Political and Governance Challenges in Southeast Asia: Outlook 2001

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About the Speaker

Tunku Abdul Aziz Ibrahim has held senior management or advisory positions in private and public sector organizations in Malaysia, Hong Kong and the UK, including the Central Bank of Malaysia, Dunlop Malaysian Industries, and Sime Darby. He was at one time or another a member of the Council of the Federation of Malaysian Manufacturers, the Malaysian National Shippers Council, the ASEAN Business Council, the ASEAN-US Business Council, the Asian-EU Business Council, as well as Chairman of the ASEAN Chambers of Commerce and Industry Working Group on Industrial Complementation. Tunku Aziz initiated, with the support of like-minded individuals, the setting up in Malaysia of the Malaysian Chapter of Transparency International, the global coalition against corruption, known locally as the Kuala Lumpur Society for Transparency & Integrity, of which he is the President. In October 1997 he was elected to the international board of Transparency International, and in March the following year he became Vice-Chairman of the Board of Directors of Transparency International. Tunku Aziz currently devotes all his time to Transparency International on a voluntary basis and has written and spoken widely on corruption and integrity issues, both domestically and internationally. He is a member of the World Bank High Level Advisory Group on Anti-Corruption in the East Asia and Pacific Region, and a member of the Advisory Board of Global Public Policy Networks, a project of "Visioning the UN", initiated by the UN Secretary-General.

CHALLENGES FACING CORPORATE GOVERNANCE IN SOUTHEAST ASIA

With the exception of Singapore, negative perceptions continue to dog much of Southeast Asia. Both local as well as international investor communities, rightly or wrongly, view attempts at reforming corporate governance as half-hearted at best. They are apparently intended purely as a public relations exercise to deflect criticisms of the way in which corporate Southeast Asia still conducts its business — in the time-honoured tradition, or so it seems, of treating with contempt transparency and accountability in the management of company affairs. Who can blame potential investors when examples of less than transparent and accountable corporate behaviour in the restructuring process pop up everywhere, all the time?

It does not help the regional cause much when, for instance, a Malaysian government spokesman said in parliament recently that the Transparency International Corruption Perceptions Index (TI-CPI) "was only the perception of the organization that developed it, and, therefore, should not be taken seriously." It is an extraordinary statement to make on an issue that has been attracting such a great deal of global attention. The TI-CPI has become, since it was first published in 1995, the most important and authoritative international tool for assessing the perceived levels of corruption in selected countries. It has been subjected to at least three independent political and management risks surveys. Countries in the region, particularly Malaysia, that ignore the red flags being hoisted by the international business community are at risk of being seen to be still stuck in the denial mode, a situation they can least afford to live with in the prevailing climate.

While it is true that the TI-CPI is based largely on the perceptions of the expatriate business community and may, therefore, have no basis in fact, the point is

that they are real. They exist, and they have an important bearing on the economic well-being of the countries concerned.

One need hardly be reminded that the countries perceived to be seriously corrupt, such as Indonesia, the Philippines, Thailand and South Korea, were among the worst hit by the Asian economic crisis. The Philippines escaped the eye of the economic storm not so much by design but, I suspect, by divine intervention.

In any case, that country has been on the International Monetary Fund (IMF)/World Bank life support systems, off and on, mostly on, for some four decades. The correlation between the findings of the TI-CPI and the severity of the sufferings experienced by the countries perceived to have developed a high level of tolerance for unethical public and corporate behaviour is, to say the least, uncanny.

Although South Korea is outside the scope of this review, it is nevertheless interesting to compare its unabashed embrace of good corporate governance and anti-corruption regime on the one hand, and Malaysia's arrogantly dismissive attitude to international opinion, on the other.

On the local government level, for example, the dynamic, innovative and incorruptible mayor of Seoul, Goh Kun, is absolutely determined to turn his city of ten million citizens into an "island of integrity". He has introduced transparency and accountability in administrative systems and procedures that go well beyond mere statutory compliance. Public dealings with the City Hall are "on line" with complete access to relevant information. This is a contrast to many countries in Southeast Asia, particularly Malaysia and Singapore where some public information would be hidden behind the Official Secrets Act.

