

US-ASEAN RELATIONS, 1992-2002

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Submitted by

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Certified that dissertation entitled "US-ASEAN RELATIONS, 1992-2002" submitted by me in partial fulfillment of the requirements for the award of the degree MASTER OF PHILOSOPHY has not been previously submitted for any other degree of this or any other university and is my own work.

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CONTENTS

Page no.

PREFACE.....	i
CHAPTER 1: US-ASEAN RELATIONS THROUGH THE COLD WAR.....	1
INCEPTION OF ASEAN	
FORMATIVE YEARS	
US ECONOMIC AND POLITICAL ASSISTANCE	
THE VIETNAM QUAGMIRE	
IMPACT OF SINO-AMERICAN DÉTENTE	
ZOPFAN	
POST VIETNAM WAR ERA	
CHAPTER 2: IMPACT OF SOVIET DISINTEGRATION.....	25
INTERACTIVE INSTITUTIONAL PROCESSES	
ASEAN COOPERATION PLAN	
BILATERAL RELATIONS	
REGIONAL CONCERNS	
ASEAN REGIONAL FORUM	
IN SEARCH OF SOLUTIONS	
IMPORTANCE OF RUSSIA	
RELEVANCE OF CHINA	
SIGNIFICANCE OF JAPAN	
AMERICAN ADMINISTRATION AND ASEAN	
CHAPTER 3: FALLOUT OF THE FINANCIAL CRISIS.....	55
THE FINANCIAL CRISIS	
EFFECTS ON US ECONOMY	
EFFECTS ON OTHER ECONOMIES	
ROLE OF US TREASURY	
ECONOMIC REHABILITATION	
LESSONS LEARNT	
CHAPTER 4: CONCLUSIONS.....	82
APPENDIX.....	97
BIBLIOGRAPHY.....	99

TABLES

	Page no.
TABLE 1: US Security Assistance to ASEAN countries.....	21
TABLE 2: US Economic Assistance to ASEAN Countries.....	22
TABLE 3: US Trade with ASEAN.....	24
TABLE 4: Military Expenditures.....	36
TABLE 5: Arms Transfers.....	37
TABLE 6: IMF Financial Support Packages.....	64
TABLE 7: US Exports to ASEAN, 1992-2002.....	76
TABLE 8: US Imports from ASEAN, 1992-2002.....	77

PREFACE

ASEAN was created in August 1967 through the Bangkok Declaration. During the process of inception the USA remained hidden from view while secretly surrogating the birth of the association. It was essentially set up to 'contain' the countries of East and South East Asia from the communist fallout of Vietnam. After the Cold War, there seemed to be no reason to carry forth the functioning of such an association, but there have been no attempts to wind the ASEAN down. The American response to this group of nations, both before and after the Cold War, has been fraught with crests and troughs. There have been many benchmarks, between 1991 and 2002, the most pressing being the financial meltdown of the Asian Tiger economies. Relations between the US and the ASEAN members have also been subject to criticism and scrutiny by the internal dynamics of the states concerned.

The activities of the USA in various parts of the world, since its embroilment in the Second World War, have always been given to much speculation and suspect. Its involvement in South East Asia has been no different. Therefore the formation of the ASEAN, its continuation or its diversification to new avenues following the disintegration of the USSR are seen mostly as an American initiative, and rightly so. The USA remained behind the curtains during the creation of the ASEAN, while the original members - Indonesia, Malaysia, the Philippines, Singapore and Thailand – went about the

motions of deliberations before settling on the Bangkok Declaration¹. However it would be wrong to surmise that the ASEAN was created merely for American reasons. A change of government in Indonesia in 1965 that ended hostilities with Malaysia, an impression of external threats to South East Asian countries coming from China and a sense of fear of possible negative fallout of the Vietnam War combined to influence the process that led to the creation of the ASEAN. The American response to the functioning of this group of nations, both before and after the Cold War, has been fraught with highs and lows mostly due to the internal dynamics of the member states².

The US has been both overt and covert in its actions towards and with the ASEAN³. The former were most visible during the process of expansion of the ASEAN in terms of its membership when it was joined by Brunei on its independence in 1984, by Vietnam in 1995, by Laos and Burma in 1997. Cambodia was the last country to join the organization in 1999 transforming ASEAN-5 into ASEAN-10 by the turn of the century⁴. The latter have been manifest in the expansion of the gamut of activities the ASEAN chose to include after the end of the Cold War.

¹ C. Mahapatra, *American Role in the Origin and Growth of ASEAN*, (Delhi, 1990) p. 75

² James C. Thomson, Peter W. Stanley, & John Curtis Perry, *Sentimental Imperialists: The American Experience in East Asia* (New York, 1981) pp. 12-30

³ James C. Charlesworth, *America and a New Asia*, (Philadelphia, 1954) p. 21

⁴ Nicholas Tarling ed., *The Cambridge History of Southeast Asia*, (Cambridge, 1992) p.615

The US was always supportive of the ASEAN during the Cold War years⁵. Once the Cold War ended, President George Bush Sr., along with his Secretary of State, James Baker, quickly felt that the inherent anti-communist stance of the association needed to be replaced with geo-economic bonds that could solve regional political problems and keep the association going as well. But as his administration got embroiled in the Gulf War, President George Bush Sr. put ASEAN affairs in the back burner. When the Clinton administration came to office, it sought to formulate a policy that would maintain a balance of power in the region between Japan, China and ASEAN. It also encouraged the ASEAN to pursue discussions pertaining to collective security in the new context of post-Cold War security challenges. Thus, when a new construct of cooperation, the ASEAN Regional Forum was formed in 1994, it received substantial support of the US.

Formally a mechanism for regional coordination, ASEAN today serves as one channel among its members, and between them and a wide range of other states especially the USA and other organizations like the EU. The range of issues considered by the ASEAN has grown slowly to encompass almost all areas of policy, from the environment and the drug trade, to financial stability and transportation. A wide network of non-governmental organizations among business, government, and professional groups provides another level of cooperation that leads some scholars to speak of an ASEAN community. Official and unofficial exchange of information about economic policies and

⁵ Bernard K. Gordon, *New Directions for American Policy in Asia*, (New York, 1990) pp.53-57

problems has become extensive and is of great value to member states primarily concerned with accelerating their economic development.

To comprehend the nature of relations between the USA and the ASEAN, a historical perspective of how the ASEAN member states viewed external powers in the region is necessary. In the period between the end of the Second World War and 1960 most of the countries that are today members of the ASEAN were independent of the colonial regimes that had been ruling them for centuries. These countries had the double burdens of creation of national self-identity and of applying this image of theirs to the transformations in the world order. The factors that had complicated the immediate post-war scene in South East Asia were the unexpected manner of Japanese defeat, the issue of reconstruction of war-torn South East Asia, the violent independence movements, the confounded desire for unity, the apathy of colonial legacy, the Cold War, the Communist Revolution in China and the rising American involvement in the region⁶. Thus most of the newly independent countries found themselves truly at sea as they had to attend to all these factors while attempting to keep their heads above water economically, which essentially meant dependence on external aid and assistance. To complicate matters further, there was the past wherein the Japanese had attempted to create a consolidated South East Asian identity by encouraging dialogue between the Indonesian and Malay nationalists, granting nominal independence to Burma, Philippines, Indonesia and

⁶ Sheldon W. Simon, "United States Security Policy and ASEAN" *Current History*, vol. 89 no.545 May 1990

Indochina. All of these led to a curious dichotomy in the way these countries interacted with the 'outside powers'. The South East Asian countries wanted to befriend the 'western powers' as it meant aid, but they wanted to ignore them on account of the past ignominies that were perpetrated on their people.

The former colonial powers tested the waters of South East Asia with tentative steps and different approaches⁷. The US and Britain played up on the advantage of being the victors and liberators of the war. On the other hand, France and the Netherlands were embroiled in battles against their colonies that were demanding self-assertion and appeared as imperial masters. The difference was made starker by the honoring of the pledge to the Philippines by the Americans. The French and the Dutch eventually fought bitterly until they were humiliated at the hands of the guerilla nationalist forces in Indochina and Indonesia. The British had to cope with nationalist movements, without resort to excessive violence, as their interest in the region was diminishing. The reconstruction concerns of Europe were far more important to them than the colonies, which had by then become white elephants on the Queen's Exchequer.

Thailand, significantly, had declared war on the US and the British during the Second World War. And this hostility was finally settled in 1944 with the resignation of Phibun Songkham, the Premier. The British and the French in their endeavor to penalize

⁷ James C. Charlesworth, *America and a New Asia*, (Philadelphia, 1954) pp. 8-12

Thailand for its pro-Japan stance during the Second World War, wanted to compel the Thai to sell their rice produce at fixed, very low prices to the rest of South East Asia. It was in this phase that the US was anti-imperialist as and when it suited its interests. The Anglo-French punishment was unacceptable, and when Thailand joined the United Nations in 1946, it readily sought the American protection from the British and French retribution.

While the impact of Filipino political independence was considerable to the American “anti-imperial image”, the underlying contradiction lay in the continued economic dependence of the Philippine Islands on the United States⁸. On the other hand, the British resigned itself to awarding self-government to the Malay states, the Straits and the Borneo protectorates. Britain also converted Singapore into a Crown Colony. In Burma, Aung San’s Anti-Fascist People’s Freedom League that was totally anti-British later agreed on a nominal constitution. Only the Dutch and the French wanted to continue with their imperial colonies in South East Asia, which resulted in France being engaged in an outright war with the Vietminh by the end of 1946.

The end of the Second World War did not herald true freedom to the colonies of South East Asia. There was no direct political control of the former European powers, but there was economic dependence that the imperialists imposed on the devastated South East Asian countries. Nationalism in these countries carried on at a varied pace despite

⁸ Nicholas Tarling ed., *The Cambridge History of Southeast Asia*, (Cambridge, 1992) p. 633

the similar stimulus of imperial rule in the region⁹. ASEAN came into existence amidst such circumstances rife in the region.

The present dissertation aims at analyzing the birth and the evolution of the ASEAN and the American role in the process. With the solitary exception of the Philippines, the rest of the area covered by the ASEAN was under colonial control of other powers. How did the US manage to evolve a strategy in dealing with such a diverse group of nations in South East Asia? The Bangkok Declaration, bringing to life the ASEAN, did not mention containment of communism as one of its goals. Simultaneously none of the ASEAN member countries were in favor of communist ideology. The US too desired to prevent the spread of communism in South East Asia. Interestingly, while antipathy towards communism brought the ASEAN and the US together, the overbearing presence of the US in region was also a cause for concern. In the process the US-ASEAN relations during the Cold War became a very complex one.

Significantly, the collapse of communism in the USSR did not have such a direct bearing on US-ASEAN relations. After all, China, North Korea as well as the three countries of Indochina continued to remain under communist rule; but the economic success of some of the ASEAN countries became exemplary enough to assign geo-economic importance to ASEAN. The rules of engagement between US and ASEAN in the post Cold War era revolved around the question of trade and investment rather than

⁹ James C. Charlesworth, *America and a New Asia*, (Philadelphia, 1954) pp.21-30

aid and reconstruction. The Asian Financial Crisis of the late 1990s dealt a severe blow to this new edifice of relationship between the US and the ASEAN. Luckily it was not a long drawn out affair; but it carried substantive lessons for both sides.

The present dissertation is a modest attempt to understand the complexities of relations between the only superpower in the world and a struggling South East Asian regional organization. Chapter 1 deals with the nature of relations between the US and the ASEAN during the period 1967 and 1991. It elaborates US interests in the creation and evolution of the organization. The importance of continuing with the association is dealt with in Chapter 2. The institutional framework for cooperation established between the US and the ASEAN are discussed in this chapter along with American bilateral relations with ASEAN members, and US reactions to ASEAN's relations with Russia, China and Japan. Chapter 3 itemizes the role of the US and other institutions namely, International Monetary Fund, Asian Development Bank and World Bank during the Asian Financial Crisis. Chapter 4 enumerates the major conclusions.

The present dissertation has been on the Content Analysis method, as the study has been mostly observational. An empirical analysis has been attempted based on conceptual assumptions. Both available primary and secondary source materials, listed in the bibliography, have been consulted for study.

CHAPTER I

US - ASEAN RELATIONS THROUGH THE COLD WAR

The concept of South East Asia as an entity in itself was formed by default at the Quebec Conference in August 1943, when the Western Allies formed a South East Asia Command, which encompassed Burma, Malaya, Sumatra and Thailand¹⁰. In 1945, the Potsdam Conference extended the command to include Indochina and Dutch East Indies. Out of the scene were North Vietnam, the Philippines and Laos. This cohesive framework produced fundamental effects in these states and more importantly in the relationships between each other and with the rest of the world after the Second World War. It had varied effects such as ending the feud between traditional enemies as in the case of Burma and Thailand, increasing divergence between Vietnam and Cambodia, and often encouraging immigration especially of the Chinese.

External influences, that is, the British, the French, the Dutch and of late the American, have been mostly divisive for the South East Asian region. Similarity was brought about by the secular administration, modernized bureaucracy and independent judiciary that the imperial powers established. At the same time, these developments divided the society into various classes comprised of the educated middle class, the old nobility and the poor peasants. South East Asians found it difficult to unite and bury their hatchets during their respective independence movements, thereby making both nationalism and regionalism almost unrealistic as goals.

¹⁰ Nicholas Tarling ed. *The Cambridge History of Southeast Asia*, (Cambridge, 1992) p.586

INCEPTION OF ASEAN:

Forming an association was easier said than done. All countries were equal in terms of the problems of national consolidation; stable and credible governance, ethnic differences, religious aggression, and foreign interference. A country to make an example of and follow in the region was needed. But there were problems from the start. Filipino government statements at the Asian Relations Conference in 1947, soon after its independence, which praised the US almost to the point of sycophancy, left its neighbors appalled. This Filipino adulation increased in the Manila Treaty conference of 1954, where the Filipinos stated that they did not regard themselves as Asians. Thailand could have been the leader as the first to become a member of the United Nations from the region. But the Americans cut its hopes short, after it sponsored the South East Asia League that included nationalists from Vietnam, Laos, Cambodia, Burma, Indonesia and Malaya¹¹. Indonesia at the time was deficient both in men of stature and in resources to assume with any regional leadership. Burma was generally weak and isolated to be of any significance. In the light of such conditions, regionalism was more a reaction to the external events rather than a part of a preconceived, well-planned roadmap.

¹¹ J. Saravanamuttu, *Dilemma of Independence: Two Decades of Malaysia's Foreign Policy*, (Malaysia, 1983) pp.26-35

The United Nations' Economic Commission for Asia and the Far East was set up in March 1947, with its headquarters in Bangkok. It could have provided a backdrop for an early establishment of a regional association, but its working was mostly dominated by the bickering between the Americans, the British and the French. Attempts at regionalism were also influenced by the Indian Prime Minister Jawaharlal Nehru but geographical constraints did not really allow any scope for the South East Asian nations to create a larger pan-Asian regional identity. Nehru's advocacy of 'Non-Alignment' was also unacceptable, and as a result the leaders of South East Asian region had to forge a separate idea of region on their own. But as irony would have it, the foreign influences on such a venture were tremendous and manifold.

Western efforts at regionalism in South East Asia were the Colombo Plan of 1950 and the South East Asia Treaty Organization of 1954. On the other hand, the Asian Legal Consultative Committee of 1956, which expanded to become Asian-African Legal Consultative Committee and the Afro-Asian Rural Reconstruction Organization of 1962 were results of mainly Indian initiative. Indigenous efforts with covert American influence were mostly in the form of Association of Southeast Asia (ASA) of 1961, the Maphilindo of 1963 and the Association of South East Asian Nations established in 1967¹².

