

News and Themes from East Asia

CHINA

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The Transformation of the Party

During the 16th Chinese Communist Party (CCP) Congress to be held in autumn of 2002, current president and general secretary Jiang Zemin is expected to hand over the reins of power to his designated successor, Hu Jintao, the current vice-president of the PRC. Hu Jintao is currently acknowledged as the core of the so-called Fourth Generation leadership that will likely oversee the most dramatic changes in the structure of the CCP. In February 2000, the CCP began the public campaign known as the “Three Represents”. By focusing on productivity, culture and the interests of all Chinese people as opposed to just the proletariat, Jiang Zemin and the Central Committee have clearly aligned the CCP along the path towards merging capitalism and communism. The growing power of the entrepreneurial class in China is forcing this reexamination of the party from within as the leadership debates what to do to stay in power in the 21st century.

The focus of the “Three Represents” is that the CCP will become not just the party of the worker, the farmer and the proletariat, but also a party of all the people. This is specifically designed to include the entrepreneurial class and professionals, the people fueling China’s

economic rise. This is a very significant move for the Party, as it sends a strong message that the economic reforms are here to stay. Predictably, this campaign is facing opposition from conservatives and grassroots activists who state that this policy contradicts the Marxist traditions of the CCP. In the early 1980’s, Deng used the concept of thought liberation from old ways to justify his economic liberalization process to the conservatives and it appears likely that Jiang will also use a thought liberation process to justify this next great ideological transformation of the party. He will clear the way for the Fourth Generation, a leadership with high levels of education, younger age and predominantly civilian career paths. The likelihood is that eventual transformation of communism to socialist capitalism will take place under Hu Jintao, who is expected to remain party leader until 2012 and the 18th CCP Congress. Indeed, it has been reported that Hu is very interested in the idea of a social-democratic party concept, so it may very well be that under Hu’s leadership, the CCP may shed its name and priorities and adapt into a Chinese Social Democratic Party, along the lines of similar German and French political parties.

China Enters WTO

After 15 years of negotiations, China officially entered the World Trade Organization in November 2001. This is expected to boost economic reforms that have been made in China as well as open China’s 1.3 billion person market to the global trading system. China’s

entry will mark the beginning of a final push towards a market economy that was begun after Deng Xiaoping took power in 1978. However, this event brings with it problems as well as solutions. According to Vice-Head of the State Statistical Bureau Qiu Xiaohua, the nature and

role of the Chinese government needs to be changed and that the relevant rules and regulations pertaining to market economics must be perfected. Changes such as the abolishment of regulations that run counter to WTO rules and the reduction of government edicts on how the economy should be run are important steps towards the replacement of a command-type economy with a service-oriented economy. All these changes require a major shift in the nature of the Chinese Communist Party, and although this shift may be realized with the current ideological transformation in the party, nothing is certain yet. While a large

portion of the economy is being given free rein in an effort to spur globalization, the central government is still ensuring that the party's prerogatives are not undermined. In areas such as information transfer, the Party is still trying to maintain its control; specifically in terms of foreign television broadcasting, the Party is distributing service through a central state-controlled broadcast platform to ensure the politically-destabilizing material is not published. So while China's accession to the WTO promises benefits, there remain many issues that China itself must resolve before it can reap the rewards of the WTO membership.

JAPAN

Andrew MacDonald

Japanese Economy Sputters

The once world-beating economy of the 1980s that stalled in the 1990s has taken a turn for the worse in the last six months. Record unemployment, falling consumer spending, and an official recession have sent the Japanese economy into a tailspin. Standing in the way of an economic recovery is a massive amount of bad loans in the Japanese financial system and deeply inefficient government backed corporations.

The Japanese government recently revised its fiscal year projections for GDP growth to -0.7% from a predicted 1.7%, officially putting Japan in a recession. A recent study from the Organization for Economic Cooperation and Development predicted that in 2002 Japan would see a growth of -1%, and by 2003 might see a growth of .75%, further adding to the parade of negative reports about the economy. In August, the Nikkei index closed at its lowest levels since 1984, and Japan's trade surplus has fallen sharply.