The government of South Korea has established a high-powered special department to review the civil service machinery with a view to adopting "best international practice", particularly in the areas of public procurement and service delivery. Both areas are identified worldwide as being highly vulnerable to corruption. This again is all part of the wide ranging measures aimed at improving governance and increasing investor confidence.

The fact that the President and Prime Minister of the Republic of Korea, and the Chief Executive of the Seoul Metropolitan Government, are deeply committed to redeem the country's blighted image is not lost on the world at large, as evidenced by

the large inflows of direct foreign investments into the country. It appears that South Korea is enjoying both the peace as well as the integrity dividends.

One cannot even begin to discuss the role of the private sector in the battle for good governance without examining the part governments play in shaping the environment and setting the tone in which business is conducted. It is now widely recognized that the Asian economic crisis had, in a sense, less to do with economics and more with politics. No less a person than Singapore's Senior Minister, Lee Kuan Yew, came to that conclusion when addressing leading American businessmen at a Fortune 500 Forum in October 1997.

There is, of course, a great deal of truth in his observation because at the end of the day, it is governments that set the moral and ethical tone; just as it is they that promote the incestuous relationships with certain favoured corporate entities. It is an ethical aberration, and that is putting it kindly. These cosy, highly unethical arrangements have been dignified in the course of time as, for example, Japan Incorporated, Korea Incorporated, and Malaysia Incorporated. Predictably, by their very nature, these arrangements spawn corruption and other forms of corporate and official abuse in the region. Good governance is not a factor in this equation.

In common garden language, the practice blossoms into, for want of a better description, the *Incorporated Society of Crony Capitalism*, or ISCC for short. To Dr Mahathir Mohamad and his ilk, who among themselves have developed connections into an art form, any suggestion that this practice represents unadulterated cronyism is totally and utterly unfair and mischievous. In his familiar refrain, such comment smacks of envy and it is nothing more than a Western ploy to discredit Malaysia's achievements under his leadership.

By contrast, Asia's foremost liberal democrat and former Thai prime minister, Anand Panyarachun, the man who gave Thailand the world's first anti-corruption constitution, clearly understood the danger of exploiting connections. In his inaugural Asia-Euro Foundation speech in Bangkok in 1998, he deplored the fact that the Thais continued to retain their system of patronage networks, "a system based on connections" which could "become deadly because patronage is not based on merit, and, therefore, tends to breed inefficiency and corruption."

The mindless blame directed at foreigners when things, for which countries themselves are responsible go wrong, has achieved, with official encouragement, cult status in many countries in the region. A foreigner performs a useful function; he or she is there, in a manner of speaking, to be clobbered over the head, especially if his name happens to be George Soros whom Mahathir was reported to have called "a moron". Soros returned the compliments by describing his detractor as "a liability to his own country". It is interesting to speculate just who would have been the favourite whipping boy if Soros had not happened to be a successful money market operator.

Given that political will is crucial to the whole process of developing globally accepted standards of business integrity, its absence can only mean one thing. Unacceptable business behaviour, often bordering on the criminal, is openly tolerated as a business or cultural norm. Governments of many Southeast Asian countries, used to complete freedom of action, are not likely to submit voluntarily to the discipline and constraints of good governance. For them, the first glimmer of recovery is a signal to return to the good old days of unbridled excesses. Clearly, governments have a responsibility to develop and strengthen national integrity systems, and they ignore this obligation at their peril.

The corporate sector, too, has an important contribution to make to this process. It is, after all, the engine that provides the primary thrust for economic growth. No effective governance reform programme can be introduced and, let alone sustained, against the rearguard action of the corporate community.

The corporate sector has always been part of the obstacle to governance, and recognized as being very much part of the problem of corruption. It is totally opportunistic and considers it its duty to manipulate the often inadequately enforced laws and regulations in order to create an environment in its own image that encourages and promotes practices that even Tiny Rowland in the heyday of his African adventurism would have thoroughly disapproved.

The absence of effective, non-politicized and independent regulatory bodies in many of our countries appears to those bent on abusing the system almost as a gift from heaven itself. Equally, the absence of enforceable international compliance standards does not help matters.

The corporate community must develop a sustainable business climate by making it possible, and desirable, to conduct business ethically without recourse to corruption. It must put its house in order by developing and adopting an enforceable code of business ethics specifically prohibiting bribery and corruption. It must accept the need for reform in order to bring about greater transparency and accountability in both domestic and international business transactions.