¹² Walt W. Rostow, *The United States and the Regional Organization of Asia and the Pacific*, (Austin, 1986) p.57

The Foreign Ministers of Indonesia, Malaysia, the Philippines, Singapore and Thailand made a Declaration at Bangkok, on 8th August 1967 that established the ASEAN. Its announced objectives were acceleration of economic growth, social progress and cultural development through promotion of regional peace and stability with respect for justice and rule of law¹³.

The ASEAN replaced the 1961 Association of Southeast Asia (ASA) whose membership included Thailand, the Philippines and Malaya. Tunku Abdel Rahman of Malaya indicated the idea of a regional organization to President Carlos P. Garcia of the Philippines in January 1959, with the proposed South East Asian Friendship and Economic Treaty. The Thai Foreign Minister, Thanat Khoman, was then inspired by the idea of an economic organization in the region. He attempted to garner the support of all other countries with the exception of North Vietnam. When this failed, the three countries, Thailand, Malaya and the Philippines went ahead with the ASA. There was lack of any common ground among the three ASA members. The bickering on the issue of Indonesian entry into the organization led to the stalemate and finally death of the ASA.

¹³ C. Mahapatra, *American Role in the Origin and Growth of ASEAN*, (Delhi, 1990) p. 19.

FORMATIVE YEARS:

In 1967, after the ASEAN was formed, the five original members, Indonesia, Malaysia, the Philippines, Singapore and Thailand, according to Roeslan Abdulgani, a former Indonesian Foreign Minister, were united by the non-communist if not anti-communist orientation¹⁴. With this one can safely assume the desire of the ASEAN to align with the US, which was an ascendant power in the region. The US dollars also played an important role in the reconstruction of South East Asia. The Americans had fought the Korean War, signed treaties with the Japanese, the Filipino, and the Thai and were now embroiled in Vietnam. The American position in the region was made clear as early as the ANZUS treaty in 1951, which was set up while the British and the French were exiting this region.

ASEAN meant different things for its different members, but its membership meant American aid and assistance of varying degrees in various fields. For Indonesia dictated by Sukarno's nationalism, ASEAN was the answer to the question of reducing its dependence on foreign aid and improving the economy¹⁵. Thailand looked forward to the ASEAN as the organization that would absolve of the stigma of its foreign policy being unidirectional, towards that of the US. The Thai were disturbed by the American policy

¹⁴ C. Mahapatra, *American Role in the Origin and Growth of ASEAN*, (Delhi, 1990) p. 19

¹⁵ Karl D. Jackson & Lucien W. Pye, *Political Power and Communication in Indonesia*, (Berkeley, 1978) p.48

towards Vietnam, and found it convenient to join the ASEAN. The Philippines also joined so as to lose its tag of being the American puppet in the region. They were mostly unhappy at their expectations of large amounts of foreign aid from the US not being met, despite their 'special relations'. Malaysia hoped that the ASEAN would help in bettering relations with Indonesia, Singapore and the Philippines.

Despite such varied responses to the US, it must be remembered that the economies of all the five ASEAN members were very closely linked to that of the US. Even though the European Economic Community was both a significant aid donor and trading partner with these countries, it was the USA that provided them with the military security and maintenance and augmentation of economic prosperity.

US ECONOMIC AND POLITICAL ASSISTANCE:

The US supplied Indonesia with foreign aid in lieu of its support to US foreign policy in the region when required¹⁶. For example, there was great pressure exerted on Jakarta in 1950 to recognize the Bao Dai government in Vietnam. Indonesia also had to refuse trade with the USSR due to the Cold War tensions, which were on the rise¹⁷. It

¹⁶ Warren I. Cohen ed., *Pacific Passage: The Study of American-East Asian Relations on the Eve of the Twenty-First Century*, (New York, 1996) p.375

¹⁷ Pushpa Thambipillai, "Soviet-Asean Economic Relations: Opportunity for Expansion" *Indonesia Quarterly* vol.17 no.2 1989

was Sukarno's 'guided democracy' and the proclaimed non-alignment policies that led to the cooling off of relations between the US and Indonesia. When the Sukarno government requested for military supplies to stave off the anti-government rebellion in Indonesia, Washington decided to maintain neutrality. The requirement of aid was even greater between 1966 and 1968, after General Suharto came to power following the coup of 1965-1966. Anti-Americanism was put to rest; Indonesia rejoined the United Nations, sought assistance from International Monetary Fund and Asian Development Bank, both of which were primarily controlled by the US.

Thailand was entirely dependent on the US for financial assistance. The US was also training the Thai military forces. This inter-state military aid increased manifold with the American involvement in Indochina. And since the US viewed the ASEAN with favor, it was imperative that Thailand would become a founding member of the organization. This was also the reason why the Philippines, the oldest American sphere of influence in the region, joined the ASEAN¹⁸. Malaysia joined the association because the predominant British influence began to wane off and it was coerced in a way to 'align' with its neighbors. Singapore was a very tiny nation, and so in its foresight, which was later proved to be correct, it adopted a strong pro-American stance¹⁹.

¹⁸ Frank H. Golary ed., *Philippine-American Relations*, (Manila, 1966) pp. 23-50

¹⁹ Kawin Ilairat, *Singapore's Foreign Policy: The First Decade*, (Singapore, 1975) pp. 66-80

Thus all members of the ASEAN had security relations with the US in one form or the other, over and above economic relations. In fact, the US had concluded a Military Sales Agreement with each of them. They did seek some degree of autonomy under the forum of the ASEAN, but it was not very forthcoming as the threat of communist influence in the region was very 'evident' to them and to the Americans. The Bangkok Declaration had mentioned the continuance of American military bases in the region. The US was content with the language of the Declaration and nodded its secret assent from afar. In the wave of the nationalist zeal that was sweeping through the countries of the region, the US deemed it necessary not to be overtly visible in the creation of the ASEAN for fear of being labeled neo-imperialist²⁰.

THE VIETNAM QUAGMIRE:

The survival of the ASEAN could perhaps be attributed to the changing tide of the war in Vietnam²¹. When the US got increasingly embroiled in the region, it looked towards the member states of the ASEAN, with whom it had already made military arrangements, for territorial 'on-the-spot' assistance. This led to the dissipation of some of the frictions among the ASEAN bringing the members together. The uncertainties in

²⁰ C. Mahapatra, *American Role in the Origin and Growth of ASEAN*, (Delhi, 1990) p. 75

²¹ Robert A. Scalapino, *Asia and the Road Ahead*, (Berkeley, 1975) p.116

Vietnam overshadowed the differences between Malaysia and the Philippines and between Singapore and Indonesia²².

By the time Richard M. Nixon came into office in 1968, the Johnson administration was already neck-deep in Vietnam²³. President Nixon's and his National Security Adviser Kissinger's main aims were to ensure a dignified retreat from Indochina with as much they could salvage in such a desperate situation. Due to public opinion, civil unrest and pressures from the US Congress, Nixon's Guam Doctrine of 1969, proclaimed the "Asianization/Vietnamization" of the war in the region. It raised doubts of an impending power vacuum if the US was to withdraw from Vietnam; despite the American reassurances of honoring security arrangements and treaty commitments with the ASEAN countries²⁴.

To counter speculation of this nature, the US reduced its troops from Vietnam, while at the same time increasing its presence in the ASEAN states, i.e., the non-communist South East Asian nations. This transformation of strategy in no way meant any change in American interests in the region²⁵. And the ASEAN member countries were not blind to the developments in the US Congress of the 1970s like the Gulf of

²² David L. Anderson, *The Columbia Guide to the Vietnam War*, (New York, 2002), pp. 55-60

²³ Seymour Hersh, *The Price of Power*, (New York, 1983) pp.46-53

²⁴ Barbara Kellerman & Ryan J. Barilleaux, *The President as World Leader*, (New York, 1991) pp.130-131

²⁵ Ralph N. Clough, *East Asia and US Security*, (Washington D.C., 1975) p.75

Tonkin Resolution and the Hughes-Ryan Amendment, that directly affected them²⁶. Thereafter, the ASEAN members treated the American intentions with some doubt.

The American policy makers knew it only too well that the dividends of having a dependent South East Asia were greater and long lasting than the cost of their direct involvement in the region. If the figures are considered, between 1971 and 1975 the USA accounted for 56% of Indonesian, 22% of Malaysian, 78% of Filipino, 19% of Singaporean and 81% of Thai conventional arms imports²⁷.

In appearance, the ASEAN had to assume a neutral attitude to the American withdrawal from Vietnam²⁸. The American strategy of success in Vietnam that lay in the central assumption of sustained 'military punishment' of the communists had failed²⁹. To add 'insult to injury' there was no hope in the domestic front of a dignified withdrawal because of the Watergate scandal³⁰.

²⁶ James M. Lindsay, *Congress and the Politics of U.S. Foreign Policy*, (Baltimore, 1994) pp.24-25

²⁷ C. Mahapatra, *American Role in the Origin and Growth of ASEAN*, (Delhi, 1990) pp.80-81

²⁸ Noam Chomsky & Edward S. Herman, *After the Cataclysm: Post-war Indochina and the Reconstruction of Imperial Ideology*, (Boston, 1979) p.116

²⁹ John E. Mueller, "The Search for the 'Breaking Point' in Vietnam: The Statistics of a Deadly Quarrel" in Bruce Russett, Harvey Starr & Richard J. Stoll eds., *Choices in World Politics-Sovereignty and Independence*. (New York, 1989)

³⁰ Henry Kissinger, *Ending the Vietnam War*, (New York, 2003), pp. 494-495

IMPACT OF SINO-AMERICAN DÉTENTE:

Compounding the tasks of the ASEAN members was the sudden détente in the Sino-American relations. To the ASEAN members, the People's Republic of China was still a communist nation, despite its breakaway from the Soviet influence. In 1968, Zhou Enlai, then the Chinese foreign minister, had called for talks with the Nixon Administration, which failed to take off as Lin Biao, the leader of the People's Liberation Army, canceled them. However, Kissinger's secret trip to Beijing followed by Nixon's visit in 1972 normalized relations between the US and China. ASEAN was considerably confused. For them, China was a military and economic giant, who was now befriended by the US, ASEAN's single largest security and trade partner. They still feared Chinese aggression, both military and economic. They were also worried about China cornering much of the American trade and investment³¹.

³¹ Warren I. Cohen, *America's Response to China*, (New York, 2000) pp. 195-210

ZOPFAN:

One of the initiatives of the ASEAN during this period, was to secure the recognition of, and respect for, South East Asia as a Zone of Peace, Freedom and Neutrality (ZOPFAN) that would be free from any form or manner of interference by outside powers. But this zone of neutrality was not absolute as the specter of the US always loomed in the shadows. ZOPFAN was first proposed by Malaysia, and was formally announced during the fourth ASEAN ministerial meeting in March 1971. It was to be consistent with the principle embodied in the Bangkok Declaration *"that the countries of South East Asia share a primary responsibility for strengthening the economic and social stability of the region and ensuring their peaceful and progressive national development, and that they are determined to ensure stability and security from external interference in any form or manifestation in order to preserve their national identities in accordance with the ideals and aspirations of their peoples."*³² This initiative was outlined in the ZOPFAN Declaration that was signed in Kuala Lumpur, on 27 November 1971, and was reiterated in the Declaration of ASEAN Concord that was signed in Jakarta, Indonesia, on 24 February 1976.

The first major component of the ZOPFAN pursued by ASEAN was the establishment of a South-east Asia Nuclear Weapon-Free Zone (SEANWFZ). The initiative to establish such a zone was based on preamble paragraph 8 of the 1971

³² www.aseansec.org

ZOPFAN Declaration, which took cognizance of *the significant trend towards establishing nuclear-free zones, as in the Treaty for the Prohibition of Nuclear Weapons in Latin America and the Lusaka Declaration proclaiming Africa as a nuclear-free zone, for the purpose of promoting world peace and security by reducing the areas of international conflicts and tension*³³.

However, due to the prevailing unfavorable political environment in the region at the time, it was not until the mid-1980s that a formal proposal for the establishment of such a nuclear weapon-free zone was tabled in ASEAN. The Kuala Lumpur Declaration of November 1971 was a conciliatory effort between opening the ASEAN for the communist countries without being anti-American or anti-western. The ZOPFAN actually embraced the military alliance and the existence of foreign military bases in the region. As evident, the US encouraged the Five Power Defense Arrangement among the United Kingdom, Australia, New Zealand, Malaysia and Singapore.

The American military presence in South East Asia was merely a deterrent to erring Russian intentions³⁴. Therefore the ZOPFAN was essentially a defeated concept in function as it was indirectly imposed upon by the US, not decided upon by the ASEAN member states. The ASEAN countries exported primary goods, while importing manufactured commodities. This was not much different from the dependency that

³³ www.aseansec.org

³⁴ Warren I. Cohen ed., *New Frontiers in American-East Asian Relations*, (New York, 1983) pp.77-100

imperialism had imposed on the peripheral states, but the metropole in this case was the US. Economic dependence of the ASEAN countries gradually increased on US allies, such as Japan and Western Europe. Washington was making Japan increasingly acceptable to its other Asian allies³⁵. Economic relations however appeared one-dimensional as the ASEAN members were merely markets for manufactured products from the US, Japan and Western Europe.

POST VIETNAM WAR ERA:

After the end of the Vietnam War, the US-Vietnam relations slowly improved over time³⁶; with a few hitches created by the changed Sino-US relations. The US considered China as more of a strategic ally and so spent a lot of time and effort in ensuring its pro-America stance, as a result of which, the cause of rehabilitation of war-torn Vietnam was left on the backburner. This led to a pro-Soviet tilt of Vietnam, which was an eyesore for the US. This happened during the Cambodian crisis, whence China attacked Vietnam. The short conflict between the two led to intense speculation in the ASEAN of a spillover of communist influence, which were not altogether unjustified. The US did its best to maintain the stability in the region and its unequivocal presence,

³⁵ James W. Morley ed., *The Pacific Basin: New Challenges for the United States*, (New York, 1986) p.12

³⁶ Noam Chomsky & Edward S. Herman, *After the Cataclysm: Post-war Indochina and the Reconstruction of Imperial Ideology*, (Boston, 1979) p.116

despite its withdrawal from Hanoi³⁷. After all, the ASEAN was often keen on expressing views that were largely acceptable to the US.

The Vietnamese military action in Cambodia in the late 1970s and early 1980s posed a serious question to the policy makers in the US. As the Vietnam debacle was still fresh in the American psyche, the Carter Administration mentioned the issue of Human Rights to reverse any effect this incident might have had on the American public³⁸. Besides the Carter Administration did mention being interested in safeguarding the territorial integrity of the neighboring ASEAN countries, especially Thailand, where the fear of a spillover was the greatest. The contradiction was posed by the absence of any chastisement of the Chinese attack, which was logical for the US as relations between the US and China were on an upswing, but this seemed like a breach of trust to the ASEAN states³⁹.

