

THE CURRENCY CRUNCH AND MILITARISATION

S-E Asia still groping ahead

By DEEPA M OLLAPALLY

IN just a few short months, the aura surrounding the South-East Asian "miracle" seems to have dissipated dramatically thanks to the currency crisis being experienced by Thailand, Malaysia, South Korea and Indonesia. Until the currency crunch, South-East Asia's economic success story which occurred over a period of two decades, seemed destined to be translated into a military success story as well, with significant implications for the broader Asian balance of power. Given the current economic ills, a closer look at the military prospects of the region and its relationship to the economy seems to be warranted.

Critical exception

Since the end of the cold war in 1991, global defence expenditures have been on the decline, with the critical exception of Asia, most notably South-East Asia. The arms imports to the Asian region are rising faster than anywhere else in the world (overtaking the Middle East), and is one of the key markets for advanced weapons systems. South-East Asia alone represents nearly a quarter of the market for world sales of weapons and is the third largest weapons market, only after the US and Europe.

The weapons being imported into South-East Asia are increasing in sophistication, driven in part by US-Russian competition. The decision by the US last year to reverse its earlier stand and sell the Advanced Medium Range Air to Air Missile (AMRAAM) to Thailand is a case in point. The US reversal came in the wake of Thai officials linking the sale of AMRAAMs to Thailand's purchase of American F-18 fighter jets and broad hints that Russian MiG-29s could be considered instead.

Sagging demand and surplus defence industry capacity in the US and Russia are propelling the former foes from a nuclear race to a conventional arms sales race focused primarily in South-East Asia.

The unforeseen financial turmoil is clearly changing the defence spending habits of the recent past of important countries in South-East Asia. Indeed, with the Thai baht at 40 per cent of what its value was in relation to the dollar in mid-1997, the Indonesian rupiah and the Malaysian ringgit having been devalued by 35 per cent and 38 per cent during the second half of 1997 and the South Korean currency dropping by 25 per cent, drastic cuts in the defence budgets were inevitable. One of the worst hit, Thailand's defence budget is likely to dip to nearly 30 per cent of its planned level; the situation is similar elsewhere in the region.

While policymakers in the region see cuts in defence outlays as necessary to survive the ongoing crisis, it appears unlikely to have a long-term impact on their military plans for a number of reasons, both economic and political. Economically speaking, many analysts seem to agree that the worst effects of the crisis could be mitigated in the next two years. No one is suggesting that these economies are "going under."

Bail-out funds

Even in the case of South Korea, which is receiving the greatest amount of bail-out funds from the International Monetary Fund (IMF) and others, the consensus is that it is a crisis much more of the financial sector than of the real economy.

Moreover, the relatively quick

reaction time of the international community to arrange rescue packages also attests to the critical importance attached to the economies in this part of the world. (This stands in contrast to the Latin American debt crisis in the early 1980s when the debt restructuring agreements tended to be tentative and ad hoc). After a short initial period of demurring, the IMF, the World Bank, the Asian Development Bank, Japan and the United States, have been active in providing relief for Indonesia, Thailand and South Korea. These assistance packages have ranged from \$17.5 billion for Thailand to \$57.5 billion for South Korea. Malaysia has so far resisted approaching the Fund.

Security demands

Although the region (except South Korea) is relatively free of immediate security demands, it cannot be assumed that military procurement plans will be entirely shelved or forgotten due to the economic crisis. Most of the countries of the region are spending on force modernisation and upgrading.

They are also attempting to gain some of the capabilities once provided by outside powers, especially the US, whose commitment cannot be counted upon in the post Cold War period.

A major concern which is not likely to disappear, is with the growing Chinese military capability in the long term. Since 1985, China has been engaged in a weapons modernisation programme, with particular emphasis on improving its technological sophistication in the wake of the lessons from the Gulf War and the critical role of high technology

weaponry.

There are already some signs that the hard-hit countries are willing to experiment with innovative means to ride out the crisis and save some projects. For example, military officials are raising the possibility of pooling their procurement funds across countries and sharing of training assets. With the South-East Asian countries facing relatively similar requirements, co-operative purchases of standard ammunition and upgrade of fighter planes could be made in the future, especially between Thailand, Malaysia and Indonesia.

In Malaysia, while defence purchases are being slowed, industry representatives have suggested that if the Government cancels or defers any big ticket civil infrastructural projects, more money may become available for smaller defence projects.

Flush with the success of their economies, South-East Asian countries had been poised to consolidate their politico-military status with their economic status. Thus many defence programmes may be driven more by concern about prestige than about national security per se and may be expected to survive.

Formidable force

Historically speaking, such a trend is hardly surprising or new. Such sentiment is also unlikely to give way easily. Despite the cutbacks by its neighbours, Singapore, for example, has gone ahead with its planned purchase of 12 US built F-16s at a cost of \$350 million, which would make the city state's fleet the most formidable front line fighter force in the region.

The author is a Fellow at the National Institute of Advanced Studies, Bangalore.