An important challenge facing the corporate community is for it to understand that business is not just about managing risks, making sound investment decisions and coping with economic imponderables. It is also about what it can do to bring about the sort of change that will create a new ethical, and level playing field on which business can take place fairly and transparently. In other words, it must close those windows of opportunity for corruption and crony capitalism, by institutionalizing the system of checks and balances.

Viewed from the perspective of good governance, Corporate Southeast Asia shares many undesirable features and practices. It, therefore, has its work cut out for itself in rearranging its new governance priorities. Also, in preparing to meet the challenges of the global economy, the corporate sector clearly has to address, working in tandem with the relevant authorities, the question of transparency and accountability in the formulation of the economic and financial policies. This is to ensure that these policies are capable of exploiting the opportunities and meeting the challenges of the globalized economy with its emphasis on much higher standards of corporate behaviour than the region is accustomed to.

This is neither the time nor place to go over the reasons for the crisis that savaged the region with such devastation. Andrew Sheng, Chairman of the Hong Kong Securities and Futures Commission, and a former Advisor at the Malaysian Central Bank, who in a paper entitled *Global Financial Crisis: Implications for Financial Regulation* published in Ekonomica (Malaysia) in July 1999 said:

> Banking problems do not happen overnight, they have very complex roots. Many of the factors are country-specific and originate in defective structural or policy factors. Moreover, bank problems involve political, sectoral, legal, social, institutional and incentive dimensions. What was dynamite was the mixture of over-leverage,

> inadequate bank supervision, opacity and misunderstanding of risks in many markets, lack of sound bankruptcy laws and panic capital flight. Globalization, technology and financial innovation have created the conditions for large capital flows in the midst of weak corporate governance, outdated laws, policies and institutional structures. The outflow triggered the collapse.

A brilliant summing up of a highly complex, multi-faceted, phenomenon all in one short paragraph. Anyone seriously interested in and concerned about private sector governance should go over very carefully the issues raised in the paragraph just quoted.

Corporate governance practice in Southeast Asia remains, at best, patchy and uneven and, at worst, downright unwholesome in ethical terms. As the Malaysian situation seems to apply equally to the other crisis-hit nations of the region, with minor variations, it is appropriate to illustrate my points by using Malaysian cases. It is not because I particularly love or admire Malaysian corporate rope tricks, but then I am much more familiar with them.

The protection of minority shareholder interests is a case in point. Several high profile Malaysian cases have underlined the very real possibility "that the legitimate interests of minority shareholders may have been compromised through transactions which have conflicts between the interests of the company itself and its major shareholders: [1]

- Recently, toll-road operator United Engineers (M) or UEM announced it was purchasing all the assets (except a 38 per cent interest in itself) from its controlling shareholder Renong. The share price took a tumble (a fall of 30 per cent) when the shares resumed trading before recovering.
- UEM last year pledged its assets and cash flow to effectively enable its controlling shareholder, Renong to restructure its loans.
- In 1997, UEM bought a 32 per cent stake in Renong from unknown sources with over RM 2 billion in financing which helped support Renong's share price for a while.
- Casino and resorts group Genting Bhd./Resorts World bought stakes in a Norwegian cruise operator. The value subsequently fell sharply. The stakes are being sold at a written down value to Star Cruises, a company controlled by the controlling shareholders of Genting/Resorts.

- The Genting/Resorts group is also subscribing to a large number of shares in Star Cruises for some RM 1.7 billion which will make the group move into a large net debt position from the large net cash situation it used to enjoy for many years previously. The share prices of both have been weak.
- Magnum, another numbers forecast (gaming) operator, had to write off RM 140 million in loans made to an undisclosed borrower. The share price weakened on the announcement.
- Ekran Bhd. is trying to recover over RM 700 million owed by a controlling shareholder.

> This is by no means an exhaustive list … . If the laws and regulations are such that the interests of the minority shareholders are not afforded sufficient protection, then it is time to do so now. But one suspects that at least some of the problems arise from lack of enforcement. If Malaysia is to be fair to its own investors and minority shareholders and become an internationally recognized and acceptable capital market, standards of corporate governance have to be nothing less than impeccable. There are strong arguments … for capital controls and fixed exchange rates. But there is none whatsoever for poor corporate governance and insufficient protection of minority shareholder interests.