³⁷ U.S. House of Representatives, Subcommittee on Asian and Pacific Affairs of the Committee on International Relations: 1978, 'Prospects for Regional Stability, Asia and the Pacific: Report/A Special Study Mission to Asia and the Pacific', January 2-22, 1978

³⁸ U.S. Congress, House of Representatives, Subcommittees on Asian and Pacific Affairs and on Human Rights and International Organizations: 1983 Hearings 97th Congress, 2nd Session, 'Reconciling Human Rights and U.S. Security Interests in Asia'

³⁹ U.S. Congress, House of Representatives, Subcommittees on Asian and Pacific Affairs and on Human Rights and International Organizations: 1983 Hearings 97th Congress, 2nd Session, 'Reconciling Human Rights and U.S. Security Interests in Asia'

The Reagan administration carried on with this trend, in that it went ahead with the strengthening of ties with Beijing, while assuring assistance to the ASEAN. The rapid improvement in bilateral relations between the US and China during this period disturbed the ASEAN member states. The reactions among the members were different. Malaysia and Indonesia were especially apprehensive and they wanted better relations with Vietnam to counter Chinese aggression. On the other hand, Singapore with its majority of Chinese population did not see eye to eye. The Philippines was insulated from any trouble by the presence of American military bases on their soil. Brunei had recently joined the ASEAN but it did not face any threat. The weak spot was the reconciliation of Thailand, with its proximity and involvement in the Cambodian crisis, in the equation.

The resolution of the issue came through a long and nail-biting process of waiting till the exogenous forces played themselves out. The ASEAN members learnt a valuable lesson, as a result of which, by the mid 1980s, Malaysia and Indonesia carried out aggressive military exercises, even Singapore wished it were more like an Israel of the South East Asian region. Economically, these countries carried on with their export promotion measures, their external borrowings and their reliance on consumer imports, and achieved exemplary results in the 1980s.

The security aspect of the region was looked after the US, which did not want any Soviet influence in the region. In 1981, President Ronald Reagan and Alexander Haig announced it, both tacitly and explicitly; that the ASEAN region was important to the US

in Second Round of the Cold War, which had acquired a new dimension now⁴⁰. A decade earlier, 1970-73 two-way trade of the US with ASEAN had quadrupled while the book value of investments had tripled⁴¹. In addition, there was a growing awareness in the American power circles of the significance of the role of certain ASEAN economic sectors in shaping and articulating 'the ASEAN way'⁴². The Americans did tip their hat to the ASEAN members. In 1970, Kissinger hailed the organization as an example. It was a show of an unwavering commitment towards ASEAN, who in turn wanted American presence in the region, both military and economic⁴³.

Back at the Congressional circles, there was a vote of confidence on Vietnam's economic resurgence; much of it however was a Lady Macbeth like attempt to wash their blood-smearred hands⁴⁴. Cambodia, which was also bombed extensively and indiscriminately during the Vietnam War did not, on the other hand, necessitate such an act. In this period, the US has also been accused of attempting to employ destabilization

⁴⁰ Robert J. McMahon, *The Limits of Empire: The United States & South East Asia Since Second World War*, (New York, 1997) p. 191

⁴¹ Ibid p.187

⁴² R.P. Anand, *ASEAN Identity, Development and Culture* (Philippines, 1981) pp.130-148

⁴³ Robert J. McMahon, *The Limits of Empire: The United States & South East Asia Since Second World War*, (New York, 1997) p. 187

⁴⁴Hearing before the Subcommittee on Asia and the Pacific of the Committee on International Relations House of Representatives 105th Congress, First Session, June 18, 1997.

methods to counteract their fear of regional grouping⁴⁵. There were important non-economic issues at play in the realm of trade like that of development of culture and national solidarity in the region, that the US was accused of being wary of⁴⁶.

As Indochina got embroiled in its own sub-regional conflict, the US in the 1980s did not place much strategic importance to the ASEAN region. It was more interested in the changing course of the Cold War relations. The ASEAN members, therefore, went ahead with their self-reliance strategy. What they probably overlooked was the amount of 'undercover' influence the US Dollar had on their economy and in their defense expenditure.

The American perception of the ASEAN changed considerably during the new Cold War. The aspect that remained stable was the geo-political significance of the region. South East Asia was an "inescapable part of America's present". A "retreat to indifference was impossible" because of the rise of a strong China and burgeoning economic presence of Japan and the ASEAN⁴⁷. The US viewed the creation of a regional identity as the only way to ensure unity of the divergent interests that the countries of the

⁴⁵ Walt W. Rostow, *The United States and the Regional Organization of Asia and the Pacific*, (Austin, 1986) pp- 95-140

⁴⁶ R.P. Anand *ASEAN Identity, Development and Culture* (Philippines, 1981) pp. 149-172

⁴⁷ Warren I. Cohen ed., *New Frontiers in American-East Asian Relations*, (New York, 1983) p. 240

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South East Asian region harbored, and to stave off the communist influence of the USSR, which was on an expansion spree.

The vicissitudes of oscillation of the US attitude towards the ASEAN can be attributed to the ebb and flow of American requirements in the region in its pursuit of consolidation of a new world order, free from the European Old World dominance, guided by the constructs of rationality, rule of law, democracy and natural justice, which were the milestones in the creation of the US.

The Second World War had left the world in a bipolar continuum that ranged between the extremes of balance of power and outright war. The US sought to replace it with an international system that was led by itself. This mission was articulated as the 'Manifest Destiny'. As it was unacceptable to the US to be manipulated, persuaded or coerced by some other country, it often decided to launch the offensive first. As a result the US went about setting up military bases all around the world to ensure a global presence. It was the foresight of the American leaders at that point of time that the US went ahead with a plan of subtle imperialism, wherein no physical takeover of foreign territory was necessary. All they had to do given their enormous hold over the world's economic resources was to dangle the carrot of financial aid and assistance and influence the course of events in the newly independent and developing countries including those of South East Asia.

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The US all along provided a considerable amount of security assistance to some of the important members of the ASEAN. While the Philippines, as island, had been receiving American assistance since the end of the Second World War, and were co-opted as alliance partners, around the time ASEAN was formed Indonesia and Malaysia – the non-aligned – countries also began to receive American assistance. As Table 1 would indicate, in the very year ASEAN was established Indonesia received more security assistance than even Philippines and Thailand. One of the reasons as to why the US provided such assistance to Indonesia and Malaysia can be found in the US desire to extend influence over the so called non-aligned members of the ASEAN. With the passage of time, as ASEAN seemed relatively more resilient, the US assistance to Indonesia and Malaysia was reduced while Washington kept on sustaining the level of assistance given to strategic allies such as Thailand and Philippines.



Table 1: US Security Assistance to ASEAN countries (in million US \$)

Year	Indonesia	Malaysia	Philippines	Singapore	Thailand
1967	36.40	14.90	35.16	-	28.30
1972	37.50	25.60	34.90	-	37.50
1977	39.40	36.27	36.40	-	47.00
1982	42.30	10.50	51.80	.047	80.70
1987	12.07	1.00	102.50	.046	52.30
1992	8.00	1.00	202.90	.050	47.40

Source: www.aseansec.org

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For the newly independent nations of South East Asia, the American interest and support shown seemed like a godsend. Their leaders felt that this was an opportunity that they could harness and utilize for their economic growth and development. What they did not foresee was the imperial undertone that the US followed. As a result, no doubt these countries prospered economically, but their prosperity depended largely on the American policies⁴⁸. It is significant to note that the US provided considerable assistance to those ASEAN members whose economies were not doing as well as some of the Asian Tigers. Table 2 clearly indicates how Indonesia, Philippines and Thailand continued to be major recipients of US economic assistance.

Table 2: US Economic Assistance to ASEAN Countries (in million US \$)

Year	Indonesia	Philippines	Thailand
1983	114.3	102.7	32.8
1984	120.1	106.4	37.6
1986	98.0	174.6	24.8
1987	128.3	397.8	21.5
1988	65.0	289.7	20.5
1989	61.5	176.7	18.6

Source: www.doc.gov

⁴⁸ James C. Thomson, Peter W. Stanley & John Curtis Perry, *Sentimental Imperialists: The American Experience in East Asia*, (New York, 1981) pp.100-119

The ASEAN-US economic dialogues began in 1977. During its initial phase priority was given to commodities, market and capital access, operation of transnational corporations, the transfer of technology, the development of energy resources, shipping and food security. American assistance was extended in areas such as regional plant/crop protection centers; forestry resources and conservation; agricultural development planning and non-conventional energy research.

The mid-80s, however, saw a number of significant changes in the relationship between the ASEAN and the US, which subsequently affected the nature and direction of the economic dialogue. The most prominent causes for a decrease in American official development assistance to the regions were the unusually high levels of economic indicators of some of the ASEAN members (popularly called the Asian Tigers) and changes in the priority of the US in development cooperation. It is important to note that during the 1980s all the ASEAN members enjoyed trade surplus vis-à-vis the US. Subsequently, the focus of development cooperation between ASEAN and the US was re-oriented at the 8th ASEAN-US Dialogue in 1988. It was shifted away from basic human needs towards projects concentrating on regional cooperation and human resources development.

Table 3: US Trade with ASEAN (in Percentage of ASEAN total)

Year	ASEAN Exports to US	ASEAN Imports from US	Balance of Trade
1980	18.7	14.5	4.7
1981	20.1	12.4	4.5
1982	16.8	13.1	4.6
1983	19.6	12.8	5.1
1984	21.5	13.0	4.7
1985	21.8	12.6	4.1
1986	23.4	13.9	3.9
1987	22.0	13.0	4.2

Source: www.doc.gov

By the time these South East Asian states realized the latitude of their reliance it was too late to embark upon an independent stance whether economic or military. Therefore, they carried on being the junior partners of the US, especially in their own region. The educated population was unhappy about such a status, but the political elite could do little to change this position. It was only with the end of the Cold War, that the US began to reduce its level of influence in these countries and the South East Asian nations began to embark upon a self-reliant policy of sustainable and attainable socio-economic development.

CHAPTER 2

IMPACT OF SOVIET DISINTEGRATION

The disintegration of the Soviet Union in December 1991 led to a collapse of the international system in the Second World War period. The bipolar nature of international relations was replaced with an overbearing presence of only one superpower in the world stage. As countries around the world were groping in the dark to meet the challenges posed by systemic uncertainties, the sole superpower, the US, also began to alter its traditional foreign policy strategies as well as national goals. The US-ASEAN relations thus entered an era of uncertainty, modification of goals, and alternations in policy strategies. The strategy of 'without direct involvement' that the US employed vis-à-vis the ASEAN during the Cold War changed tremendously as did the methods employed in the partnership in the new and changed circumstances⁴⁹.

With the disappearance of the Soviet threat, China's policy of economic openness and continuing backwardness of communist nations of Indochina and the Korean peninsula, the US adopted an approach by which the focus of US-ASEAN relations shifted to trade and investment, technology transfer and human resources development. Project selection was to adhere to the criteria of mutuality of interest, comparative advantage and sustainability. These changes reflected a maturing of the relationship between ASEAN and the US. The American private sector started to play a key role in the market driven economic activities in ASEAN countries.

⁴⁹ Edwin P. Hoyt, *Pacific Destiny: The Story of America in the Western Sea From the Early 1800s to 1980s*, (New York, 1981) p.284

INTERACTIVE INSTITUTIONAL PROCESSES:

Significantly the secret diplomacy and intelligence sharing, which were the hallmark of US-ASEAN interaction during the Cold War became a thing of the past. Slowly and steadily, a series of institutional frameworks evolved in the region and provided a continuing structure for interactive processes between the US and the ASEAN members. Narrating the historical evolution of such processes is beyond the scope of the present research. However, it is important and relevant to take note of some of the structures. The institutional framework in which the US participates in a series of consultative meetings with the ASEAN includes:

- the ASEAN Economic Minister-US Trade Representatives (AEM-USTR),
- the Senior Economic Officials Meeting-US Trade Representatives (SEOM-USTR),
- the ASEAN-US Dialogue Meeting, the Joint Planning Committee(JPC) Meeting
- the ASEAN-US Business Council,
- the Post Ministerial Conferences (PMC) and
- the ASEAN Regional Forum (ARF).

Although economic and technological issues became significant determinants of relations between nations some issues did not lose their importance in any sense of the term. There is no doubt that the communist threat ceased to be the pivot around which strategic thinking revolved, but other issues, which were dormant in the Cold War period surfaced after Soviet collapse. The US and the ASEAN through some new as well as some old frameworks continued their dialogue and cooperation on traditional and emerging security issues. At the apex of the dialogue process was US's participation in the PMC process immediately following the ASEAN Ministerial Meetings. The PMC meetings offered an opportunity for the US Secretary of State to review contemporary political, security, economic and development cooperation issues affecting the America's relations with the ASEAN⁵⁰. The US was also an active member of the ARF, which took stock of key regional political and security issues of the region. A more in-depth review of political, security, economic, development and functional cooperation activities was undertaken during the periodic dialogue held at the level of ASEAN's SOM leaders and the US's Assistant Secretary of State for East Asia and the Pacific.

The move towards better economic ties in the new context of the post-Cold War era did not mean that the US had no security concerns in the region. In fact, in the eleventh ASEAN-US Dialogue held at Brunei Darussalam in May 1993, Ambassador Winston Lord, emphasized that the US had enormous stakes in contributing to political stability in South East Asia and the rest of Asia. He said that the US would continue to

⁵⁰ www.state.gov

base its security in the Pacific on alliances and other bilateral security relationships. At the same time he also hinted that the US was prepared to move forward with a multilateral security dialogue⁵¹. The principle focus of the ASEAN-US security dialogue was maintenance of stability in the region. Other areas of concern included nuclear non-proliferation, regional security issues, the South China Sea and the Korean peninsula. In relative terms of ground reality, for the Americans, economics under the WTO regime is very much a part of security issues. Thus its attitude to the ASEAN members in this regard is no exception. The exaggeration about the differences in the US-ASEAN economic and security relations is more a product of the North American media. The ambivalence that the media is 'misrepresenting' is due to the conflict in the US civil society about the realist and idealist perspectives of the interconnection between economy and polity⁵².

Economic issues discussed between the two include commodities trade, investment cooperation, and the Alliance for Mutual Growth (AMG), regional trade developments such as APEC, AFTA, and NAFTA. At the 12th ASEAN-US Dialogue held in Washington D.C. in May 1995, the US indicated its interest in environmental cooperation with ASEAN, besides expressing support to the Model Business Principle.

⁵¹ www.aseansec.org

⁵² Stephen Douglas and Sara Douglas, "Economic Implications of U.S.- ASEAN Discourse on Human Rights" *Pacific Affairs*, vol.67 no.1 Spring 1996

Several regional activities in the area of the environment have been initiated; actually these programs are currently the only ASEAN-US development cooperation project.

Other areas of economic interests between the US and the ASEAN are Intellectual Property Rights violation by the illegal piracy of CDs etc., the granting of biological patents on life forms, the development of beneficial products using ASEAN's rich biological resources with American technical expertise, the large ASEAN market, customs modernization, air services liberalization, e-commerce and a science-based approach to biotechnology. ASEAN recognizes the fact that the advances in science and technology and in human resources development had been crucial to socio-economic development. The two sides discussed existing and planned areas of cooperation in biotechnology, food science and technology, meteorology and physics, microelectronics and information technology, material science and technology, non-conventional energy research, marine sciences and space technology and applications⁵³.

⁵³ Stephen Douglas and Sara Douglas, "Economic Implications of U.S.- ASEAN Discourse on Human Rights" *Pacific Affairs*, vol.67 no.1 Spring 1996

ASEAN COOPERATION PLAN:

Colin Powell announced a new initiative called the ASEAN Cooperation Plan (ACP) on 1 August 2002 in Bandar Seri Begawan. Three issues that the ACP envisages to accomplish are:

1. Support for ASEAN Integration: In consultation with Congress, the US Government would seek to expand assistance to ASEAN, especially its newer members, on economic development and investment, good governance, rule of law, democratization, and civil society.
2. Cooperation on Transnational Issues: US assistance has been requested in addressing transnational challenges - particularly narcotics, terrorism, piracy, environment, HIV/AIDS, and trafficking in persons; which are high priority issues for the US and
3. Strengthening of the ASEAN Secretariat⁵⁴.