Driving this poor performance is a large decline in consumer spending, which accounts for 55% of the gross domestic product (GDP). With deflationary prices, consumers are saving money, hedging that prices will continue to drop, which is even more problematic for Japan, given the high rate of saving among Japanese people. This decline in consumer spending is hurting

corporate profits, which has traditionally been alleviated in the past by a focus on the export market. This time, however, the Japanese firms are having serious problems in foreign markets, leading to the recent announcements of major losses at most Japanese firms. With this continued poor performance in many Japanese companies, most firms are turning towards layoffs in numbers that are unheard of in Japan's recent past. The jobless rate, usually around 2.5-3%, has soared to over 5%, with most analysts predicting that it will climb even higher. This raises fears that with the layoffs, consumer-spending levels will drop even further.

Unfortunately for Japan, and despite the best efforts of Prime Minister Junichiro Koizumi, Japanese politicians have shown little appetite for producing the kind of reform necessary to turn the economy around, which would mean dealing with the bad loans and conducting a serious reform of the Japanese government. While Koizumi has made some inroads into his proposed reforms package, the continuing poor performance of the economy has lead many politicians to call for a slowdown in the painful reform process. This means that any chance for a rapid recovery is unlikely and that economic troubles will continue in Japan for the foreseeable future.

Japan Sends Forces to Assist US in Afghanistan

In response to the events of September 11th, the Japanese Diet quickly pushed through a number of measures to assist the United States in its war against terrorism in Afghanistan, including supplying advanced navy ships, allowing Japanese soldiers to help guard American bases, and providing assistance to refugees.

These measures mark a revision of Japan's long-held interpretation of the pacifism clause in the nation's constitution, which limited the Japanese armed forces to very specific and well-defined roles close to the home islands. These revisions, allowing for the deployment of Japanese personnel outside of the immediate region of Japan, is a response to the failure of Japan to provide assistance and troops to the coalition forces during the

Desert Storm operations until the conflict was essentially over.

While retired Rear-Admiral Yoshihiro Sakaue notes, "In practical terms, the Americans can do without the Japanese navy," the move is highly symbolic of an emerging nationalist strain in Japanese politics that worry Japan's neighbors. This recent action is especially troubling given the visit to the Yasukuni war shrine, which honors convicted war criminals from World War II, by Prime Minister Koizumi in August 2001 and the ongoing controversy with South Korea regarding Japanese textbooks that gloss over Japanese crimes in Korea during the early 20th century. However, given the current support most countries are giving the United States, Japan's neighbors are keeping their objections quiet for now.

The Cult of Prime Minister Junichiro Koizumi

Prime Minister Junichiro Koizumi was swept to power last April after the resignation of Yoshiro Mori with a nearly 80% popularity rating inside Japan. Promising wide ranging economic reforms and presenting himself as an approachable and likeable politician, he is easily the most popular post-war Prime Minister Japan has seen. This popularity has translated into an extended political honeymoon and continued support for his economic policy, despite the tough economic times.

His popularity has reached almost cult levels, as was demonstrated when a CD compilation of the Prime Minister's favorite Elvis Presley songs was commissioned, and it sold out stores, selling over 100,000 copies in one month. Later, a Koizumi picture book was offered for sale, chronicling his political life, which has also proven to be a hit. Koizumi appears to be especially popular with middle-aged women, who collect all the Koizumi memorabilia that they can get their hands on. Even in video arcades, one can find machines where the players attempt to win stuffed Koizumi dolls. Political

analysts speculate that his popularity has much to do with his image as a maverick, both with his economic reforms and his aura of approachability, which rare in modern Japanese politics, all this despite pledging during his campaign for Prime Minister that he would introduce economic reforms that would cause economic pain before any recovery began.

However, his once unrivaled popularity levels have fallen back to earth in recent months, and he now has close to a 60% percent approval rating. This, combined with recent frustrations in pushing his economic reforms through the Diet has seen a shift by Koizumi towards nationalism as a means to gain popularity, as his visit to the Yasukuni war shrine and proposals to assist the US in Afghanistan have highlighted. While he has not given up the reforms, they risk being sidelined or scaled back. However, despite these challenges, as long as he is able to maintain his image of a maverick and continues to push through his economic reforms, he will probably continue to be a popular figure to the Japanese public.