P. Gunasegaram could, of course, have been writing about Corporate Asia.

Turning now to another article, this time by S. Jeyasankaran in the *Far Eastern Economic Review*. He reported that:

> Zulkifli Hussain goes to court to assert his rights as a minority shareholder in Malaysia. Zulkifli, who owns 5% of Palmco, a listed oleochemicals maker, is angry because another shareholder, IOI Corp. and its managing director, raised their combined stake in Palmco to over 33% but did not make a general offer to buy the remaining shares at the same price, as Zulkifli alleges is required by law."
>
> In the same article, Terence Mahoney, a private investor and former fund manager is quoted as saying, "Malaysian investors are growing up … . Because Malaysia's competitiveness as an equity market has declined relative to other Asian markets such as China, India and Taiwan, there is a realization that to attract foreign investors, companies have to clean up their act." [2]

It is quite apparent from all this that effective supervision by the various regulatory bodies remains problematic. An important institution that underpins good corporate governance is the judiciary. Again, with the exception of Singapore, the

integrity of the judicial system in each of the countries coming under the purview of our discussion cannot be taken for granted. Can the courts be relied upon to dispense justice without fear or favour?

Corporate Asia is in a flurry of activity to reform governance, not because of its natural preference for high ethical standards, but simply that it has little choice in the matter. Globalization is the great arbiter; it is here to stay.

Reforms now being undertaken in the region cover in varying degrees and intensity, areas of concern to the investing public as enumerated by Andrew Sheng, among other commentators. The region as a whole is badly in need of these various reforms to promote better corporate governance and generate, in the process, investor confidence.

Like some other countries, after many years in the denial mode, Malaysia finally came clean when the Deputy Prime Minister Ahmad Badawi said:

> It is a fact, both you and I know, that the government engaged in many rescue operations during the crisis. A more laissez-faire government would have allowed many of our key companies to sink … . I am well aware of the rumblings and discontent among the professional business community that the government should not continue to protect those who have blatantly mismanaged their corporate empires and have repeatedly come back crying for help.[3]

The good old days of unfettered excesses look set to change, so we thought. However, the euphoria was short lived. No sooner had the mighty roar of collective approval died down than reality struck with a vengeance. The government decided to use public funds, yet again, ostensibly this time around to bail out the debt-ridden and incompetently managed national flag carrier, Malaysia Airlines (MAS), by purchasing the 29% stake of its Chairman at RM 8.00 per share when these shares are trading at around RM 3.60 each.

The perception, rightly or wrongly, is that it is not MAS that is being saved; the chairman of MAS is being let off the hook with his original investments intact. It is only in cronyland that you are rewarded for running a national airline into the ground. The fact that he is politically well-connected lends credence to the suspicion that this is just another victory for cronyism. And yet, when it was suggested that it

was a bailout, Daim, the Malaysian finance minister is on record as saying, "No, it is not true, it is a wrong perception."[4] He rationalized cynically by suggesting that it was a deal done on a "willing buyer and willing seller" basis.

It is this sort of unaccountable official behaviour that stops investors dead in their tracks. It is a regional story with which we have all become only too familiar. The question uppermost on everyone's mind concerns not only the pace of change but, more to the point, whether there is sufficient political will to ensure that the change in the pipeline is of such quality as to sustain long-term growth. In spite of protestations to the contrary by governments, the economic crisis is far from over, and it would be the height of folly and irresponsibility to delude the unsuspecting public. It is crucial to focus on sustainability.

There does not seem to be a great sense of urgency, and there is a danger that many companies may find themselves "reverting to type" and revisiting the scene of earlier spoils and easy pickings on the back of corrupt governments. The challenge for corporate governance is real and the reality, on present showing, leaves little room for complacency.

The corporate sector that persistently takes its cue from the government model of probity and rectitude, without setting its own code of conduct and regulating its own behaviour according to the best international standards, will assuredly be short-changed and marginalized in the new globalized economy. Few governments have the staying power to breast the tape in the good governance race.