The ACP, coordinated by the Department of State, complements the Enterprise for ASEAN Initiative (EAI), announced by President George W. Bush on October 26, 2002, which was designed to enhance US commercial relations with ASEAN and its members. Through the ACP, the US intends to deepen its relations with ASEAN. ASEAN has an increasingly integrated market, due to which US two-way trade with ASEAN rose to nearly \$120 billion in 2001, making it the third largest overseas market

⁵⁴ www.aseansec.org

for the Americans. Senior ASEAN and US government officials have discussed initial cooperation guidelines required for formalization of the ACP.

BILATERAL RELATIONS:

Despite a number of challenges and uncertainties, the overall security environment was marked by a number of positive developments, including continued economic recovery and greater interaction and exchanges between and among regional countries.

Relations between the Philippines and the US have improved markedly with the passage of the Visiting Forces Agreement, making possible military exercises between the two allies once again. The passage of the Visiting Forces Agreement (VFA) seemed difficult to President Fidel Ramos and his successor Joseph Estrada of the Philippines because, the US Senate had been the legislative body that in 1991, had refused to renew the Comprehensive Bases Agreement with Washington, leading to the US Navy and Air Force exit from Subic Bay and Clark Field. However, the Senate saw logic due to the issues in the South China Sea between Beijing and Manila and ratified the VFA in 1999. The PLA Navy had built permanent structures on Mischief Reef in the Spratly Islands in 1995, which were upgraded regularly. Although Manila protested these developments in ASEAN meetings, the ASEAN Regional Forum (ARF), and even the United Nations, no reduction in China's presence occurred. Washington insisted that the Spratlys are not

regarded as Philippine territory under the Mutual Defense Treaty that covers only Philippine ships or forces that are attacked. This reticence to criticize China was also probably a result of South East Asia's concentration on economic recovery rather than territorial concerns that are seen as peripheral issues. With the ASEAN partners in no mood or position to back the latest Philippine confrontation with China, a reinvigoration of ties with the US military appeared timely for the Philippines. The "Balikatan" joint exercise from late January to early March 2000, featuring almost 5,000 forces evenly divided between both countries, was the first large-scale joint maneuvers since 1995 under the aegis of the VFA⁵⁵.

The domestic situation in Burma also was a source of instability in the region besides frictions with the US. The US welcomed the appointment of Mr. Razali Ismail as Special Envoy of the UN Secretary General on Burma hoping that this would lead to constructive dialogue especially positive developments in East Timor by way of cooperation between Indonesia and the UN Transitional Administration in East Timor

⁵⁵ "Balikatan 2000" included land, sea, and air exercises as well as special forces training to promote interoperability; all potentially relevant for any US assistance to Philippine troops in a conflict environment. In addition to the joint exercises, US ships engaged in seven port visits to the Philippines since the May 1999 ratification of the VFA. US arms transfers to the Philippines in early 2000 consisted of several infantry vehicles for Philippine forces in East Timor and a patrol boat to be deployed for coastal surveillance. The US also earmarked \$5 million for military assistance in the US foreign aid budget for 2001; the first US allocation for military assistance to the Philippines in years.

(UNTAET)⁵⁶. The US also, in 1991, expanded its annual COBRA GOLD exercise in Thailand to include Singapore, making COBRA GOLD trilateral for the first time. Thai Prime Minister Chuan Leekpai described the move as an “important contribution” to the region's “security architecture”.⁵⁷ The US has sought to turn COBRA GOLD into a multilateral exercise since the early 1990s as part of an effort to develop regional defense coalitions. US-Indonesian relations also gained positive impetus with the latter’s sudden embrace of democracy. However, relations with America's other formal ASEAN ally, Thailand, remain strained because Washington failed to support the Thai Deputy Prime Minister’s bid at becoming the Director General of the World Trade Organization.

The American intervention in Vietnam⁵⁸ had left a very bad feeling in the region in general and in Vietnam in particular. As an attempt to rehabilitate the country the ASEAN members after the end of the Cold War tried to adjust Vietnam in Constructive Engagement. This allowed for the continued relevance of the ASEAN in post Cold War era. The changes that have been made in Vietnam have been in the nature of learning consultative and consensus building measures called ‘mushawarah’ and ‘mufakat’⁵⁹. Over and above these, Vietnam has had to undertake golf and language lessons to be at

⁵⁶ www.state.gov

⁵⁷ www.aseansec.org

⁵⁸ Douglas J. MacDonald, *Adventures In Chaos: American Intervention For Reform In The Third World*, (Cambridge, 1992) pp.187-248

⁵⁹ Allan E. Goodman, “Vietnam and ASEAN: Who would have Thought it Possible?” *Asian Survey* vol. 36

par with the other ASEAN members' vis-à-vis the US. The process of enlargement of the ASEAN however has been similar to that of the EU and the NATO processes where the member governments have an ever so declining power to control events. Vietnam has established a web of commercial and cultural networks to enhance trade in goods and information in the new economic world order of today. Its renovation program called 'doi moi' began after its withdrawal from Cambodia. This move normalized Vietnamese relations with China and the US especially in the multilateral process of the ARF.

Vietnam joined ASEAN because of its 'talismanic quality' in the field of economic development, so evident in the booming South East Asian economies of the early 1990s. China was comfortable with the inclusion of Vietnam as the ASEAN was not an essentially security cooperation. On the part of the US, this inclusion was a godsend, as Vietnam now could be effectively stopped from a conflict with Cambodia and over the Spratly islands. This also meant that ASEAN could be made a region wide organization and that Vietnam's way into Liberalization Privatization Globalization, entry into the WTO and the APEC was eased. Consequently a transition into democracy and civil society was well under way. The American treatment during this period was to deal and relate sensitively to the cause of Vietnam in the region⁶⁰.

⁶⁰ Allan E. Goodman, "Vietnam and ASEAN: Who would have Thought it Possible?" *Asian Survey* vol. 36 no.6 1996

The following tables enumerate military expenditures and arms transfers to and from the ASEAN member countries. Table 4 shows that highest military expenditure among ASEAN members belong to Singapore, Myanmar, Thailand and Vietnam; closely followed by Philippines, Malaysia and Indonesia.

TABLE 4: Military Expenditures (in million US \$)

Year	1992	1993	1994	1995	1996	1997
Brunei	418	255	270	266	316	374
Cambodia	108	80	-	85	108	126
Indonesia	1830	1960	2310	4440	4180	4810
Laos	110	110	78	72	67	60
Malaysia	1790	1970	2140	2280	2190	2090
Myanmar	3030	3490	3330	4340	3960	-
Philippines	1160	1380	1320	1040	1260	1270
Singapore	3020	3690	3430	4250	4720	5660
Thailand	2660	3210	3330	3380	3600	3380
Vietnam	2500	1900	2530	2870	-	3390

Source: *World Military Expenditures & Arms Transfers Annual*, Arms Control and Disarmament Agency, US Department of State

TABLE 5: Arms Transfers (in million US \$)

Year	1992		1993		1994		1995		1996		1997	
	X [^]	M [^]	X [^]	M [^]	X [^]	M [^]	X [^]	M [^]	X [^]	M [^]	X [^]	M [^]
Brunei	0	0	0	5	0	10	0	10	0	40	0	50
Cambodia	0	0	0	10	0	10	0	50	0	100	0	10
Indonesia	20	100	20	230	40	190	10	430	10	925	20	410
Laos	0	10	0	30	0	50	0	0	0	0	0	10
Malaysia	0	250	0	380	10	950	40	825	5	200	5	725
Myanmar	0	150	0	130	0	100	0	140	0	80	0	280
Philippines	0	240	0	90	0	210	0	150	0	160	0	110
Singapore	30	300	20	290	20	460	30	410	40	430	90	400
Thailand	0	480	0	260	0	490	0	750	0	625	0	950
Vietnam	10	10	0	10	0	90	0	210	0	10	0	120

[^] : X – Exports, M – Imports

Source: *World Military Expenditures & Arms Transfers Annual*, Arms Control and Disarmament Agency, US Department of State

Table 5 shows that Malaysia, Philippines, Singapore, Thailand, Vietnam and Indonesia have large share in arms imports. Arms exports from the ASEAN nations are significantly low.

REGIONAL CONCERNS:

Regional security issues of mutual concern for the US and ASEAN in the period 1992-2002 were the developments in Cambodia that required free, fair and credible elections as a prerequisite for progress and peace, the Four Party Talks in Geneva on the Korean Peninsula and the initiatives in KEDO that would lead to peace on the Peninsula. Besides these other American concerns in the region were in respect to Russia, China and Japan. In the Sixteenth US-ASEAN Dialogue was held on 29 November, 2001 in Washington D.C., the US Deputy Secretary of State Richard L. Armitage underscored the importance of ASEAN in maintaining peace and security in the Asia-Pacific region. He reiterated the importance of ASEAN in US foreign policy and reinforced the American commitment to strengthening the ASEAN-US partnership⁶¹.

Overt American military presence however in the region had diminished. By the time Bill Clinton came to office in 1992, there was only a small logistics base in Singapore of less than 200 troops. It was on 24th November 1992 that the last US warship departed from the Subic Bay. Yet in 1990, Paul Wolfowitz had emphasized on the American necessity of maintaining a substantial presence in the region⁶². This was evident in the economic policies of the Republican administration of George Bush Jr.

⁶¹ www.state.gov

⁶² Paul Wolfowitz, *A Strategic Framework for Asia: Looking into the 21st Century*, April 1990.
www.defense.gov

The internal dynamics of the ASEAN members during the 1990s were tense. On one hand Burma desired to use ASEAN as a platform to weasel its way into the ASEM (Asia-Europe) meeting while the country itself was in doldrums⁶³. Thailand had agreed not to interfere in the violation of human rights that Burma's military junta was engaged in⁶⁴. The other members of the ASEAN, especially Singapore and the Philippines, did their level best to toe the American line on this issue.

The internal processes in American foreign policy in the 1990's had also undergone dramatic changes. It was a new state of adjustment with emphasis on cooperative security, economic engagement and international equity⁶⁵. On these counts the US looked at the ASEAN and the ASEAN Regional Forum (ARF) in a favorable light. The ARF in effect meant more aid to allies in the region from the US⁶⁶. This was a mutually symbiotic relationship for both the ASEAN and the Americans. What was clear to the US, after the disintegration of the Soviet Union (which meant that there would be no Russian presence in the region) was that South East Asia required a regional alliance to regulate tensions. Therefore the ARF appealed to the Americans, but more so as a diplomatic entity.

⁶³ James Guyot, "Burma in 1997: From Empire to ASEAN" *Asian Survey* vol.38 no.2 1998

⁶⁴ Suchitra Punyaratabandhu, "Thailand in 1997" *Asian Survey* vol.38 no.2 1998

⁶⁵ John D. Steinbruner, "Revolution in Foreign Policy" in Aaron, Henry J. ed., *Setting National Priorities: Policy for the Nineties*, (Washington D.C., 1990) pp.65-110

⁶⁶ Robert D. Blackwill and Paul Dibb, eds. *America's Asian Allies* (Cambridge, 2000) pp.10-15

ASEAN REGIONAL FORUM:

The very first meeting of ARF was held in July 1994. The six ASEAN states- Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand were joined in attendance by China, Russia, Laos, Papua New Guinea, and Vietnam. But at the time the ASEAN carried on with its problem of Konfrontasi and merely made a statement on solidarity. The US was a bit perturbed by those events but the ARF has managed to smoothen out some confronting issues, and put away those which do not have a satisfactory solution. Today the ARF includes US, China, Russia Japan and India. It is a new structure with a better role for all non-ASEAN members that covers a wider area, that is, the entire Pacific Rim⁶⁷. This move of new regionalism is an outward looking, non-exclusive alliance which is multidimensional in functioning. The ARF is mostly a defense mechanism with regard to security issues, as the ASEAN is scared of becoming a regional pawn in the Chinese game of consolidation of state power in the international arena. Winston Lord had observed that the ARF should focus and face the South China Sea issue to gain credibility.

⁶⁷ Shaun Narine, "ASEAN and the ARF: The Limits of the ASEAN Way" *Asian Survey* vol.37 no.10 1997

IN SEARCH OF SOLUTIONS:

The Americans realized that there were three important challenges in the aspect of maintaining cooperation amongst the ASEAN members, which would be in the best interests of the US too. They are as follows:

1. ASEAN members generally felt that they were not always obliged to support each other on the issues concerning China, Burma and Vietnam.
2. ASEAN members were not equidistant in terms of economy where existed two levels, one for good economies and the other for small economies that left the latter largely dissatisfied.
3. ASEAN security needs were multilateral that required cooperation of all the members as also of the US and Japan⁶⁸.

The Republican solution was merely to retain stable forward deployment in North East and South East Asia with greater flexibility and in more dispersed locations. The US also wanted to follow the one-China principle, but the ASEAN looked for an American reconciliation with the Taiwan Straits. Most important on the US agenda was a dialogue between Japan and China so as to reduce mutual distrust⁶⁹. The US also supported the Indonesia government in its attempt to maintain national security and unity especially in

⁶⁸ Leszek Buszynski, "ASEAN's New Challenges" *Pacific Affairs* vol.70 no.4 1997-98

⁶⁹ *America's Role in Asia: American View* The Asia Foundation (San Francisco, 2001) pp.27-34

Aceh and West Papua where separatist movements were rife⁷⁰. The ASEAN maintained an uneasy silence and followed the American example despite misgivings by some members of a spillover. For the US, the idea in the 1990s had been to encourage the ASEAN to find an institutional balance by supporting activities that enable it to address its political, social and economic issues as a group for an efficient and cohesive peace in the region⁷¹.

IMPORTANCE OF RUSSIA:

As regards Russia, since 1991, it has attended consultative meetings at the ASEAN Ministerial Meeting (AMM) and the Post Ministerial Meeting (PMC). In 1993, the Minister of Foreign Affairs of Russia expressed his country's desire to institutionalize relations with ASEAN. Consequently, Russia was invited to be a member of the ASEAN Regional Forum (ARF) when it was established in 1994 in recognition of its strategic importance as a regional player⁷². In April 1995, Russia hosted an ARF Track-II Seminar on the principles of security and stability in the Asia Pacific in Moscow as one of its contributions to the peace and prosperity of the region. Russia was elevated to the status of a full Dialogue Partner of ASEAN in July 1997 at the 29th AMM in Jakarta, Indonesia. In August 1996, Russia expressed its intention to establish private sector links

⁷⁰ *ibid* pp.39-43

⁷¹ *ibid* pp27-43

⁷² www.aseansec.org

through the ASEAN-Chamber of Commerce and Industry (ASEAN-CCI), which is considering the establishment of a Joint Business Council.

In pure numerical economics, between 1994 and 1996, ASEAN-Russia's two-way trade increased by 222% from US\$ 1.6 billion to US\$ 5.2 billion⁷³. Currently Russia has agreed on six areas of development cooperation, namely, trade and investment; science and technology, environment, tourism, human resource development, and people-to-people interaction. Initial priority areas of cooperation in the field of science and technology include biotechnology, information technology, microelectronics, meteorology and geophysics. In addition, Russia has proposed to undertake cooperation projects using Russian technology and equipment for carrying out aerospace zoning of the Earth's surface, monitoring of volcanic and seismological activity, warnings of typhoons and other emergency situations, cargo airlifting and transcontinental railway development for the region. Thus the ASEAN and Russia are on to a fulfilling relationship.

The US does not perceive of these growing ties between the ASEAN and Russia as a threat and therefore it has kept a low profile on September 2002 information exchange on regulations of external trade and investment regimes between Russia and the ASEAN.

