from assessing possible dangers to energy security rising from this disputed area. There is always

the possibility of inadvertent conflicts that could lead to more serious confrontations. Although the amount of oil reserves actually present in the area remains undetermined, there are also those who foresee the possibility of China seeking to assure its long-term control over an important potential resource. It is useful to remember that, along with the straits of Malacca, Sunda and Lombok, the South China Sea is a vital sea-lane to Japan and the rest of Northeast Asia. While this scenario appears unlikely in the near future, the South China Sea remains a place to watch.

Under either scenario, but particularly the second more pessimistic one, there are two possible future domestic problems that could impact adversely upon energy security. During the next several years, both Indonesia and Malaysia may face severe challenges to domestic stability. In Indonesia, political legitimacy is threatened by a weakened economy and growing desperation of over two-thirds of a population now below the poverty line. There is strong opposition to the present political structure and its maintenance in power could lead to further violent reactions. Yet, the formation of a working democratic system very well might lead to a fractured party system similar to the multi-party results of Indonesia's only free election in the 1950s. Neither scenario bodes well for political well-being of the archipelago in the near future, given the expected continuation of its economic depression.

The arrest of Anwar Ibrahim and continued opposition to Prime Minister Mahathir probably will not lead to the degree of instability most observers forecast for Indonesia. However, elections must be called in the next two years, and there is the possibility that the present coalition government might be seriously challenged at the election box. Given the weak economy, many consider it to be unlikely that the Chinese voters will again give the majority of the vote to the ruling coalition. There are already signs of Malay Muslim voters looking to the opposition. Still, the government is likely to stay in power, albeit with a smaller majority. However, after so many decades of unrivaled control the ruling Barisan Nasional may find it facing the need for reform in a political environment unlike any faced for many years.

Political weakness in these two states could have important repercussions for energy security in Asia. First, Indonesia and Malaysia are the chief oil exporting producers in the region, although relatively minor in comparison with imports from the Middle east. While most areas where wells are in production are found in places far from the centers of political turmoil, political

instability could impact upon production. A worst case scenario could result in anti-foreign attitudes and policies rising out of the economic crisis, work stoppages, and a lack of investment in infrastructure. Secondly, these two countries sit astride two of the major sea-lanes transporting oil products from the Middle East to Northeast Asia. Over 1,100 loaded supertankers pass through the Straits of Malacca annually, most of which go to Northeast Asia. In addition, both the Sunda and Lombok straits are in Indonesian territory. At this point, it is unlikely that political instability would lead to efforts by the governments of these states to close these possible chokepoints, although weakened polities might find it more difficult to deal with an already active piracy problem. These admittedly quite pessimistic possibilities would appear to be far more likely in the case of Indonesia, particularly if the domestic economy remains in dire straits.

However, for the entire region, a continuation of severely weakened economies could have serious domestic political implications for energy security. Under the second scenario, one might expect increased anti-foreign rhetoric and action, more attacks upon scapegoats such as the Chinese minorities, and major challenges to the domestic political stability of many states. These conditions would mean less demand for oil products. However, they could also both endanger what has been a growing pattern of peaceful settlement of international issues in the region and lead to nationalist demands for policies with negative implications for foreign investment.

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