However, all is not doom and gloom. The revamping of the securities commission and other regulatory watchdogs now underway in the region has already resulted in many successful prosecutions of "big names" in several countries. This has clearly helped to drive home the point that it is not only a long prison term on which to concentrate the mind, but also the certainty of companies being exposed, and the consequent disgrace they face, for rogue corporate behaviour. The implications for such companies are far-reaching, and the risks are quite simply not worth the effort.

Watchdogs need to impose, to the fullest possible extent, the sanctions provided by law against directors and the companies they control for breaches under the Companies Act. Watchdogs that only bark are not going to help the process of

putting good corporate governance in place. More than anything else, the region needs courageous and tenacious watchdogs that also know how to bite. And perhaps even more important are those that will turn up their noses when temptingly big juicy bones are thrown in their direction.

The challenges facing corporate governance in Southeast Asia stem from the somewhat relaxed cultural, social, and political attitudes to stewardship, a concept that does not seem to have taken root in either the individual or national consciousness. How else do you explain a government secretly dipping its sticky fingers in the national pension fund to support an undercover operation to corner the international tin market, which in the event proved to be an unmitigated disaster?

How else do you explain a government, using public funds and the dubious expertise of its central bank, to speculate on the international money markets? It is mind boggling to say the least. In a more open and democratic society, such unethical behaviour would not only have attracted the most severe public censure but also brought the government down.

At the end of the day, no change or improvement in the way we manage our business operations can be sustained if our attitude to good governance is out of step with contemporary global trends. This applies both to government as well as corporate leadership. The principles of good governance, grounded as they are in trusteeship, stewardship, transparency, accountability and integrity, are as relevant to the governance of a state as it is to the management of a public listed company. Good governance, like integrity itself, is no longer the luxury of the virtuous; it is a global business necessity.

NOTES

1 P. Gunasegaram. "Questionmark", *New Straits Times*, 3 December 2000.
2 S. Jeyasankaran. "Revolt of the Small Investors", *Far Eastern Economic Review*, 2 November 2000.
3 Address entitled "The State of the Malaysian Nation-Preserving Unity, Strengthening the Economy and Managing Growth", August 2000.
4 Daim Zainuddin's press conference cited in *New Straits Times*, 23 December 2000.

About the Speaker

Professor Michael Leifer is Director of the Asia Research Centre at the London School of Economics and Political Science, where he was Pro-Director during 1991-95. He has held visiting positions at the Australian National University, the University of the Philippines, Cornell University, and the National University of Singapore, as well as at the Institute of Southeast Asian Studies and the Institute for Defence and Strategic Studies in Singapore. He is currently a co-Chair of the European chapter of the Council for Security Co-operation in the Asia Pacific (EU-CSCAP). His academic interests are in the international security problems of East and Southeast Asia, on which he has published extensively. His more recent publications include The ASEAN Regional Forum: Extending ASEAN's Model of Regional Security, Adelphi Paper 302 (International Institute of Strategic Studies, 1996); Dictionary of the Modern Politics of Southeast Asia (Routledge, 1996); and Singapore's Foreign Policy: Coping with Vulnerability (Routledge, 2000). He is also the general editor for Routledge of their series entitled "Politics in Asia".

THE POLITICAL AND SECURITY OUTLOOK FOR SOUTHEAST ASIA

Introduction

A year ago, in this series, I observed that the regional security environment had been relatively benign and that it should continue to remain so, unless Indonesia began to fragment beyond East Timor. That measure of optimism over intra-regional relationships was clouded by concern over serious political shortcomings, especially in governance within key regional states closest to Singapore that had generated an external perception of instability.

Those observations would seem to be tenable also for the forthcoming year taking into account the condition of the three primary conflicts in the wider East Asian region that this paper addresses briefly before moving on to a selective analysis of Southeast Asia beyond Singapore. In its case, political stability prevails with primary interest in the identities of new People's Action Party (PAP) candidates for the general elections expected by mid-year.