⁷³ www.aseansec.org

RELEVANCE OF CHINA:

The American speculation on Chinese influence⁷⁴ in the ASEAN region has been strife with hostility carried forth since the Cold War, and aggravated by the Chinese revisionist attempts. The ASEAN has been very cautious about China. Different members of the organization however have different ideas to deal with the Red Tiger. On account of the discord over Taiwan Straits, South China Sea, Spratly Islands, and Mischief Reef, Manila initially thought that ASEAN could be used to stand against China as a formidable group. But the ARF sought to engage China in a multilateral security dialogue. The new theory, however, is that the ASEAN could play a balancing role between Beijing and Washington. But with a very pragmatic outlook, the ASEAN tries to maintain 'concern' not 'alarm' over China as the American commitment to a strong role in South East Asia is seen as doubtful.

The ASEAN also wants to balance soft power with China. But old issues between them that of imperialism and communism, keep cropping up. The ASEAN members therefore also attempted the maneuver of the ancient game of 'Wei qi' where occupancy of space without direct attack incrementally isolates the opposition. Towards this end, attempts were made in January 1990 when Indonesia sponsored the 'Workshop on

⁷⁴ Simon Sheldon, "Towards a US Security Policy in South East Asia: A Maritime Emphasis" in Myers, Ramon H. ed. *A U.S. Foreign Policy for Asia: The 1980s and Beyond* (Stanford, 1982) pp.68-71

Managing Potential Conflicts in the South China Sea'. But the game backfired when, in 1995, Beijing refused to sign the ASEAN Treaty of Amity and Cooperation.

Singapore then decided to maintain a watchful worry, prompted by its geographically proximal position in the Taiwan Straits. Malaysia opted for a rethinking. Thailand exhibited low concern, as it was not directly connected to the issue. Philippines looked towards a possible involvement by Britain. The Chinese factor opened an old can of worms, and in this entire period of confusion, the US remained silent as it was looking forward to exploit its balance of soft power vis-à-vis China⁷⁵. All these development happened in a very short span of time considering that the relationship between ASEAN and China can be traced only to 1991 when the Chinese Foreign Minister H.E. Mr. Qian Qichen, attended the opening session of the 24th AMM in Kuala Lumpur as a guest of the Malaysian Government⁷⁶. At the time, he had expressed China's interest in strengthening cooperation with ASEAN for mutual benefit by identifying and developing specific fields of cooperation, particularly in science and technology. ASEAN had responded positively to the Chinese approach and in September 1993, ASEAN Secretary-General H.E. Dato' Ajit Singh led a delegation to Beijing and held exploratory talks with the Chinese Vice Foreign Minister H.E. Mr. Tang Jiaxuan⁷⁷. In July 1996, China was accorded full Dialogue Partner status at the 29th AMM in Jakarta, Indonesia. The

⁷⁵ Whiting, Allen S., "ASEAN eyes China: The Security Dimension" *Asian Survey* vol.37 no.4 1997

⁷⁶ www.aseansec.org

⁷⁷ www.aseansec.org

Chinese Vice Premier and Minister of Foreign Affairs, H.E. Mr. Qian Qichen, had attended the meeting as a representative of a Dialogue Partner of ASEAN for the first time. Since then China has also accepted an ASEAN invitation to the ASEAN+3 Summit in Malaysia in December 1997.

ASEAN and China, because of their geographical proximity and close cultural ties, have found in each other a vast market for their respective exports in recent years. ASEAN exports to the China reached US\$8.78 billion in 1996, an increase of 102.5% over the 1993 figure. China is ASEAN's seventh largest market after Japan, the US, Hong Kong, Germany, Republic of Korea and Taiwan. China's exports to ASEAN, in 1996, was US\$7.09 billion, an increase of 14.4% from 1995. A significant number of ASEAN investors have set up joint ventures with the Chinese in numerous economic sectors in China, ranging from real estate development and discount retail chain stores to motorcycle production and chicken farms.

On the other hand, Chinese investors, relative newcomers in ASEAN, have established their presence in Singapore and Indonesia. Along with China, Hong Kong must also be mentioned. In 1996, Hong Kong's imports from ASEAN reached nearly US\$21 billion, up 8.2% from 1995. Part of these imports went through Hong Kong to China. Similarly, a majority of Hong Kong's exports of US\$9.7 billion to ASEAN in 1996 were re-exports from China. With the return of Hong Kong to Chinese rule in mid-1997, ASEAN-China economic relations assumed even greater importance. China and

Hong Kong together constitute the third largest export market for ASEAN after Japan and the US⁷⁸.

In the field of development cooperation, a proposal on remote sensing in the Lancang-Mekong River Basin between ASEAN and China is on the pipeline. The ASEAN and Chinese leaders have also signed the “Framework Agreement on Comprehensive Economic Co-Operation between ASEAN and China” which provides the groundwork for the eventual establishment of an ASEAN-China Free Trade Area (FTA) by 2010 for the older ASEAN members and 2015 for the newer members, that is Cambodia, Laos, Burma and Vietnam. It features special and differential treatment and flexibility to newer ASEAN members and a provision for “Early Harvest” for certain goods and services.

The priorities between China and ASEAN also include combating trafficking in illegal drugs, people smuggling including trafficking in women and children, sea piracy, terrorism, arms-smuggling, money-laundering, international economic crime and cyber crime. Cooperative activities between ASEAN and China have expanded considerably in the five priority areas, namely

1. agriculture (forestry, livestock production, fisheries, biotechnology, post-harvest technology and the field harmonization of quarantine measures and standard conformity of agriculture products),

⁷⁸ www.aseansec.org

2. information and communications technology (ICT); information infrastructure development; technology development; ICT application development; compatibility, integrity, and security of ICT systems; e-ASEAN projects implementation,
3. human resource development,
4. two-way investment, and
5. Mekong River Basin development.

SIGNIFICANCE OF JAPAN:

Another factor that is important in the US and ASEAN relation is Japan, which first established informal relations with the ASEAN in 1973. The ties were later formalized with the establishment of the ASEAN-Japan Forum in March 1977. During the Third ASEAN Summit in December 1987, the Japanese Prime Minister H.E. Mr. Noboru Takeshita met with his ASEAN counterparts in Manila and announced “a new partnership toward peace and prosperity”. A decade later in July 1997, this sentiment was reiterated by the Japanese Prime Minister H.E. Mr. Ryutaro Hashimoto in his policy speech in Singapore whence he called for a “broader and deeper partnership” between ASEAN and Japan. His proposals included the “broader and deeper exchanges between Japan and ASEAN at the top and all the other levels”; active cooperation between ASEAN and Japan “to preserve and restore cultural heritage and to maintain and develop unique cultures”; and joint initiatives to tackle problems confronting the international

community such as “terrorism, the environment, enhancing health and welfare, food and energy shortages, population growth, AIDS, narcotics, and reinforcing the rule of law”⁷⁹.

ASEAN welcomed the “Hashimoto Doctrine” and responded positively to this initiative. The result has been that of Japan’s growing trade with ASEAN⁸⁰, an increment that is almost in absolute terms. Japan participates in a series of consultative meetings with ASEAN, which includes the ASEAN Regional Forum (ARF)⁸¹, ASEAN-Japan Forum, Joint Planning Committee (JPC) Meeting, ASEAN-Japan Economic Council (AJEC), ASEAN-Japanese Businessmen's Meeting (AJBM), and the ASEAN-Tokyo Committee. Japan has been ASEAN's top trading partner for many years. In 1993, two-way trade between Japan and ASEAN amounted to nearly US\$87 billion and in 1996, it rose to US\$109.0 billion, representing nearly 21% of ASEAN's total external trade. On the other hand, Japan's trade with ASEAN accounted for about 15% of her total external trade. Japan has also been a major investor in ASEAN⁸². In 1993, Japanese foreign direct investment to ASEAN accounted for US\$3.49 billion, representing 8.4% of Japan's total foreign direct investment overseas. This rose to US\$5.14 billion (12%) in 1994 and

⁷⁹ www.aseansec.org

⁸⁰ Bruce Stokes and Michael C. Aho, “Asian Regionalism and U.S. Interests” in Curtis, Gerald L. ed. *The United States, Japan and Asia: Challenges for U.S. Policy* (New York, 1994) p.127

⁸¹ *ibid* p.149

⁸² *ibid* p.150

US\$5.15 billion (10.4%) in 1995. Besides this, the Japanese also provide aid to the ASEAN⁸³.

Japan helps in the cooperation activities and assistance program for the transitional economies of Cambodia, Laos and Vietnam. ASEAN cooperates with Japan in the Forum for Comprehensive Development of Indochina and the Greater Mekong Subregion Conference on Economic Cooperation in which Japan plays a prominent role. In addition to being one of ASEAN's most important economic partners, Japan is a major contributor to development cooperation activities in ASEAN like the ASEAN Cultural Fund, that finances projects and activities on culture, and provides information that is designed to promote cultural interaction with Japan and awareness among the peoples of ASEAN. In January 2002, Japanese Prime Minister Junichiro Koizumi visited a number of ASEAN countries and proposed several new initiatives for cooperation that included cooperation in education and HRD, solidifying the security relations between Japan and ASEAN, the ASEAN-Japan Comprehensive Economic Partnership (CEP), and the "Initiative for Development in East Asia: IDEA"⁸⁴.

ASEAN-Japan development cooperation continued to support further sectoral linkages in the areas of customs, environment, science and technology, and transportation. The ASEAN-Japan Summit, held in Phnom Penh on 5 November 2002,

⁸³ *ibid* p.152

⁸⁴ www.aseansec.org

issued a Joint Declaration endorsing the development of a framework for Comprehensive Economic Partnership, including elements of a possible Free Trade Area.

For the US, this active involvement of Japan in the development activities of ASEAN, especially in the process of integration of Cambodia, Vietnam and Laos, economic democratization and security, is welcome. In a way Japan could be considered as deputizing for the Americans. Yet Japan is not entirely crucial in terms of the security related issues pertaining to the ASEAN. China remains the most important country in this region. So much so that it would not be wrong to say that bilateral relations and visions of the USA and China together would determine security in the region⁸⁵. This alone can reduce the tensions that emanate within the association, which have two main causes:

1. the regional arms buildup in members like Burma, as a result of strategic uncertainty and
2. cultural value conflict among the neighbor members of the ASEAN that inhibits closer political ties⁸⁶.

Singapore's Lee Hwan Yew mentioned yet another cause of tension - that of the rift that exists on account of democratization and human rights issues.

⁸⁵ Simon Sheldon, "Alternate Vision of Security in the Asia Pacific", *Pacific Affairs* vol.69 no.3 1996

⁸⁶ R.P. Anand, *ASEAN Identity, Development and Culture*, (Philippines, 1981) pp.130-148, 149-172

AMERICAN ADMINISTRATION AND ASEAN:

Whatever were the speculative causes for such dissension within the organization, it must be however mentioned, not necessarily as a cause but definitely as an important subliminal factor, that the mix of American foreign policy values and the question of Asia-Pacific security had been very ambiguous, especially between the Republican and Democrat administrations.

On one hand, Clinton's Democrat policy was been neo-Wilsonian. Anthony Lake statements about modern democracies have best represented it⁸⁷. He maintained that modern democracies are peace-loving states more interested in trade and commerce. Therefore they have not fought with each other in the twentieth century⁸⁸. Therefore the Democrat ideal has been to promote democratic governance in the world. The Democrat view on economic nationalism, exposted by Mickey Kanto thrives on the concept that domestic political success depends upon the creation of jobs within the US economy⁸⁹.

⁸⁷ Simon Sheldon, "Alternate Vision of Security in the Asia Pacific", *Pacific Affairs* vol.69 no.3 1996

⁸⁸ Examples quoted in favor of this view include the two World Wars and the Cold War, but there are many loopholes in this hypothesis where a contention may be made.

⁸⁹ Simon Sheldon, "Alternate Vision of Security in the Asia Pacific", *Pacific Affairs* vol.69 no.3 1996

Essentially this meant that American exports must be promoted and trade barriers of foreign markets must be broken. The US government actually was prepared to risk friendship with its allies in Asia and elsewhere in order to make room for American exports in those markets. Furthermore it had to protect American Intellectual Property Rights. The US also had to force the closed economies to cease subsidization on the threat of American economic sanctions.

Strategic realism, in both the Department of State and the Department of Defense in the Clinton administration, laid emphasis on the importance of sustaining US bilateral Cold War relations⁹⁰. The forward deployment of forces was seen by the Democrat administration in the White House, both in Europe and Asia, merely as a general kind of deterrence against any power attempting to alter status quo. Thus American economic and military presence in the ASEAN region was to bring about dramatic liberal economic changes and maintain military primacy⁹¹.

When the new Republican government under George W. Bush came into office, it advocated the principle of minimalism. Senators Phil Gramm, Jesse Helms, Newt Gingrich, Pat Buchanan and Ross Perot even complained of “leadership and compassion Fatigue”. They maintained that the US was to be excused from “defending the world” for the time being. It was a return to the Guam Doctrine for the ASEAN. The Republicans

⁹⁰ www.state.gov, www.defense.gov

⁹¹ Sheldon, Simon, “Alternate Vision of Security in the Asia Pacific”, *Pacific Affairs* vol.69 no.3 1996

actually advocated the utility of multilateral organizations like UN or regional organizations like ASEAN to take charge over the helm of affairs in their region or in their area of interest. They called for a reduction of American overseas commitment⁹². All of these precautions and measures however came to nought with the events of September 11 and subsequent operations in Afghanistan and Iraq. It must be mentioned that the ASEAN members, especially Indonesia gave their full cooperation and support to the US in their hunt for Taliban members and other radical Islamic fundamentalist elements responsible for the attacks.

⁹² www.house.gov, www.senate.gov

CHAPTER 3

FALLOUT OF THE FINANCIAL CRISIS

After the 'Red Scare' was over with the Soviet Collapse the US enjoyed better relations with the ASEAN, in the AFTA and the APEC. The ASEAN example of the 'Wild Geese' pattern in economic growth was widely commended. The pattern was marked by technologically advanced products that were produced by highly skilled labor-intensive methods and were exported. This process was hailed by the US as the latest wave of regionalism. It was an open regional system that functioned well within an open international trading system⁹³.

When Bill Clinton came to the White House, his influential Commerce Secretary Ron Brown declared that "commercial interests are now on an equal par with security in the world of foreign policy"⁹⁴. This view was floated to successfully moot the new strategy of supplanting security concerns with economic issues, in the hierarchy of American overseas interests. Clinton's approach to South East Asia was reflected best with the broader priority at home, of building a new structure of opportunity and peace through trade, investment and commerce, to create jobs at home and to promote American prosperity. He invited all ASEAN members to Seattle at the Summit of the APEC forum, which was the largest gathering of Asian leaders since the hastily arranged Manila Summit of 1966, called by President Lyndon Johnson. The crucial difference

⁹³ Paul Bowles, "ASEAN, AFTA and New Regionalism" *Pacific Affairs* vol.70 no.2 1997

⁹⁴ Selig S. Harrison & Clyde V. Prestowitz Jr. eds., *Asia After the "Miracle" Redefining U.S. Economic and Security Priorities*, (Washington D.C., 1998) p.210

between these two meetings was that of the concerns addressed by the meetings, from the primacy of geopolitical fears to the primacy of commercial opportunism. The crux of the meeting was that the Asia-Pacific region, was the fastest growing, and most economically dynamic region in the world. And it is critical to America's economic future.