KOREA

Albert Suh

Fields of Integration in the Two Koreas Remain Fallow

After a six-month hiatus in diplomatic dialogue, North and South Korea reopened government-level talks in September, once again demonstrating the willingness of the two sides in normalizing inter-Korean relations. The Fifth South-North Ministerial Talks ended with a general agreement in pursuing sustained progress to maintain peace and stability on the peninsula and to promote economic cooperation. However, with fitful cooperation by the North and changing political currents in the South, the future of such talks does not look bright.

Many agreements were made despite complex international developments such as the terrorist attacks on the United States, showing some sign of changing inter-Korean relations since the summit meeting last year between the two. Both parties agreed to arrange more family reunions and implement inter-Korean projects including the re-linking of the Trans-Korean railway (TKR), construction of a highway between Seoul and Sinuju, and a Trans-Siberian Railway (TSR) extension connecting the Koreas through Russia to Europe. These inter-Korean projects have large implications for economic integration. For example, the reconnection of rail and road between the Koreas allows for overland trade and reduces high transportation costs, which have greatly hampered inter-Korean trade. It also promotes the investment of South Korean firms into North Korea, which brings North and South Korea one step closer to the creation of a single economic community. The TSR, on the other hand, can make the Korean Peninsula an international center of trade by

connecting it to the Eurasian continent. The emergence of economic cooperation is not a new concept. A number of joint development projects have been initiated such as the Mt.Geumgang tourism project and tobacco cultivation with South Korea's Tobacco and Ginseng Corporation, which have contributed to loosening tension on the Korean Peninsula and convincing the Korean people that progress toward reconciliation and cooperation is real.

Despite these outwardly positive signs, the North has not been entirely cooperative. But economic integration has been contingent upon political considerations, which have often stunted the improvement of inter-Korean relations. For instance, the North has not begun their share of construction in the TKR, which some experts believe to be a result of reduced South Korean aid to the North. Moreover, the two Koreas stumbled in the high-level talks in November, when the North demanded that South Korean troops be taken off anti-terrorism alert status before resuming the exchange of families, which had been canceled unilaterally by North Korea few days before the scheduled date in mid-October. Unification talks collapsed soon after, and the South Korean officials left the North Korean resort for home with no substantial agreements made. With the falling popularity of South Korea's President Kim Dae-jung and growing public opposition toward concessions to the North, there is not much optimism among experts that negotiations would resume any time soon.

Government Struggles to Overcome Economic Slump

Should the sinking *chaebols* (conglomerates) be bailed out? This question seems to embody a recurring theme in South Korean government discussions on how to put South Korea's economy back into shape. After showing signs of recovery since the Asian financial crisis in 1997, Korea again plunged

into an economic slump in 2000, exacerbated by the bankruptcy of Korea's third-largest automaker Daewoo Motor, now owned by General Motors, in the end of that year. Since then, the government has continued to struggle with the issue of whether or not rescuing such conglomerates is in the best interest of the

country. Recently, the spotlight has been focused on the fate of Hynix Semiconductor, a former electronics arm of Hyundai, which is reported to have heavy debts of more than \$8 billion. Officials at the government-controlled Korea Exchange Bank, the lead creditor of Hynix, have announced that more than \$1 billion in debt to creditors would have to be written off as part of a \$7 billion plan to rescue the company. This “final” bailout package is yet to be implemented, as the government, which has pledged to help Hynix survive, faces opposition from several creditors in complying with the rescue plan. It is still in investigation, first of all, whether this rescue plan is a violation of the bailout agreement with the International Monetary Fund (IMF).

Still wavering in the execution of strict structural reform of its *chaebols*, as displayed in its decision to save Hynix, the Korean government has taken up a rather surprising policy. After preventing conglomerates from expanding their holdings

for nearly four years since the economic crisis, the government will now allow some of *chaebols* to innovate and expand. While the 17 largest *chaebols* will still be bound by the 25 percent rule, the new rules will probably grant total investment freedom to the remaining second tier of conglomerates. But analysts agree that the 17 big groups will still use exceptions and loopholes to take advantage of the new rules. Large *chaebols* will be compelled to invest in companies in fields they already operate in, rescue heavily indebted companies, and buy firms that the government wants privatized. Moreover, conglomerates will have strong incentive to sell off their weak divisions that are saturated with excessive investments, as regulations entail a stripping of shareholder voting rights if certain ownerships in other companies are deemed “not justified” by the end of March. Although the degree to which this policy is effective remains in question, the government finally taking a bold initiative involving risks seems to be an overall positive indication for change.