East Asia

A notable change of tone has occurred in relationships in and over the Korean Peninsula as a result of the historic visit to Pyongyang last June by South Korea's President Kim Dae Jung and that in October by America's Secretary of State Madeleine Albright. The decision by North Korea's Kim Jong Il to come out of his political shell and to demonstrate a rational demeanour has been dictated by a pragmatic consideration; namely, to ensure that his personalist regime is not fatally undermined by economic failure. Reunification, however, is nowhere in sight, while détente between North and South has, so far, been more a matter of political theatre than of substantive accomplishment. Indeed, there are a number of obvious tests of the good intentions of Pyongyang still to be passed;

in particular, a return visit to Seoul by Kim Jong Il, as well as practical measures of confidence-building at the military level. Tensions within the peninsula have been reduced, while North Korea has joined the ARF. However, genuine rapprochement, with possible implications for the tenure of the American presence both in South Korea and Japan, has yet to be demonstrated.

The more problematic issue facing East Asia is that of Taiwan because of the prospect of armed confrontation between China and the United States. Although the election of President Chen Shui Bian last March generated considerable political heat across the Taiwan Strait, it did so without a repetition of the sabre rattling that disturbed the wider East Asian region in March 1996 and also without any timed-based ultimatum. President Chen Shui Bian has assumed the separatist legacy of Lee Teng Hui but has been cautious in the way in which he has sought to register the distinct identity of the island, while coping with acute domestic political difficulties.

Taiwan is a domestic issue in Chinese politics that is not expected to go away. At issue is how long the government in Beijing is prepared to wait for some movement over a face saving One-China formula. Despite Russian arms transfers, the local balance of power favours the island against a sea-borne invasion, but not against a disruption of its economic life through blockade and other measures of intimidation. For the time being, the government in Beijing has opted for accommodation rather than confrontation but the underlying conflict has not changed in essence.

In the case of the South China Sea, competing claims to jurisdiction are no nearer resolution but without prompting any further acts of occupation of unoccupied features, while negotiations continue over a code of conduct that by-passes the contentious issue of sovereignty. The overall political climate in East Asia remains one of accommodation and not of confrontation, although deep-seated problems remain. That said, a new president in the White House is always a factor making for uncertainty.

The circumstances of the election of President George W. Bush have reinforced that uncertainty. Beyond the obvious issues of legitimacy and mandate is the fact that the American President has responsibilities bearing on East Asia, which President Clinton demonstrated in March 1996. At issue is how an American President weakened domestically by post-electoral contention is likely to respond to a regional crisis in which the balancing power of the United States is likely to be critical. There is, of course,

potential for regional crisis in the plans for missile defence identified with President Bush as well as over arms transfers to Taiwan.

Southeast Asia

Moving to the more limited compass of Southeast Asia, little if anything has changed for the better in the condition of ASEAN; nor is it expected to. The Association is still struggling with its limited ambition of maintaining "a united and relevant ASEAN", which was reiterated last July in Bangkok. ASEAN's problem remains one of translating words into deeds. For example, in strengthening cooperation on transnational issues, such as trafficking in persons and illicit drugs and other forms of transnational crime, including piracy. Much was made in Bangkok of the "troika" proposal as an instrument of intra-mural conflict management. Such an instrumentality was tried with feeble effect in the case of Cambodia after the coup in July 1997. It remains a paper undertaking without tangible benefit to ASEAN's standing.

Part of the problem with ASEAN is that its standing has depended on a claim to regional exclusiveness underpinned by economic buoyancy, which has been dramatically diminished from the end of the last decade. An exclusive role in security cooperation was abdicated with the formation of the ASEAN Regional Forum nearly ten years ago within which the Association's diplomatic centrality barely conceals its limited influence, especially with Indonesia losing its *primus inter pares* status. In reaction to the failings of APEC after the devastating impact of economic crisis, ASEAN has begun to institutionalize a wider East Asian structure of cooperation set in train with the advent of the Asia-Europe dialogue in 1996 and sustained at the Association's informal summit last November. Such a structure is expressed at the level of heads of government and foreign ministers as well as those with responsibilities for economics and trade. At issue for ASEAN is the extent to which incorporation within wider multilateral structures, from a position of weakness, will serve to diminish further a distinctive identity challenged also by its own enlargement.

That identity and corporate cohesion is likely to face greater strain should Indonesia's initiative for a West Pacific Forum comprising the Republic, the Philippines, East Timor, Papua New Guinea, Australia and New Zealand be realized. Such an undertaking may well serve to improve relations between Canberra and Jakarta but it

would also have the potential to weaken both ASEAN and the South Pacific Forum. That initiative, as well as the temporary storm in Indonesia's relations with Singapore would seem to be symptomatic of the diminished standing of the government in Jakarta and of its head.