With the advent of the Clinton administration, there was nothing left to obscure the centrality of trade and investment considerations in American policy making with regards to the ASEAN. The region had transformed from being a crucial cockpit of great power rivalry to a wondrous economic success story, as it was portrayed in the American media. ASEAN ranked as US's fourth largest regional trading partner⁹⁵. Independently, Indonesia was recognized as a Big Emerging Market and the economic progress with other individual countries was equally impressive⁹⁶. With Malaysia trade grew by 66%, with Indonesia exports grew with a 113% leap. Singapore had a per-capita income higher than that of the US Economic growth with Philippines also resulted, because of the economic reforms instituted by Presidents Corazon Aquino and Fidel Ramos. In 1995

⁹⁵ Between 1985 and 1995, US trade with ASEAN increased by more than 100%. By 1996, the two-way trade reached \$109 billion, which was 57% greater than US trade with China and larger than US trade with South America, the Middle East or Africa.

⁹⁶ Jeffrey Garten, *The Big Ten: The Big Emerging Markets and how They Will Change Our Lives*, (New York, 1993) Garten considers the big emerging markets to be important not only because they are "the key swing factor in the future growth of world trade" but also because they are crucial to "the avoidance of war in several critical hotspots". p.3

actually, wealthy Indonesian and Thai businessmen made significant contributions to Clinton's re-election fund.

In 1994, Clinton removed the US imposed trade embargo from Vietnam. Near the airport at Hanoi big Billboards were seen with 'Coke Welcomes you to Vietnam' and 'Welcome to the World of Visa' signs⁹⁷. The policy of 'Doi Moi' was bearing fruit. When in 1995, the ASEAN accepted Vietnam's request for membership, it was a decision that the US did not oppose to. In fact, in less than a year, Vietnam's low wage industrial workers became the leading producers America's world famous Nike athletic shoes⁹⁸.

By 1996 the phenomenon of high performing Asian Tigers was evident. The first generation Tigers were Hong Kong, Singapore, South Korea, Taiwan; whose GNP was \$7911 U.S. per capita. The second generation of these Tigers comprised of Indonesia, Malaysia and Thailand. The World Bank studies called it the "East Asian Model" of economic development. But their 'miracle' factor was short lived as these economies

⁹⁷ Selig S. Harrison & Clyde V. Prestowitz Jr. eds., *Asia After the "Miracle" Redefining U.S. Economic and Security Priorities*, (Washington D.C., 1998) p.214

⁹⁸ Ibid p. 215

actually tumbled like dominoes in the 1997-1998 Asian Financial Crisis⁹⁹. The import of this incident was the destruction of the fallacy that the US had of the countries of South East Asia, that of successfully metamorphosing from security dominoes to economic dynamos. Thirty years of the success story ended when Thailand's economy spiraled down and pulled down the economies of others as well.

THE FINANCIAL CRISIS:

The economic boom of the last two decades in South East Asia slowed down tremendously¹⁰⁰. Two rounds of currency depreciation that began in early summer 1997 initiated the financial crisis¹⁰¹. The first round comprised of a precipitous drop in the value of the Thai baht, the Malaysian ringgit, the Philippine peso, and the Indonesian rupiah. As these currencies balanced and counterbalanced themselves towards stabilization at lower values, the second round began with downward pressures affecting the Taiwan dollar, the South Korean won, the Brazilian real, the Singaporean dollar, and the Hong Kong dollar¹⁰². In countering the downward pressures on currencies, the

⁹⁹ Sukhumband M.R. Paribatra, "Preparing ASEAN for the Twenty-First Century" *Indonesia Quarterly* vol.26 no.3 1998

¹⁰⁰ Baladas Ghosal, "ASEAN Identity" *World Focus* vol.18 no.6 1997

¹⁰¹ See APPENDIX for a complete chronology of the crisis.

¹⁰² M.V. Rappai, "Asian Financial Crisis-Need for a Systemic Change" *Strategic Analysis*, March 1998

concerned governments sold US dollars from their holdings of foreign exchange reserves, bought their own currencies, and raised interest rates to foil speculations and to attract foreign capital. But this only rendered the situation irredeemable.

It was actually a crisis of capital flows, unwise credit devices, currency speculation, and drop in investor confidence. And when the falling economies asked for American help, it became the job of the Secretary of Treasury, Robert Rubin to take note and respond. But it was the US Department of State, which took up the initiative. Secretary of State Madeleine Albright spoke to President Clinton. Clinton, who always spoke of free trade, open markets, and unfettered flow of money, rejected the State Department's proposal for a major new program of direct economic assistance to the victims of the Asian Financial Crisis¹⁰³. Instead he advised the South East Asian to seek assistance from International Monetary Fund (IMF). The IMF arranged support packages for Thailand, Indonesia, and South Korea. The packages included an initial infusion of funds with conditions that were to be met for additional loans to be made available.

¹⁰³Thomas W. Lippman, *Madeleine Albright and the New American Diplomacy*, (Boulder, 2000) p. 218

The fundamental problems, common to all the falling Tigers, were poor financial management, inadequate administrative oversight, the failure to develop highly skilled work forces and pervasive environmental degradation coupled with the basic cause of gross disparities in income distribution. During the economic crisis, there was considerable loss of prestige and self-confidence of the ASEAN. It turned out to be an association poorly equipped to handle such a regional economic implosion. As the crisis dragged on, the leaders openly grumbled about external interference. The US, the IMF, and western investors who were calling for greater economic liberalization in South East Asia, faced the brunt of the nationalist rhetoric. Malaysian Prime Minister, Mahathir Mohammed, vowed never to allow economic 'colonization'¹⁰⁴. Yet because of the critical economic conditions, these nations could not avoid the IMF conditionalities. The region was vulnerable to unforgiving global markets.

The Asian Financial Crisis was of interest to the US government for the following reasons:

- financial markets are interlinked; what happened in Asian financial markets also affected US markets,
- American banks and companies are significant lenders and/or investors in the region,

¹⁰⁴ www.imf.org

- the US had all along been a key player in the IMF and Asian Development Bank (ADB), which had to come to terms with the crisis,
- the turmoil affected US trade, capital flows and the value of the US dollar,
- the crisis exposed weaknesses in many financial institutions in Asia. Some became bankrupt (the economic problems of the so-called Asian Tigers not only adversely affected the economies of Japan and others in the region, but, to some extent, an economic slowdown had spread to Latin America and the US),
- the crisis impeded the progress of trade and investment liberalization under the WTO and the APEC forum¹⁰⁵.

¹⁰⁵ Some legislative issues dealing with IMF funding and operations were deferred by the 105th Congress. In 1998, the Congress was considering 'New Arrangements to Borrow' by the IMF, a proposed increase in IMF quotas or capital subscriptions, and a proposed amendment to the IMF's Articles of Agreement. Congress also wanted to intensify oversight U.S. activities in the IMF. The Congress also worked in the legislative context of the impact of the crisis on the U.S. economy and American financial institutions and in efforts to liberalize trade and investment in the world. www.crs.gov

The IMF arranged support packages for Thailand, Indonesia, and South Korea, and extended and augmented a credit to the Philippines to support its exchange rate and other economic indicators. The following table enumerates the nature of the packages to Thailand, Indonesia and South Korea. The total amount of the packages are approximate because the IMF lends funds denominated in special drawing rights (SDRs), and because pledged amounts are subject to change. The support package for Thailand was \$17.2 billion, for Indonesia about \$40 billion, and for South Korea \$57 billion. Above that, the US pledged \$3 billion for Indonesia and \$5 billion for South Korea from its Exchange Stabilization Fund (ESF) as a standby credit that may be tapped in an emergency during the stabilization process.

TABLE 6: IMF Financial Support Packages (in US \$Billion)

	Thailand	Indonesia	South Korea
Date Approved (1997)	August 20	November 5	December 4
Total Pledged	\$17.2	\$40.0	\$57.0
IMF	\$3.9	\$10.1	\$21.0
USA	None	\$ 3.0	\$5.0
World Bank	\$1.5	\$ 4.5	\$10.0
Asian Development Bank	\$1.2	\$ 3.5	\$ 4.0
Japan	\$4.0	\$ 5.0	\$10.0
Others	\$6.6	\$26.0	\$ 7.0
Change in Exchange Rate (7/1/97- 1/22/98)	-38%	-81%	-50%
Change in Stock Market (7/1/97-1/19/98)	-26%	-40%	-30%

Source: www.imf.org

The functioning of the IMF bailout packages went through several stages, beginning with a request from the country experiencing financial difficulty. This request then required an assessment by IMF officials of the financial conditions in the requesting nation. If a support package was approved, the IMF usually began with an initial loan of hard currency to the borrowing nation. Subsequent amounts were made available (usually quarterly) only if certain performance targets were met and program reviews were completed. If the financial situation continued to deteriorate, commitments for funds that had been pledged by the World Bank, ADB and certain nations could be tapped. The funds borrowed by the recipient country usually went into the central bank's foreign exchange reserves. These reserves were used to supply foreign exchange to buyers, both domestic and international. All these provisions were made available to the falling economies of the region.

The IMF package came attached with a myriad of conditionalities, such as closing down of the banks and financial institutions with suspected credentials, a hike in interest rates, considerable squeeze on lending, especially on short term, reduction of states subsidies etc. It was first meant to curtail bad debts, then control inflation and finally to reign in runaway government expenditure¹⁰⁶. This is what the fallen Tigers had to comply with.

¹⁰⁶ G.V. Naidu, "Financial Crisis in Asia Pacific", *Strategic Analysis* March 1998

In addition to support packages by the IMF, other international organizations also addressed the Asian financial crisis. For example, on November 3-5, 1997, the Group of Fifteen developing nations met in Malaysia and developed a plan to avert renewed currency turbulence. In preparation for the APEC summit meeting, senior finance officials of APEC met in Manila on November 18-19 and developed a framework for dealing with financial crises in the region¹⁰⁷. This Manila Framework was endorsed by the eighteen leaders of the economies of APEC at the forum's annual summit in Vancouver, on November 25, 1997. The Manila Framework recognized that the role of the IMF would remain central and included enhanced regional surveillance, intensified economic and technical cooperation to improve domestic financial systems regulatory capacities, adoption of new IMF mechanisms on appropriate terms in support of strong adjustment programs, and a cooperative financing arrangement to supplement, when necessary IMF resources.

¹⁰⁷ www.apec.org

EFFECTS ON US ECONOMY:

The Asian Financial Crisis affected the US economy, both in a macroeconomic and microeconomic sense. On the macroeconomic level, it affected the US growth rate, interest rates, balance of trade, etc. On a microeconomic level, it affected specific industries, each in a different way that depended on their relationship with the troubled Asian economies. The US macro-economy, was affected is through trade and capital flows. The depreciation in the values of the South Korean won, Indonesian rupiah, Singaporean dollar, Thai baht, Philippine peso, Japanese yen, Taiwan dollar, and other Asian currencies (except for the Hong Kong dollar and Chinese RMB) combined with a slowing of growth and financial difficulties of banks and manufacturing corporations in these countries increased the US trade deficit. In the Asian countries, the immediate effect of the change was seen in the falling value of their currencies and outflows of foreign capital.

On the microeconomic level, the crisis affects the following industries:

- US creditors and investors in Asia-US banks, pension funds, and investors,
- US exporters to Asia-US makers of major export items, such as heavy equipment, aircraft, manufacturing machinery, and agricultural commodities the demand for which declined,

- US producers of commodities used in the manufacture of products in Asia who experienced soft prices (e.g. chemicals, cotton, copper, and rubber).
- US businesses that competed with imports from Asia like the American manufacturers of automobiles, apparel, consumer electronics, steel, and other products,
- US multinational corporations with manufacturing subsidiaries in Asia, etc¹⁰⁸.

¹⁰⁸ Most U.S. companies with direct investments in the region weathered the storm, although some investments (such as the new General Motors plant in Thailand) had been thrown into question. Since about 60% of the output from U.S. manufacturing subsidiaries in Asia is sold in the region, local sales stagnated until economic growth resumed. For a manufacturing subsidiary in a country with a depreciated local currency, its cost of imported components will tend to rise, but the price of the finished export to the U.S. and other hard currency markets will tend to fall.

EFFECTS ON OTHER ECONOMIES:

Although Japan was not experiencing a currency crisis, it was subject to many regional economic problems as a result of the Asian Financial Crisis¹⁰⁹. Japan reported debts of \$87.5 billion in Hong Kong and \$58.8 billion in Singapore. For Thailand, Japan reported \$37.5 billion in claims, and more than \$20 billion each in Indonesia and South Korea.

As the Asian financial crisis progressed, the affected governments (except for Hong Kong) eased the rigidity of their exchange rate systems. This flexibility reduced the potential for large and sudden changes in these exchange values, as the rates responded continuously and in smaller increments to market forces. Government exchange rate policy suffered from a common policy dilemma. If a country targeted its monetary and fiscal policy toward maintaining a specific exchange rate, it had to sacrifice performance in its domestic economy. A government defending its exchange rate, for example, usually had to raise interest rates in order to attract capital into its economy. This tended to dampen its growth rate. The ASEAN and other South East Asian countries in the grip of the crisis lacked mechanisms and/or leeway to solve this dilemma.

¹⁰⁹Dick K. Nanto, CRS Report 95-1034 E, *Japan 's Banking Crisis: Causes and Probable Effects*, U.S. Library of Congress, www.house.gov/rules/crs_reports.htm

It was in a situation such as this that the US knew that it had to play a 'special role' that of asking the ASEAN member countries and others who were in the throes of the Asian Financial Crisis to swallow "harsh medicine" prescribed by the IMF regardless of short term pain that would/could accrue to the people of these nations¹¹⁰. The US Congress was also instrumental in encouraging indirect coercion of these countries by the IMF¹¹¹.

The Asian financial crisis also raised several questions pertaining to IMF operations:

- whether such crises had increased in scale and whether IMF resources were sufficient to cope with them,
- whether the Fund's willingness to lend in a crisis contributed to moral hazard (a tendency for a potential recipient country to behave recklessly knowing that the IMF would likely bail them out in an emergency),
- whether the contagion of financial crises could be stopped effectively,

¹¹⁰ Thomas W. Lippman, *Madeleine Albright and the New American Diplomacy*, (Boulder, 2000) p. 105

¹¹¹ Patricia A. Wertman, CRS Report 98-56, *The International Monetary Fund's (IMF) Proposed Quota Increase: Issues for Congress*, US Library of Congress, www.house.gov/rules/crs_reports.htm

- whether the changes in economic policy and performance targeted that the IMF required of the recipient countries are appropriate and effective,
- whether the IMF released sufficient information to the public, including investors, on its program design and provisions imposed as a condition for borrowing allow for accurate assessment and accountability, and
- whether the IMF had sufficient leverage over non-borrowing member countries to prevent financial crises from occurring¹¹².

ROLE OF US TREASURY:

The support packages of the IMF appeared to be subject to the requirements of the Frank-Sanders amendment (U.S.C. 22 § 262p-4p)¹¹³. Among its provisions, the Frank-Sanders amendment requires the US Treasury to direct the US Executive Directors of the International Financial Institutions (such as the IMF and World Bank) to use the voice and vote of the US to urge the respective institution to adopt policies to encourage borrowing countries to guarantee internationally recognized worker rights and to include

¹¹² Patricia A. Wertman, CRS Report 97-738 E, *The IMF's Proposed Special Drawing Rights' (SDRs) Allocation: A Background Paper*, U.S. Library of Congress, www.house.gov/rules/crs_reports.htm

¹¹³ www.ustreas.gov

such rights as an integral part of the institution's policy dialogue with each borrowing country. In testimony before the House Banking Committee in November 1997, the US Treasury indicated that it had 'spoken out within the World Bank and IMF, in advancing the purposes of the Frank-Sanders Amendment, to promote measures that would help improve the conditions of workers in Indonesia, Thailand, and across the developing world.' Others believed, however, that the IMF's Indonesian support package was not in accord with the Frank-Sanders Amendment. In January 1998, US Federal Reserve Chairman Alan Greenspan indicated that because of the financial crisis, foreign investors in Asian equities (excluding those in Japan) had lost an estimated \$700 billion-including \$30 billion by Americans¹¹⁴.

