CHAPTER II

SOUTHEAST ASIA ECONOMIC SECURITY

Before the explanation of Southeast Asia economic security itself, the author would like to explain about the Southeast Asia. Southeast Asia is a region in the southeastern part of the Asian continent. This area includes the Indochina and the Malay Peninsula and surrounding islands. Southeast Asia region consists of Mainland Southeast Asia and Maritime Southeast Asia. Countries that belong to the Mainland Southeast Asia are Cambodia, Laos, Myanmar, Thailand and Vietnam (William H. Frederick, 2009). While the countries that belong to the Maritime Southeast Asia are Brunei, the Philippines, Indonesia, Malaysia, Singapore and East Timor (New World Encyclopedia, 2015).

All countries of Southeast Asia are gathered into the organization called ASEAN (Association of South East Asian Nations), except East Timor that only existed as an observer for political reasons. The organization aims to promote economic growth, social progress and cultural development of its member countries, and peace in the region. Throughout its history, the relations among countries in Southeast Asia that are members of ASEAN have evolved on various issues. For countries that have proximity geographically, no wonder if the issues raised between countries in Southeast Asia are covering all aspects of the life of the state, such as aspects of economic, political, social, cultural, defense and security.

A. Overview of Southeast Asia

Southeast Asia has an area of Mainland Southeast Asia around 4,817,000 km ^{2} and Southeast Asian waters around 5,060,100 km2. Southeast Asia consists of the countries of Indonesia, Malaysia, Singapore, the Philippines, Brunei Darussalam, Thailand, Myanmar, Laos, Kampuchea, and Vietnam, and East Timor. The largest country is Indonesia (land area > 1.8 million km2) and the smallest country is Singapore (area < 700 km^2) (New World Encyclopedia, 2015).

Based on the latitude and longitude, Southeast Asia is in the 28° n – position 11° s and 93° e – 141° e. Southeast Asia passes the Equator and Tropic of Cancer. The geographical position of Southeast Asia is affecting climate and economic activity of the population. The northernmost country in Southeast Asia is Myanmar and the southernmost is Indonesia. The westernmost country in Southeast Asia is also Myanmar and the most eastern is also Indonesia (Tugino, 2012).

Southeast Asia has tropical climate. There are two types of tropical climate, i.e. Equatorial climates (Equatorial) and Tropical Monsoon climate. Most of the Southeast Asia country around the Equator has Equatorial climate. Equatorial climate can be found in the territory of Indonesia (except for Bali, Nusa Tenggara, and parts of East Java), Brunei Darussalam, Malaysia, Singapore, Thailand, and the peninsula of the island of Mindanao, Philippines. Tropical monsoon climate can be found in the territory of Kampuchea, Laos, Viet Nam, Thailand (except the peninsula), Myanmar, the Philippines (except the island of Mindanao), as well as Bali, Nusa Tenggara, and parts of East Java (Indonesia) (William H. Frederick, 2009).

Southeast Asia is a region that is unique because of the various political systems and government. At least there are four marks of government in Southeast Asia that contrast with each other, i.e. some republics such as Indonesia, the Philippines, East Timor and Singapore, Communist-socialist countries such as Viet Nam and Laos, constitutional monarchies such as Thailand, Cambodia, Brunei, and Malaysia, and the military junta as Myanmar (Helmys, 2013). It also has a rich history of varying civilizations that has resulted in a complex society today. Mobility among different nations has impact on all aspects of the culture, including religion. Some common religions in Southeast Asia are Hinduism, Buddhism, Christianity and Islam. With so many active religions throughout the area, Southeast Asia is one of the most religiously diverse regions in the world. In historical times, these nations practiced relatively religious tolerance. Today, however, that tolerance may be dissipating as some of the religious followers have begun to clash violently (World Facts, 2016).

B. Economic Condition in Southeast Asia Countries

The economic condition in most Southeast Asia countries is still classified as developing countries, only Singapore that classified as developed countries. The economy of Southeast Asia still depends a lot on the outcome of nature, with the exception of Singapore. With the establishment of a free trade area in Southeast Asia by ASEAN countries, it is expected to accelerate economic growth in the region. So, here is the explanation of the economic condition of some countries in Southeast Asia.

1. Philippines

The economy of the Philippines is the fourth-largest in Southeast Asia and the thirty six in the world based on Gross Domestic Product (GDP). The Philippines has a mixed economy with major industries on the management of food, textiles, electronics, and automotive industry. Major industrial centers are moving in the field of food processing, textiles, electronics and automotive industry. The center of the industry generally is in Metro Manila and Metro Cebu. Agriculture still holds an important role in economic development in the United States and the Philippines. Japan has been the major export partners of the Philippines.

In addition, the People's Republic of China (PRC), Singapore, Hong Kong, South Korea and Germany also became the largest export partner of the Philippines. Most of the exports of goods in the form of electronic components and semi conductors, besides natural results such as natural gas, coconut oil and fruits became the mainstay of the main field of the export of natural results. The Philippines joins several international economic forums such as ASEAN, World Trade Organization (WTO) and Asia-Pacific Economic Cooperation (APEC) (Sin, 2012).