Indonesia

Concern and support for the integrity of Indonesia post-East Timor was registered by ASEAN's foreign ministers in Bangkok last July. That concern remains but without any imminent prospect of further disintegration. Aceh and Irian Jaya (now West Papua) are expected to continue as separatist running sores, with the more pressing challenge in Aceh because of the greater sense of organic identity on the part of its four million population. In Aceh, so-called "humanitarian pauses" have not been an impediment to continuous violence but without any sign that Indonesia's armed forces have lost the stomach for their crude practice of counter-insurgency. In Irian Jaya, the population is far more heterogenous, including long-standing settlers from other parts of the archipelago. There is a danger there of a replication of the East Timor situation, partly because of geographic propinquity to Papua New Guinea and, importantly, to Australia, where the conflict has the potential to become a domestic political issue.

Neither side would seem able to impose a solution on the other. And in both cases, there is an absence, so far, of any fruitful basis for negotiation. Jakarta's offer of autonomy is perceived to lack credibility, while independence is out of the question for President Wahid's government.

It may be suggested that Indonesia's immediate problem is not that it is breaking up but that such an outcome could be promoted by the country breaking down. President Wahid, with his idiosyncratic and erratic political style, took office as a minority president in a vacuum of authority bequeathed by former President Soeharto. That vacuum remains. The irony is that Indonesia has embarked on a practice of democratization when it can least afford it. Major parties in the Parliament have become alienated from the leadership of President Wahid and have tried to cut him down to size politically but without reaching a consensus on any alternative, including Vice-President Megawati Sukarnoputri, who seems content to bide her time while building an alignment with the leadership of the armed forces. The government has been recurrently embarrassed by calculated and co-

ordinated terrorist bombings attributed to friends or clients of the discredited regime of former President Soeharto, most recently at the expense of the Christian community.

President Wahid has disappointed his initial sympathisers in a number of important respects; for example, over eradicating corruption, reforming the legal system and returning the armed forces to their barracks as well as curbing sectarian violence driven by an assertive and manipulated Islam.

The more immediate future of Indonesia depends on an ability to begin to restore external confidence. That, in turn, will depend on how the devolution of responsibility by President Wahid last August to his key coordinating ministers plays out as well as the process of devolving responsibility from the centre to the provinces in train from the beginning of this year. A bad omen, however, has been the resignation from the cabinet of Ryaas Rasyid, the Minister for Administrative Reform with special responsibility for decentralization.

The prospect is that Indonesia will soldier on in a broken-backed condition below the level of all out national crisis. In such circumstances, President Wahid is likely to remain in office, his health permitting, as the French say, *faute de mieux,* because of the absence of a better political alternative. Indeed, this is Indonesia's problem. Both in terms of incumbency and likely alternatives, political leadership is conspicuous by its absence, which is only too well understood within an armed forces, which is beyond political control.

Malaysia

Malaysia presents a surface picture of political stability underpinned by seeming economic recovery with Prime Minister, Dr Mahathir, firmly in the saddle, despite an episode of Islamic extremism last July. Although he has overcome an open challenge to his position within UMNO, the pattern of Malaysian politics has begun to change through the results of the elections in November 1999. Those results reflected an underlying alienation on the part of younger Malays, partly because of the Anwar episode and the ability of Parti Islam to attract support beyond that based on its Islamic credentials. Although an adverse result in a by-election in a state legislature is not a conclusive indicator of political change, the outcome of the poll in Lunas in Kedah last November, demonstrating the persistence of the Anwar factor, came as a shock to the Barisan

Nasional (the ruling coalition) and as a major blow to the standing of the Prime Minister whose underlying position has weakened considerably. Moreover, to Malay has been added Chinese alienation arising from his dismissive attitude to the Suqui petitioners who initially challenged *bumiputera* status.

