
Clinton Presidential Records Mandatory Declassification Review

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1.4c, 3.5c



Economic Crisis Affecting Asian Political Environment

3.5c

Central Intelligence Agency

Asia's unfolding economic crisis has led most governments in the area to focus their energies on their respective domestic challenges, a tendency that has affected the regional environment in positive and negative ways:

- On the one hand, countries are slashing defense spending and delaying the procurement of costly weapon systems, according to [1.4c, 1.4d] [] press reports. As a result, concerns about regional arms races, particularly in Southeast Asia, are ebbing.
- On the other, many now appear to be placing less emphasis on multilateral cooperation, which had been gaining currency before the crisis. Leaders, for example, are not relying on APEC, ASEAN, and the ASEAN Regional Forum for solutions. [3.5c]

A prolonged economic downturn in key countries runs the risk of spurring social dislocations that could, in a worst case scenario, threaten regional stability:

- Although most evident in the case of Indonesia, where economic conditions have triggered social unrest, China, too, is undertaking difficult reforms that are already generating some labor unrest. Many in the region are concerned about the safety of their foreign nationals and the potential for destabilizing refugee flows.
- For South Korea, the economic crisis makes granting unconditional aid to the North especially difficult politically. Seoul's insistence on reciprocal gestures for aid frustrates P'yongyang and may prompt the North to take a tougher line on North-South talks and return to military provocations or brinkmanship tactics over the nuclear freeze. [3.5c]

In addition, the crisis is accentuating perceptions about rising Chinese influence. Indeed, Beijing sees its pledge not to devalue the yuan as bolstering Chinese power and providing an opportunity to strengthen ties to Asia []

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1.4c, 1.4d, 3.5c

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1.4c, 1.4d, 3.5c

Impact on . . .

. . . domestic politics

. . . regional agenda

China

Causing export growth to slow, which could dampen overall economic growth and jeopardize Premier Zhu Rongji's reform plans . . . Zhu considered only leader capable of handling economic problems but could also shoulder blame if plans go awry.

China perceives that its stand against devaluing currency has won international praise, changed regional perceptions of China as a threat . . . looks to use new leverage to build stronger ties to ASEAN . . . officials gloating their policies have outshone Japanese efforts.

Japan

Has weakened business and public confidence in the economy, hurting Hashimoto's support rating . . . but lack of challengers to tackle Japan's economic woes may help Hashimoto hang on until at least the upper house elections in July.

Officials say Japan alone cannot be the engine for Asian economic recovery . . . needs EU and US support . . . touting \$40 billion in financial and trade assistance to Asian economies to deflect criticism of weak domestic stimulus efforts.

North Korea

Is providing fodder for internal propaganda claiming North's economic troubles are not unique and discrediting the capitalist economic models . . . allows P'yongyang to claim South Korea is under US and IMF "trusteeship."

Crisis hampers P'yongyang's efforts to exploit niche markets and cajole aid and favorable trade and credit terms from neighbors. . . also using crisis to portray US as would-be regional hegemonist.

South Korea

Is shaping decisions on key issues . . . greater public antipathy to partisan politics blunting impact of wrangling between administration and majority Grand National Party . . . local experts say rising unemployment may spark protests but expect union leaders to exercise restraint due to concerns that turmoil would hinder economic recovery.

Intensified political imperative to obtain reciprocal concessions from P'yongyang in bilateral dealings . . . officials note that the previous administration was criticized heavily for providing unconditional aid during a period of rapid growth.

Russia

Has prompted public admission that economy is suffering . . . officials, probably remain concerned that falloff could further erode investor confidence and damage trade revenues if raw materials prices continue to drop . . . crisis could prompt renewed domestic criticism of integration into the world economy.

Moscow still bullish on Asia, although plans to speed up trade development with some countries will undoubtedly be slowed by the crisis . . . Russian energy firms are also pressing ahead with projects to sell gas and electricity to China, Japan, and South Korea to boost trade.

1.4c, 1.4d, 3.5c

Impact on ...

... domestic politics

... regional agenda

Indonesia

Galvanizing opposition to Soeharto's rule. Rising unemployment and inflation this year increase chances for wider protests that will test the security forces' ability to maintain public order.

Outflow of economic migrants has alarmed neighbors. Reluctance to implement IMF reforms also angering some governments who see this as delaying regional economic recovery. Trade with East Asia has suffered.

Malaysia

Has heightened tensions between Prime Minister Mahathir and Deputy Prime Minister Anwar ... but Anwar does not yet have the support to challenge him. Crisis threatens Mahathir's goal of turning Malaysia into a developed country and may strengthen his resolve to remain in office beyond 2000.

Has spurred Malaysia to make amends with neighbors, such as Singapore. Wary an influx of illegal Indonesian immigrants might increase social tensions, Kuala Lumpur has sought Jakarta's help in deporting illegal immigrants ... has attempted to reduce bilateral tensions by repatriating several hundred Acehnese.

Philippines

Is having relatively minor political impact thus far. Crisis may have helped boost candidacy of frontrunner Vice President Estrada, whose populist rhetoric concerns the business community.

Despite the attack on the peso last year and volatility in their financial markets, most Filipinos continue to welcome foreign investment and expanded links with the world economy. But the crisis may reduce Manila's willingness to lower trade barriers in the short term.

1.4c, 1.4d, 3.5c

Singapore

Is having little impact politically, despite rising concern in the business community about contagion effects from Indonesia and Malaysia.

Concerns about impact of crisis on his economy have propelled Prime Minister Goh into the role of a regional spokesman. Goh has called for additional EU, Japan, and US support for the region and championed an export financing package for Indonesia, pledging \$5 billion to the program.

Thailand

Has bolstered sentiment for reform, forcing a change of government last November to make way for new leaders less associated with graft and cronyism. Budget constraints are hampering new mechanisms such as countercorruption and electoral commissions.

Bangkok undertaking efforts to repatriate up to 300,000 of an estimated 800,000 illegal Burmese workers in Thailand and to replace them with Thai ... seeking rollovers of Japanese loans and lining up additional trade financing from Tokyo. Leaders critical of Tokyo's posture, and want Japan to stimulate region's economy.