SOUTHEAST ASIA

Dinyar Patel

ASEAN, China Agree to Create World’s Largest Free Trade Area

During the Seventh Official ASEAN (Association of South East Asian Nations) Summit, held between November 5-6 in Brunei Darussalam, member nations and the People’s Republic of China laid groundwork for forming the world’s largest free trade region. The proposed ASEAN Free Trade Area (AFTA), which will be created within the next ten years, will include the estimated 1.7 billion consumers and \$1.23 trillion worth of international trade in China and the ten ASEAN states - Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam. Forming a free trade area with China “will inject confidence into East Asia during this current global economic

slowdown, help to boost trade and investments and boost ASEAN’s economic competitiveness,” commented the association’s assistant director of external relations, S. Pushpanathan. ASEAN is optimistic that China’s recent admission into the World Trade Organization (WTO) will greatly increase international trade in the PRC, and that the free trade agreement will allow positive effects to trickle down to a Southeast Asia that has recently been experiencing very hard economic times. Leaders of member nations also saw the agreement as the first step in creating a larger free trade area: Malaysian Prime Minister Mahathir Mohamad spoke of a future “East Asian Economic Group” that would include Japan and South Korea.

Confronting Radical Islam: Southeast Asia after September 11

The nations of Southeast Asia are home to one-fifth of the world's one billion Muslims. Known for its tradition of moderate Islam, the region has nevertheless become polarized over the incidents of September 11th and the subsequent war in Afghanistan. Response to the American-led anti-terrorism campaign has differed by nation: some Southeast Asian states have seen sudden political changes while others have witnessed stepped-up efforts against their own domestic terrorists.

Indonesia

Angry responses to the war in Afghanistan have threatened to further destabilize this nation that has already been rocked by economic downturns, religious strife, and separatist activity. As the leader of the world's most populous Muslim nation, Indonesian President Megawati Sukarnoputri has had to address a strong public outcry against the American and British airstrikes while maintaining relations with the West. Megawati has strongly condemned the terrorist incidents of September 11th, but she has criticized the airstrikes and has called for a ceasefire in Afghanistan.

Radical Islamic elements, which have grown in number during the post-Suharto years, have made attempts to foment anti-American sentiment amongst Indonesians. The country's supreme Muslim body, the Indonesian Ulema Council, has urged Megawati's government to suspend all diplomatic ties with the United States and the United Kingdom. Habib Rizieq Syihab, the leader of the extremist Islamic Defenders Front (FPI), has warned American and British citizens to leave Indonesia or face sweeps. Furthermore, Indonesia has had to confront the hundreds of foreign Islamic militants residing within its borders, while taking into account its own citizens that have been receiving religious and military training in Egypt, Iran, and Syria.

Despite the efforts of radical Muslims, Indonesia has remained relatively calm so far: protests outside the American Embassy, for example, have rarely numbered above 1000. Many Indonesians, worried that radicals will scare away foreign investment and make the nation's business climate even worse, have applauded police

efforts to crack down on demonstrators in Jakarta. However, Indonesian politicians and analysts have expressed worries that the nation's moderates are not being vocal enough, and are allowing radical Islamic rhetoric to go unchallenged. "It is becoming politically incorrect to oppose militancy," one Western Islam expert told the *Far Eastern Economic Review*. This militant rhetoric, observers fear, might spark strong fundamentalist and anti-Western sentiment amongst young Indonesians who have become dispossessed by Indonesia's worsening economic and social conditions.

Malaysia

The events following September 11th have drastically transformed the political futures of Malaysia's two major parties: Prime Minister Mahathir Mohamad's United Malays National Organization (UMNO) and the opposition Parti Islam Se-Malaysia (Pas). According to *Asiaweek* columnist Karim Raslan, the US-led campaign against terrorism has impacted national politics as much as the sensational trial of former Deputy Prime Minister Anwar Ibrahim.