Dr Mahathir was seventy-five last month and has indicated that he will not lead UMNO and the Barisan Nasional at the next polls when he will be nearly eighty. He has made provision of a kind for political succession but there is the obvious danger that despite apparent support for Abdullah Badawi, Dr Mahathir's exit from political life will prompt a nasty faction fight within UMNO that is likely to work to the advantage of the opposition PAS. Beyond this year, the critical question is whether or not the alliance pattern of politics, translated into the Barisan Nasional, will be sustained or replaced by an alternative format, which may test the racial harmony and stability of the Malaysian state. The recent rise of inter-communal rancour has been an ominous development, although both sides to that rancour have retreated from the brink.

The Philippines

The populism and self-indulgence of President Estrada turned very sour last year with the economy a victim. The successful act of impeachment by the Congress suggests a combination of retribution for presidential delinquency as well as revenge from a traditional political elite for being supplanted by a coarse parvenu. Politics in the Philippines would seem to be hostage to the markets, which have pummelled the peso to President Estrada's political cost. Should he be found guilty, which is not a foregone conclusion given personal ties among Estrada and some members of the Senate, his most likely successor is Vice-President Gloria Macapagal-Arroyo who generates mixed feelings in the country. At issue would be whether she would be able to avoid having to pay political debts to her backers and to do more than assemble a more respectable version of governance but without tackling deep-seated structural problems of which the Estrada affair is a sordid example. The issue of Islamic alienation, registered dramatically and venally by the Abu Sayyaf kidnappings, will not go away with a change of leadership in Manila. Moreover, whatever the verdict on Joseph Estrada, the well of politics in the Philippines has been poisoned for some time to come. The spate of coordinated bombings in Manila on the eve of the New Year would seem symptomatic of that poison rather than

of any alleged Islamic source with Afghani connections. The same would seem to be true of corresponding bombings in Jakarta.

Thailand

Thailand went to the polls early in the New Year in the first elections under a new democratic constitution designed to limit the role of money in politics and to introduce greater stability into coalition government. Elections for the lower house were held for 400 constituency seats and for another 100 on a party list basis. The prime personal contenders were incumbent Prime Minister Chuan Leekpai who headed the Democratic Party-led governing coalition and business-tycoon Thaksin Shinawatra, the leader of the recently-formed Thai-Rak-Thai (Thai Love Thai) Party, which was expected to win. Thaksin's prospects were thrown into doubt and Thai politics into initial confusion by the verdict of the National Counter-Corruption Commission shortly before the elections that he was guilty of concealing assets while deputy prime minister in 1997. The penalty is a ban on holding public office for five years.

In the event, the decision of the Counter-Corruption Commission did not affect the anticipated pattern of voting. Moreover, Thai-Rak-Thai secured an unprecedented majority in the lower house with 257 seats out of 500, although Thaksin has indicated a wish to establish a three-party coalition, most probably including the New Aspiration Party and the Chart Thai Party. Two clouds hover over the electoral result. First, the intention of the Electoral Commission to investigate alleged fraud in up to one hundred constituencies. Secondly, the likelihood that the Constitutional Court will, on appeal, uphold the verdict of the National Counter-Corruption Commission. For his part, Thaksin has announced publicly his intention not to challenge the decision of the Constitutional Court and to resign as prime minister and to nominate an alternative should it go against him. The future of Thai politics remains uncertain, however, because of the prospect of another radical change in public mood should Thaksin's economic programme, which attracted electoral support, turn out to be a facile panacea. However, the feared immediate threat to Thailnd's new democracy has not materialized.

Conclusion

The regional outlook is once again mixed. Within Southeast Asia proper, ASEAN is able to serve only a minimal role as a structure of dialogue but fortunately domestic difficulties have not expressed themselves in critical intra-mural tensions. Governance in the four key states closest to Singapore is still a major problem, exemplified, above all, in Indonesia. Within Brunei, royal family differences have been resolved to the advantage of the Sultan. In Indochina, signs of political instability have been registered in Laos, while a farcical abortive coup took place in Cambodia. Political nervousness was displayed by the ruling Communist Party in Vietnam in reaction to President Clinton's historic visit in November. And in Myanmar, the military junta has begun unprecedented talks on national reconciliation with Aung San Suu Kyi in response to pressure applied through the United Nations but without any indication of political change.

If the security outlook expressed in inter-state relations remains relatively benign, the political outlook may be described as sombre. It has deteriorated since last year; notably in Indonesia, the Philippines and Malaysia. In consequence, the external perception of the region remains, on balance, a pessimistic one.

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