Thus the crises that began in Thailand with a series of speculative attacks on the baht unfolded after several decades of outstanding economic performance in Asia. Although the circumstances varied among the countries concerned, the difficulties stemmed primarily from a combination of macroeconomic imbalances (even though government budgets were broadly in balance and inflation rates were modest), external developments, and weakness in financial and corporate systems. The external imbalances were a reflection both of strong private capital inflows and of high domestic private investment rates, and were exacerbated, prior to the crisis, by appreciation of the

¹¹⁴ <http://lib-www.ucr.edu/govpub>

US dollar to which the currencies of the countries concerned were formally or informally pegged¹¹⁵.

The weaknesses of the financial and corporate sectors contained several elements, including pre-existing weaknesses in financial institutions' portfolios; unhedged foreign currency borrowing that exposed domestic entities to significant losses in the event of domestic currency depreciation; excessive reliance on short-term external debt; and risky investments against the backdrop of 'bubbles' in stock and property prices. These elements had been building up in an environment of large private capital inflows and rapid domestic credit expansion in liberated financial systems, where implicit government guarantees (in addition to those entailed in exchange rate pegs) remained pervasive, and supervision and regulation were not up to the challenges of a globalized financial market.

¹¹⁵ The structural factor that initially enabled the crisis to occur was that the exchange rates of most of these currencies had been aligned with the dollar or a basket of currencies dominated by the dollar. These pegged exchange values had not been allowed to adjust sufficiently in response to changing economic conditions. Governments allowed their exchange rates to fluctuate only within narrow bands.

The advantage of this system to the countries involved was that it kept the countries' exchange rates relatively constant with respect to the dollar and allowed their traders to import from and export to dollar areas, particularly the United States, with little exchange rate risk. It also provided a stable financial environment that encouraged foreign sources of capital for loans or investments. But the downsides of the pegged system are disastrous as proved by the Asian Financial Crisis.

In these circumstances, a change in market sentiment could and did lead into a vicious circle of currency depreciation, insolvency, and capital outflows, which was difficult to stop. Contagion spread rapidly in the region after the devaluation of the baht, as other countries were perceived by investors as facing similar weaknesses. This 'perception' cast doubts on their credit-worthiness. By the time the crises had run their course, a large proportion of the financial institutions and corporations in the affected countries were bankrupt.

ECONOMIC REHABILITATION:

Financial markets stabilized in the early months of 1998 in Korea and Thailand, and significantly later in Indonesia. Exchange rates began to recover, and interest rates had declined to below pre-crisis levels by mid-1998. Economic activity then began to turn around in mid-1998 in Korea and later in the other countries. Once they started, the recoveries were unexpectedly robust, especially in Korea, where growth reached 10.75 percent in 1999 as a whole. The recoveries reflected a resurgence of private domestic demand, the collapse of which had produced the recessions.

The experience of the Asian crisis and the results of the policy strategy stimulated fresh thinking on the international financial system as well as on the appropriate policy response to financial crises. This crisis also led to a curious, to use a clichéd phrase,

'love-hate' relationship between the US and the ASEAN. The ASEAN accused the former of not coming to ready aid, while the US held the ASEAN responsible, to a large degree, of its economic recession. One of the key lessons, shared by most observers on the American and the South East Asian sides, was the need for stronger efforts at crisis prevention. The course of the crisis clearly showed the difficulty of stopping such developments once they have started.

The following tables enumerate the US exports to and imports from the ASEAN in the period between 1992 and 2002. The figures clearly demonstrate the economic recovery of these nations after 1997-98.

Table 7: US Exports to ASEAN, 1992-2002 (in US \$ millions)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Brunei	453	473	376	190	375	178	123	67	156	104	46
Cambodia	-	-	-	-	-	-	1	20	32	30	29
Indonesia	2,779	2,770	2,809	3,360	3,977	4,523	2,297	2,038	2,402	2,521	2,581
Laos	-	-	-	-	-	-	3	2	4	4	4
Malaysia	4,363	6,064	6,970	8,816	8,546	10,828	8,948	9,060	10,938	9358	10,348
Myanmar	-	-	-	-	-	-	33	9	17	11	10
Philippines	2,759	3,529	3,886	5,295	6,142	7,427	6,738	7,222	8,799	7,660	7,270
Singapore	9,626	11,678	13,020	15,333	16,720	17,727	15,674	16,247	17,806	17,652	16,221
Thailand	3,989	3,766	4,865	6,665	7,198	7,357	5,235	4,985	6,618	5,989	4,859
Vietnam	-	-	173	253	616	278	276	292	368	460	580
ASEAN	23,969	28,280	32,099	39,912	43,574	48,327	39,328	39,942	47,140	43,788	41,949

Source: U.S. Department of Commerce (www.doc.gov)

Table 8: US Imports from ASEAN, 1992-2002 (in US \$ millions)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Brunei	30	30	46	38	48	56	213	389	384	399	287
Cambodia	-	-	-	-	-	-	39	593	826	963	1,071
Indonesia	4,529	5,435	6,547	7,435	8,250	9,174	9,337	9,525	10,367	10,104	9,644
Laos	-	-	-	-	-	-	23	13	10	4	3
Malaysia	8,294	10,563	13,982	17,453	17,829	18,017	18,997	21,424	25,568	22,340	24,010
Myanmar	-	-	-	-	-	-	165	232	471	470	356
Philippines	4,355	4,894	5,719	7,007	8,161	10,436	12,021	12,353	13,935	11,325	10,985
Singapore	11,313	12,798	15,358	18,561	20,343	20,067	18,345	18,191	19,178	15,000	14,793
Thailand	7,529	8,542	10,306	11,341	11,336	12,595	13,437	14,330	16,385	14,727	14,799
Vietnam	-	-	51	199	319	388	553	608	821	1,053	2,395
ASEAN	36,050	42,262	52,009	62,034	66,286	70,733	73,129	77,859	87,945	76,385	78,342

Source: U.S. Department of Commerce (www.doc.gov)

LESSONS LEARNT:

Some lessons that the US and the ASEAN agreed on include the following:

- the failure of the Fund and most other observers to foresee the crisis except in Thailand underscored the importance of strengthened surveillance, particularly with regard to the vulnerability of the exchange rate and the financial system, so that vulnerabilities can be addressed before they become extreme;
- that greater transparency of economic and financial developments, through the publication of economic statistics, including financial and corporate indicators and comprehensive data on official reserve assets and liabilities, is essential to help strengthen establish market discipline, and ensure that asset prices and financial flows adjust less abruptly to adverse information¹¹⁶
- the crisis raised new questions regarding the appropriate pace and sequencing of capital account liberalization. In particular, it demonstrated the risks of liberalizing the capital account before ensuring the soundness of the domestic financial system.

¹¹⁶ This also helps avoid the revelation of adverse information during a crisis.

- another issue is that some countries had liberalized short-term capital flows before liberalizing long-term flows; in particular, the continued regulation of foreign direct investment in some cases promoted a composition of capital flows that heightened vulnerability; and there is no evidence that the crisis originated in moral hazard¹¹⁷.

The major event of the 1990s was the Asian Financial Crisis of 1997-98 in which US, including its private sector, agreed that international financial institutions like the IMF, World Bank and the Asian Development Bank, have had and would continue to have a central role in helping to restore financial and monetary stability in the region. This however reduced the import of the economic self-reliance strategy pursued by the ASEAN. They agreed on the importance of undertaking reforms of the monetary and financial systems, both at national and international levels, including measures to strengthen market confidence by improving public and private sector transparency. They also agreed that social expenditure should be protected, wherever possible, to alleviate the socioeconomic difficulties.

¹¹⁷ Mexico's IMF-supported program of 1995, portrayed by some critics as a signal to markets that emerging market countries could count on a bailout from the IMF, in fact had no perceptible effect in Asian financial markets: at that time, investors apparently saw events in Mexico as having no relevance to the Asian tigers.

Besides economics, in the 1990s, there were other frictions between the US and the ASEAN like opposition to membership expansion. It was mainly on the issues of admittance of Burma, Laos and Cambodia announced on May 31st, 1997. Talks of ASEAN+10 did not materialize due to the events in Cambodia and the difference between the US and the ASEAN with respect to the entry of Burma into the fold¹¹⁸. The US was reserved on Burma's Human Rights record. As the debate of ASEAN expansion carried on especially on the issue of increased membership, (the US was amenable to the expansion in scope of the activities of the association), there was a view in the ASEAN member states that the US should allow for the development of ASEAN+3 as long as it was WTO compliant¹¹⁹. Circumstances became precipitous in Cambodia and subsequently all talks towards the inclusion of Cambodia into the ASEAN petered down. The entry of Cambodia was blocked on account of the violent coup led by Hun Sen, who ousted the first Prime Minister Nodorom Ranariddh. Headlong collision between the US and the ASEAN was dichotomous; ASEAN members craved for US products, jobs created by US investment and solicited modest American military presence, but they did not want US interference within their political, economic and security organization.

¹¹⁸ Kay Moller, "Cambodia and Burma: The ASEAN Way Ends Here" *Asian Survey* vol.38 no.12 1998

¹¹⁹ *America's Role in Asia: Asian Views* The Asia Foundation, (San Francisco, 2001)

In the American circles the successful functioning of the ASEAN, which was a strange alliance of “aligned and non-aligned nations”, seemed to prove more dynamic than it was previously believed that it could be¹²⁰. The cooperative instruments of international trade and economy that these countries resorted to like the common markets, free trade areas, reduced restrictions, parallel bilateral and multilateral talks etc proved propitious and subsequently these economies showed signs of a ‘stable’ economic boom¹²¹.

“It was, to be sure, a most unlikely and brittle alliance, contrary a strange mix of aligned and non aligned nations”¹²². The issues that plagued the intra-ASEAN relations especially those of the admittance of new members, and the Asian Financial crisis proved this statement correct. These events also made the unstable relationship between the ASEAN and the US evident.

¹²⁰ Robert J. McMahon, *The Limits of Empire: The United States & South East Asia Since Second World War*, (New York, 1997) p. 143

¹²¹ Baladas Ghosal, “ASEAN Identity” *World Focus* vol.18 no.6 1997

¹²² Robert J. McMahon, *The Limits of Empire: The United States & South East Asia Since Second World War*, (New York, 1997) p. 144

CHAPTER 4

CONCLUSION

The US was not only surrogate in the birth of the ASEAN, but it also ensured its survival and expansion. Early indigenous efforts with covert American influence in this region were mostly in the form of Association of Southeast Asia (ASA) of 1961 whose membership included Thailand, the Philippines and Malaya and the Maphilindo of 1963 comprising of Malaysia, Philippines and Indonesia. The Association of South East Asian Nations (ASEAN), established in 1967, replaced the ASA¹²³. The inaugural ASEAN document, the Bangkok Declaration, was signed by Indonesia, Malaysia, the Philippines, Singapore and Thailand. Later ASEAN was joined by Brunei on its independence in 1984, by Vietnam in 1995, by Laos and Burma in 1997. Cambodia was the last country to join the organization in 1999 transforming ASEAN-5 into ASEAN-10 by the turn of the century¹²⁴.

The Bangkok Declaration mentioned the continuance of American military bases in their territory. The US was content with the language of the Declaration and nodded its quiet assent from afar. In the wave of the nationalist zeal that was sweeping through the countries of the region, the US deemed it necessary not to be overtly visible in the creation of the ASEAN for fear of being labeled neo-imperialist¹²⁵.

¹²³ Walt W. Rostow, *The United States and the Regional Organization of Asia and the Pacific*, (Austin, 1986) p.57

¹²⁴ Nicholas Tarling ed., *The Cambridge History of Southeast Asia*, (Cambridge, 1992) p.615

¹²⁵ C. Mahapatra, *American Role in the Origin and Growth of ASEAN*, (Delhi, 1990) p. 75

The US has been both overt and covert in its actions towards and with the ASEAN¹²⁶. The former were most visible during the process of expansion of the ASEAN in terms of its membership, while the latter have been manifest in the expansion of the gamut of activities; like trade, environment, etc; which the ASEAN chose to include after the end of the Cold War.

During the period between 1967 and 1991, the relations between the members of the ASEAN were very much influenced by the American strategy of containment of communism. In 1967, after the ASEAN was formed, the five original members, according to Roeslan Abdulgani, a former Indonesian Foreign Minister, were united by the non-communist if not anti-communist orientation¹²⁷. With this, one can safely assume about the desire of the ASEAN to align with the US, which was an ascendant power in the region. The role played by the US dollar in the reconstruction of South East Asia, the security treaties the US concluded with the Japanese, the Filipino, and the Thai and American military presence in the region spoke volumes of the rising power profile of the US in the Asia Pacific region.

¹²⁶ James C. Charlesworth, *America and a New Asia*, (Philadelphia, 1954) p. 21

¹²⁷ C. Mahapatra, *American Role in the Origin and Growth of ASEAN*, (Delhi, 1990) p. 19

ASEAN meant different things for its different members, but its membership meant American aid and assistance of varying degrees in various fields. The member states of ASEAN looked to the US for both economic and military security in the short run. The long-term goal was, of course, achieving self-reliance. The ASEAN members were aware of their vulnerability vis-à-vis the US, but they were more aware of the necessity of an American presence in key economic and security concerns of the region. For Indonesia dictated by Sukarno's nationalism, ASEAN was the answer to the question of reducing its dependence on foreign aid and improving the economy¹²⁸. Thailand looked forward to the ASEAN as the organization that would absolve its foreign policy of the stigma of being unidirectional, towards that of the US. The Thai appeared disturbed by the developments in Vietnam, and found it suitable to join the ASEAN and be part of a larger organization. The Philippines also joined so as to lose its tag of being the American puppet in the region. Manila was also unhappy, as its expectations of large amounts of foreign aid from the US were not being met, despite their 'special relations'. Malaysia hoped that the ASEAN would help in better relations with Indonesia, Singapore and the Philippines.

¹²⁸ Karl D. Jackson & Lucien W. Pye, *Political Power and Communication in Indonesia*, (Berkeley, 1978)

Despite such varied requirements, economics was still the key to the responses to the US made by these countries vis-à-vis their becoming members of the association. It must be remembered that the economies of all the five members were very closely linked to that of the US. Even though the European Economic Community was both a significant aid donor and trading partner with these countries, it was the US that provided them with the military security and maintenance and augmentation of economic prosperity.