2. Singapore

Before the independence in 1965, Singapore was a trading port that varied with the GDP per capita of $511, third highest in East Asia at the time. After independence, foreign direct investment and government efforts to plan are based on the former Deputy Prime Minister of Singapore economy shaping today. Economist Intelligence Unit's quality of life Index is putting Singapore on the ranking of one of the best quality of life in Asia and eleventh in the world. Singapore has foreign exchange reserves of the ninth-largest in the world. After its GDP decreases-6.8% in the 4th quarter of 2009, Singapore got the title of world's fastest growing economies, with GDP growth of 17.9% in the first half of 2010 (Sin, 2012).

3. Indonesia

Indonesia, the largest economy in Southeast Asia, has seen a slowdown in growth since 2012, mostly due to the end of the commodities export boom. During the global financial crisis, Indonesia outperformed its regional neighbors and joined China and India as the only G20 members posting growth. Indonesia’s annual budget deficit is capped at 3% of GDP, and the Government of Indonesia lowered its debt-to-GDP ratio from a peak of 100% shortly after the Asian financial crisis in 1999 to less than 25% today. Indonesia still struggles with poverty and unemployment, inadequate infrastructure, corruption, a complex regulatory environment, and unequal resource distribution among its regions (The World Bank, 2016).

4. Thailand

Thailand became an upper-middle income economy in 2011 (The World Bank, 2011). Over the last four decades, Thailand has made remarkable progress in social and economic development, moving from a low-income country to an upper-income country in less than a generation. As such, Thailand has been one of the widely cited development success stories, with sustained strong growth and impressive poverty reduction, particularly in the 1980s. However, average growth has slowed to 3.5 percent over 2005-2015. The government has embarked on an ambitious reform program to raise Thailand's long-term growth path and achieve high-income status (Thailand Overview, 2016).

5. Myanmar

Myanmar is a country that has rich natural resources such as oil, minerals and precious stones, but Myanmar is a country with a per-capita income levels that are quite low compared to other countries in Southeast Asia. With its status as a developing country that has the low growth rate of the economy, Myanmar is not a weak country because Myanmar has a very strong military force that is one of the largest and strongest military forces in the Southeast Asia. Agriculture is the backbone of the economy of Myanmar where approximately 75% of the total population (54 million) works in the agricultural sector. Other major sectors are mining, trade and industry (The World Bank, 2015).

As a country that is controlled by the Myanmar military, Myanmar is always being the center of attention of the world and the international community with a wide range of global issues, as well as many of the alleged violations to it among other human rights violations, labor, democracy, and trade in narcotics. The issue of security and the rule of the Junta which has existed since the 1980s rendered some aspects that influenced the policy of embargo, both the economic embargo and the military embargo, against Myanmar. Embargo is also one of the reasons of the collapse of Myanmar growth. In an attempt to resolve such matters, the Government is trying to do a good cooperation with the International Labor Organization (ILO), United Nation Special Envoy, United Nation Special Rapporteur on Human Rights and the International Committee of the Red Cross (ICRC).

6. Bangladesh

Bangladesh has maintained an impressive track record on growth and development. In the past decade, the economy has grown at nearly 6 percent per year, and human development went hand-in-hand with economic growth. Poverty dropped by nearly a third, coupled with increased life expectancy, literacy, and per capita food intake. More than 15 million Bangladesh people have moved out of poverty since 1992.

While poverty reduction in both urban and rural areas has been remarkable, the absolute number of people living below the poverty line remains significant. Despite the strong track record, around 47 million people are still below the poverty line, and improving access to quality services for this vulnerable group is a priority. There are also many people who could fall back into poverty if they lose their jobs or are affected by natural disasters (The Heritage Foundation, 2016).

7. Malaysia

Malaysia is rich in natural resources and its traditional economic strength lay in commodities. It is still an important source of tin and rubber, producing more than half the world’s palm oil, and is a exporter of oil and gas. Average daily oil production in 2013 was 657,000 barrels. Malaysia is a highly open, upper-middle income economy. Malaysia was one of 13 countries identified by the Commission on Growth and Development in its ‘2008 Growth Report’ to have recorded average growth of more than 7 percent per year for 25 years or more. Economic growth was inclusive, as Malaysia also succeeded in nearly eradicating poverty.

Though extreme poverty is less than 1 percent, pockets of poverty remain and income inequality remains high relatively to other developed countries. Real income of the lowest is 40 percent of households increased by an average of 6.3 percent per year between 2009 and 2012 (The Commonwealth).