Despite having a party platform that calls for creating an Islamic state and instituting sharia law, Pas had recently tried to build up popular support by reaching out to non-Muslims and the large ethnic minorities in Malaysia. The party had impressive returns in 1999 elections, after campaigning for broader human rights and democracy, and became the leader of the multireligious and multiethnic Barisan Alternatif (Alternative Front) coalition. However, the American and British campaign in Afghanistan has galvanized Pas's radicals, effectively silencing its moderate wing: party radicals have been especially vocal in denouncing "ill-intent" anti-terrorism plans and have called for jihad against the United States. On October 12, 2001, Pas organized the largest anti-American demonstration in Malaysian history, in which 3000 people protested outside the American embassy and demanded that airstrikes be stopped. Pas's hardline stance has fractured the Barisan Alternatif: the mainly Chinese Democratic Action Party left the coalition in

September, and a major Keadilan Party ideologue quit his post and denounced Pas for supporting the Taliban regime. In subsequent months, Pas has further isolated itself from moderates and minorities, and has seen its prospects for national prominence slip away. Malay academic Farish Noor commented that “the veil has fallen, and Malaysians can at last see the true face of Pas”.

Mahathir and the ruling UMNO have benefited as Pas has lost significant influence due to its radical element. By assuming a moderate position on the anti-terrorism campaign, Mahathir has been able to rescue a political career that had been jeopardized by worsening economic times and Anwar’s questionable 1998 incarceration. His multiethnic and multireligious party has stood in stark contrast to Pas, which is now concentrating only on conservative Muslim Malay voters. Broad support, both at home and abroad, has allowed UMNO to sharply criticize Pas and even jail some of its leaders. Mahathir was quick to condemn the terrorist actions of September 11th, but has voiced criticism over the US-led airstrikes. During the November 2001 Association of Southeast Asian Nations summit, Mahathir’s delegation unsuccessfully tried to get other member nations to sign a declaration opposing further airstrikes. Instead, the prime minister has suggested that the United Nations negotiate a settlement in Afghanistan and set up an international court to try Osama bin Laden and other terrorists.

The Philippines

Terrorist attacks in the United States have caused the Philippines to renew focus on disrupting terrorist networks in the southern reaches of the country and have also raised new issues in Filipino-American relations. Unlike Malaysia and Indonesia, only a small minority of Filipinos – about five percent – are Muslims, and therefore President Gloria Macapagal Arroyo has not had to contend with a large religious-inspired backlash to the Afghanistan campaign.

President Arroyo has firmly supported American-led actions in Afghanistan, and has called for closer cooperation within ASEAN nations in order to fight terrorism. Shortly after September 11th, Arroyo commissioned the govern-

ment to create a list of Filipino terrorist organizations and “neutralize their operations.” The government’s prime target has been the Abu Sayyaf group, which has carried out kidnappings and bombings on the southern island of Mindanao. Arroyo has refused to open negotiations with the terrorist group, stating that it is “a superior strategy to neutralize or even degrade terrorists once and for all rather than to give into them by paying them ransom.” Abu Sayyaf has strong ties to Osama bin Laden, Al Qaeda, and prominent terrorists: bin Laden’s brother-in-law, Mohammed Jamal Khalifa, is believed to have helped fund the group, and convicted terrorist Ramzi Yousef associated with Abu Sayyaf shortly after he masterminded the first World Trade Center bombing in 1993.

The United States has sought to make the Philippines its key anti-terrorism ally in Southeast Asia and has rewarded Arroyo for her vocal support of American-led efforts since September 11th. Because of Abu Sayyaf’s connections to Al Qaeda, the United States has sent 16 anti-terrorist specialists to Manila to aid the Filipino government in its fight against domestic terrorism. During Arroyo’s November 2001 visit to Washington, President Bush offered the Philippines nearly \$100 million in military assistance and \$1 billion in trade subsidies and investments. Arroyo, however, turned down Bush’s offer to station American troops on the islands. The possibility of a renewed US military presence in the archipelago has been a divisive political issue in the Philippines, which saw American troops as a constant reminder of its colonial past before they were finally evicted in 1991. Political opponents have accused Arroyo of using the current anti-terrorism campaign as an excuse to increase US-Philippines military cooperation and reestablish American bases. Analysts are also fearful that any American military presence during the war against terrorism will inflame the Moro Islamic Liberation Front, a separatist Muslim group in the southern islands that signed a peace accord with the Filipino government in 1996. Due to these concerns, Arroyo has had to scrutinize offers of US military assistance in the Philippines’s own war against terrorism. However, in late January she made a controversial decision to temporarily allow over 600 American troops into Mindanao to conduct war games and set up a counter-terrorism training camp.