American support did not come without a price. There were conditions attached. For example, the US supplied Indonesia with foreign aid in lieu of support to its foreign policy in the region.¹²⁹ Indonesia also had to refuse trade with the USSR due to the Cold War tensions, which were on the rise¹³⁰. With Suharto in office, anti-Americanism in Indonesia was put to rest; it rejoined the United Nations, sought assistance from International Monetary Fund and Asian Development Bank, both of which were primarily controlled by the US. Thailand was considerably dependent on the US for financial assistance. The US was also training the Thai military forces. This inter-state military aid increased manifold with the American involvement in Indochina. And since

¹²⁹ Warren I. Cohen ed., *Pacific Passage: The Study of American-East Asian Relations on the Eve of the Twenty-First Century*, (New York, 1996) p.375

¹³⁰ Pushpa Thambipillai, "Soviet-Asean Economic Relations: Opportunity for Expansion" *Indonesia Quarterly* vol.17 no.2 1989

the US viewed the ASEAN with favor, it was imperative that Thailand would become a founding member of the organization. This was also the reason why the Philippines, the oldest American sphere of influence in the region joined the ASEAN¹³¹. Malaysia joined the association because the predominant British influence began to wane off and it was seeking a regional grouping to 'align' itself with. Singapore was a very tiny nation, and so in its foresight, which was later proved to be correct, it adopted a strong pro-American stance¹³². Thus all members of the ASEAN had security relations with the US in one form or the other, over and above economic relations. Though the US had concluded Military Sales Agreements with them; they sought some degree of autonomy under the forum of the ASEAN. It was not very forthcoming as the threat of communist influence in the region was very 'evident' and they had to make common cause with the US.

After the disintegration of the USSR that signaled the end of the Cold War, the ASEAN members saw yet another opportunity to work for self-reliance, and pursued it actively between 1990 and 1995. Their policies included a new mode of meeting the 'foreign challenge': in the words of Robert Z. Lawrence - where "innovation met trade"¹³³. The international economic system especially by the decade of the 1990's was a new and open competitive environment, where the GATT laid special emphasis on

¹³¹ Frank H. Golary ed., *Philippine-American Relations*, (Manila, 1966) pp. 23-50

¹³² Kavin Ilairat, *Singapore's Foreign Policy: The First Decade*, (Singapore, 1975) pp. 66-80

¹³³ Henry J. Aaron ed., *Setting National Priorities: Policy for the Nineties*, (Washington D.C., 1990) p. 145

copyrights, Intellectual Property Rights and royalties. This meant that foreign goods imported to the US could not be subsidized in the parent country. The ASEAN countries that traded extensively with the US had to comply with these terms of trade. Looked conversely, this concept of the internal trading system was nothing more than a mercantilist fallacy. The fact remains that trade balance is maintained by saving and investment; not debt, which the US was not ready to accept vis-à-vis the ASEAN countries¹³⁴.

With the advent of the Clinton administration in 1992, there was nothing left to obscure the centrality of trade and investment considerations in American policy making with regards to the ASEAN. The region had transformed from being a crucial cockpit of great power rivalry to a wondrous economic success story, as it was portrayed in the American media. ASEAN ranked as US's fourth largest regional trading partner¹³⁵. In their 'pursuit of happiness' in the new world order, economic self-reliance was granted to the ASEAN countries. In a manner military presence still existed in this region but overt American military manifestation diminished. By the time Bill Clinton came to the White House in 1992, there was only a small logistics base in Singapore of less than 200 troops.

¹³⁴ Ibid pp.161-190

¹³⁵ Between 1985 and 1995, US trade with ASEAN increased by more than 100%. By 1996, the two-way trade reached \$109 billion, which was 57% greater than US trade with China and larger than US trade with South America, the Middle East or Africa.

American military bases had been closed down in the Philippines. On 24th November 1992 the last U.S. warship departed from the Subic Bay.

In matters pertaining to the economic partnership between the US and the ASEAN, the strategy of 'without direct involvement' that the US employed vis-à-vis the ASEAN during the Cold War changed tremendously as did the methods employed in the partnership in the new and changed circumstances¹³⁶. In the decade of the 1990s, the US adopted an approach by which the focus of US-ASEAN relations shifted to trade and investment, technology transfer and human resources development. Project selection was to adhere to the criteria of mutuality of interest, comparative advantage and sustainability. These changes reflected a maturing of the relationship between ASEAN and the US. The American private sector started to play a key role in the market driven economic activities in ASEAN countries.

Earlier in 1990, Paul Wolfowitz had emphasized on the American necessity of maintaining a substantial presence in the region¹³⁷. This advice was taken up by the Republican administration of George W. Bush. But, the nature of American presence in

¹³⁶ Edwin P. Hoyt, *Pacific Destiny: The Story of America in the Western Sea From the Early 1800s to 1980s*, (New York, 1981) p.284

¹³⁷ Paul Wolfowitz, *A Strategic Framework for Asia: Looking into the 21st Century*, April 1990. www.defense.gov

the region was more in the form of economic institutional set ups like the ASEAN Cooperation Plan (ACP).

In the latest bid, the ASEAN Cooperation Plan (ACP), coordinated by the US Department of State, complements the Enterprise for ASEAN Initiative (EAI), announced by President Bush on October 26, 2002. The EAI was designed to enhance US commercial relations with ASEAN members. Through the ACP, the US intends to deepen its relations with ASEAN. ASEAN has an increasingly integrated market with which US two-way trade rose to nearly \$120 billion in 2001, making it the third largest overseas market for the Americans.

The Asian financial meltdown yet again brought American influence to the forefront of regional issues in South East Asia¹³⁸. By 1996 the phenomenon of high performing Asian Tigers was evident. The first generation Tigers were Hong Kong, Singapore, South Korea, Taiwan; whose GNP was \$7911 U.S. per capita. The second generation of these Tigers comprised of Indonesia, Malaysia and Thailand. The World Bank studies called it the “East Asian Model” of economic development. But their ‘miracle’ factor was short lived as some of these economies actually tumbled like

¹³⁸ Lucien W. Pye “Asian Values”: From Dynamos to Dominoes, in Samuel P. Huntington & Lawrence E. Harrison eds., *Culture Matters: How Values Shape Human Progress*, (New York, 2000) pp.244-256

dominoes in the 1997-1998 Asian Financial Crisis¹³⁹. It was a crisis of capital flows, unwise credit devices, currency speculation, and drop in investor confidence.

When the falling economies asked for American help, the US Secretary of Treasury, Robert Rubin was expected to respond. But it was the US Department of State, under the guidance of Madeleine Albright that took the lead. President Clinton, who always spoke of free trade, open markets, and unfettered flow of money, rejected State Department's proposal for a major new program of direct economic assistance to the Asian countries severely affected by the financial crisis¹⁴⁰. Instead he advised them to seek assistance from International Monetary Fund (IMF). What was significant in this aspect was that, the US did not come to the direct rescue of these falling economies unlike that of the case with Mexico. Reasons cited for this 'inaction' included geographical distance and not-so-direct impact of the Asian Financial Crisis on the US economy¹⁴¹.

¹³⁹ Sukhumband M.R. Paribatra, "Preparing ASEAN for the Twenty-First Century" *Indonesia Quarterly* vol.26 no.3 1998

¹⁴⁰ Thomas W. Lippman, *Madeleine Albright and the New American Diplomacy*, (Boulder, 2000) p. 218

¹⁴¹ Joseph Stiglitz, *Globalization and its Discontents*, (New York, 2002) pp.89-132

The US has pursued both bilateral and multilateral relations with ASEAN member states, which has caused strains in the intra-ASEAN relationship. The American perception of the ASEAN changed considerably during the Cold War. The only aspect that remained stable was the significance of the region in American geopolitical aims. South East Asia was an “inescapable part of America’s present”. A “retreat to indifference was impossible” because of the rise of a strong China and burgeoning economic presence of Japan and the ASEAN¹⁴². The US viewed the creation of a regional identity as the only way to ensure unity of the divergent interests that the countries of the South East Asian region harbored, and to stave off the communist influence of the USSR, which appeared to be on an expansion spree.

Despite a number of challenges and uncertainties, the overall security environment was marked by a number of positive developments, including continued economic recovery and greater interaction and exchanges between and among regional countries. Relations between the Philippines and the US have improved markedly with the passage of the Visiting Forces Agreement in 1996, making possible military exercises between the two allies once again. US-Indonesian relations also gained positive impetus with the latter’s sudden embrace of democracy. However, relations with America's other formal ASEAN ally, Thailand, remain strained due to US failure to support the bid by

¹⁴² Warren I. Cohen ed., *New Frontiers in American-East Asian Relations*, (New York, 1983) p. 240

Thailand's Deputy Prime Minister to become Director General of the World Trade Organization.

The internal processes in American foreign policy at this time had also undergone some dramatic changes. It was a new state of adjustment with emphasis on cooperative security, economic engagement and international equity¹⁴³. On these counts, the US looked at the ASEAN and the ASEAN Regional Forum (ARF) in a favorable light. The ARF in effect meant more aid to allies in the region from the US¹⁴⁴. This was a mutually symbiotic relationship for both the ASEAN and the US.

What was clear to the US, even after the disintegration of the Soviet Union and absence of Cold War hostilities in the region, was that South East Asia would continue to require a regional association to resolve tensions amongst themselves. Therefore the ARF appealed to the Americans as a viable diplomatic entity. It would be wrong to state that the US has decidedly not encouraged the ASEAN members any scope to better relations with Russia. The US merely did not allow itself any room for direct involvement between the ASEAN and Russia. The US did not perceive of growing ties between the two as a threat and therefore it has kept a low profile in this regard.

¹⁴³ John D. Steinbruner, "Revolution in Foreign Policy" in Aaron, Henry J. ed., *Setting National Priorities: Policy for the Nineties*, (Washington D.C., 1990) pp.65-110

¹⁴⁴ Robert D. Blackwill and Paul Dibb eds., *America's Asian Allies* (Cambridge, 2000) pp.10-15

To the ASEAN members, the People's Republic of China was still a communist nation, despite its breakaway from the Soviet influence. After the Sino-American détente in 1972, ASEAN seemed confused. For them China looked like a military and economic giant, was now befriended by the US, ASEAN's single largest security and trade partner. Some ASEAN leaders feared Chinese aggression, both military and economic and they were also apprehensive about China cornering much of the American trade and investment¹⁴⁵. The ASEAN members were hoping, in the post-Cold War era, to stave off Chinese economic competition and market attractiveness with American help.

Certain regional developments also complicated US-ASEAN political ties. The Vietnamese military action in Cambodia in the late 1970s and early 1980s and the Chinese stake in it created an intimidating position for the ASEAN members, especially Thailand. A major contradiction was posed by the absence of any American chastisement of the Chinese attack. It was logical for the US as Sino-American relations were on an upswing. But this seemed like a breach of trust to the ASEAN states¹⁴⁶. The rapid improvement in bilateral relations between the US and China during this period of turmoil disturbed the ASEAN member states, though the reactions among the members

¹⁴⁵ Warren I. Cohen, *America's Response to China*, (New York, 2000) pp. 195-210

¹⁴⁶ U.S. Congress, House of Representatives, Subcommittees on Asian and Pacific Affairs and on Human Rights and International Organizations: 1983 Hearings 97th Congress, 2nd Session, 'Reconciling Human Rights and U.S. Security Interests in Asia'

were different. Malaysia and Indonesia were especially apprehensive and they wanted better relations with Vietnam to counter Chinese aggression. On the other hand, Singapore with its majority of Chinese population did not see eye to eye. The Philippines was insulated from any trouble by the presence of American military bases there. Brunei had recently joined the ASEAN but it did not face any threat. The weak spot was the reconciliation of Thailand, with its proximity and involvement in the Cambodian crisis, in the equation. However, fact is that China remains the most important country in this region. So much so that it would not be wrong to say that bilateral relations and visions of the US and China together would determine security in the region¹⁴⁷.

Japan established informal relations with the ASEAN in 1973, which were later formalized with the establishment of the ASEAN-Japan Forum in March 1977. Japan helps in the cooperation activities and assistance program for the transitional economies of Cambodia, Laos and Vietnam. For the US, this active involvement of Japan in the development activities of ASEAN especially in the process of integration of Cambodia, Vietnam and Laos, economic democratization and security is welcome. In a way Japan could be considered as deputizing for the Americans. Yet Japan is not entirely crucial in terms of the security related issues pertaining to the ASEAN.

¹⁴⁷ Sheldon, Simon, "Alternate Vision of Security in the Asia Pacific", *Pacific Affairs* vol.69 no.3 1996

The White House Administration and Congress have made significant progress in improving US economic and military engagement in Southeast Asia. This includes the passage of Trade Promotion Authority, as well as the announcement of the Enterprise for ASEAN Initiative and the ASEAN Cooperation Plan. This foundation of US engagement with ASEAN provides an excellent basis to address the growing challenges and opportunities ahead as American security, political and economic interests in the region increase. Doubts still remain in ASEAN minds because economically, they sense that the US was inadequate in its efforts to come to their aid during the Asian Financial Crisis, and militarily, they feel that acts of transgression by China in the region were largely overlooked by the US.

APPENDIX

Chronology of the Asian Financial Crisis

1997

- Early May - Japan hints that it might raise interest rates to defend the yen. The threat never materializes, but it shifts the perceptions of global investors who begin to sell Southeast Asian currencies and sets off a tumble both in currencies and local stock markets.
- July 2 - After using \$33 billion in foreign exchange, Thailand announces a managed float of the baht. The Philippines intervenes to defend its peso.
- July 18 - IMF approves an extension of credit to the Philippines of \$1.1 billion.
- July 24 - Asian currencies fall dramatically. Malaysian Prime Minister Mahathir attacks "rogue speculators" and later points to financier George Soros.
- Aug. 13-14 - The Indonesian rupiah comes under severe pressure. Indonesia abolishes its system of managing its exchange rate through the use of a band.
- Aug. 20 - IMF announces \$17.2 billion support package for Thailand with \$3.9 billion from the IMF.
- Aug. 28 - Asian stock markets plunge. Manila is down 9.3%, Jakarta 4.5%.
- Sep. 4 - The peso, Malaysian ringgit, and rupiah continue to fall.
- Sep. 20 - Mahathir tells delegates to the IMF/World Bank annual conference in Hong Kong that currency trading is immoral and should be stopped.
- Sep. 21 - George Soros says, "Dr Mahathir is a menace to his own country."
- Oct. 8 - Rupiah hits a low; Indonesia says it will seek IMF assistance.
- Oct. 14 - Thailand announces a package to strengthen its financial sector.
- Oct. 20-23 - The Hong Kong dollar comes under speculative attack; Hong Kong aggressively defends its currency. The Hong Kong stock market drops, while Wall Street and other stock markets also take severe hits.
- Oct. 28+ - The value of the Korean won drops as investors sell Korean stocks.
- Nov. 5 - The IMF announces a stabilization package of about \$40 billion for Indonesia. The United States pledges a standby credit of \$3 billion.

- Nov. 3-24 - Japanese brokerage firm (Sanyo Securities), largest securities firm (Yamaichi Securities), and 10* largest bank (Hokkaido Takushoku) collapse.
- Nov. 21 - South Korea announces that it will seek IMF support.
- Nov 25 - At the APEC Summit, leaders of the 18 Asia Pacific economies endorse a framework to cope with financial crises.
- Dec 5 - Malaysia imposes tough reforms to reduce its balance of payments deficit.
- Dec 3 - Korea and IMF agree on \$57 billion support package.
- Dec 18 - Koreans elect opposition leader Kim, Dae-jung as new President.
- Dec 25 - IMF and others provide \$10 billion in loans to South Korea.

1998

- Jan 6 - Indonesia unveils new budget that does not appear to meet IMF austerity conditions. Value of rupiah drops.
- Jan 8 - IMF and S. Korea agree to a 90-day rollover of short-term debt.
- Jan 12 - Peregrine Investments Holdings of Hong Kong collapses. Japan discloses that its banks carry about \$580 billion in bad or questionable loans.
- Jan 15 - IMF and Indonesia sign an agreement strengthening economic reforms.
- Jan 29 - South Korea and 13 international banks agree to convert \$24 billion in short-term debt, due in March 1998, into government-backed loans.
- Jan 31 - South Korea orders 10 of 14 ailing merchant banks to close.
- Feb 2- The sense of crisis in Asia ebbs. Stock markets continue recovery.

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