C. Potential and Condition of Strait of Malacca

After the economic condition of some Southeast Asia countries, the author would like to explain about the potential and condition of the Strait of Malacca. The Strait of Malacca is the waters of Southeast Asia, which links the Indian Ocean and the Pacific Ocean. The Strait is located between Sumatra and the Malay Peninsula. The International Hydrographic Organization, the non-governmental body in charge of documenting hydrographic and maritime limitations, has defined the Straits of Malacca as the following:

• On the West: From the northernmost point of Sumatra (Pedropunt) and Lem Voalan on the southern extremity of Phuket Island, Thailand

• On the East: From Tanjong Piai on the Malaysian Peninsula and Klein Karimoen, Indonesia

• On the North: The Southwestern coast of the Malay Peninsula

• On the South: The northwestern coast of Sumatra to the eastward city of Tanjung Kedabu to Klein Karimoen, Indonesia. Therefore, the Strait is called as international cruise lines because some countries use it as crossing line for the fuels transports and materials industry of various countries, and causing some countries depends on security and safety of the Strait.

Figure 2.1 – Strait of Malacca Map

source: http://www.marsecreview.com/tag/malacca-strait/

Strait of Malacca is historically known as the busiest shipping lane in Southeast Asia. Its location is geographically connecting civilizations of Asia, and is also the line entries from the West Asian region toward Southeast Asia. The Strait of Malacca is a region that is important for world trade, because regardless of its location, the Strait of Malacca is known as the fastest and cheapest route even though there were a few other cruise alternatives. Around the Malacca Strait itself, there are five important international harbours; Singapore, Port Klang, Johor, Penang and Belawan (Goh Kim Chuan, 2005).

The sea-lanes of the Strait of Malacca is an important trade route of the world, primarily for countries in Southeast Asia. Over the years, the tanker and bulk move large amounts of oil, coal, iron ore, and other minerals to the production centers in Southeast Asia and East Asia, while tens of thousands of container flow in the opposite direction to meet the needs of the consumer market in the world. Each year, more than 71,000 vessels pass through the Strait of Malacca to bring a diverse range of commodities ranging from crude oil to finished products from different regions of the world. Therefore, it is not redundant if the Strait of Malacca is considered one of the busiest sea routes simultaneously serves as the artery of the world economy (Goh Kim Chuan, 2005).

In terms of energy transport, more than two-thirds of the world's liquefied oil and natural gas passes through the busy sea-lanes. This is three times more than the oil and gas cargo passing through the Suez Canal and fifteen times more than the fuel traffic transported via the Panama Canal. The Malacca Straits are also the "energy lifeline" for economic powerhouses like China, Japan, South Korea and Taiwan, as more than 80 percent of energy imports and exports pass through the Straits of Malacca and transit north through the South China Sea to reach their destinations in East Asia (Lutz, 2013). Countries like Japan, for example, which imports more than 98% of the crude oil it consumes, are wholly dependent on the Straits, since most ships that deliver the essential petroleum from the Middle East and Western Asia pass through them. So important are the Malacca Straits for energy transport that the U.S. Energy Information Administration estimates that approximately 13.6 million barrels of petroleum per day alone pass through the waterway, and possibly half of all seaborne oil shipments as well (The Economist, 2004). Japan's Ministry of Land, Infrastructure, Transport, and Tourism believes that the Straits will serve 114,000 ships annually by the year 2020. (International Hydrographic Organization, 2013)

In terms of responsibility, user nations come second to the littoral states, consisting of foreign countries that depend highly on sea-based imports and exports. China, Germany, Japan, and the United States all figure prominently as observer and user nations. This is because the trade of heavy user states is contingent on the security of the Straits of Malacca, and therefore critical for their economies. The important role of the Straits of Malacca also increased when the industry and economic in Asia developed. The World Bank calls the economy of East Asia-Pacific leading global growth amounted to 7.1 per cent in 2013, and is projected to achieve 7.2 percent in 2014. With the recovering of economy in the United States, Japan, and Europe, and an increase in the rate of growth in the second quarter of 2013, the developing countries in East Asia will benefit because the trade flows are large enough.

Trade from East and Southeast Asia reciprocates this exchange, and container ships with finished consumer products navigate the seas to Western Asia, as well as to European and East African nations, among other regions. Raw materials such as coal and iron ore are common cargo in the Straits of Malacca, and are hugely important for developing centers in East and Southeast Asia. By far the most valued cargo transported through the Straits is petroleum. Because of the various kinds of freighted goods that pass through the Straits, a number of different types of vessels traverse the Straits. These ships vary in size, shape, and function. Heavier shipments, like oil barrels and vehicle parts, are carried on very large crude carriers, mainline tankers, liquefied natural gas (LNG) carriers, bulk carrier vessels, container ships, supertankers, or vehicle carriers, while less valuable or regional trade cargo is carried on small vessels, fishing ships, and wooden cargo boats. The term Malaccamax is used to note the naval architecture of shipping vessels that are able to traverse the Straits of Malacca's rather shallow depths. (International Hydrographic Organization, 2013)

Needless to say, the Straits of Malacca face multiple security issues that affect the three littoral states and the Straits' user nations. In fact, its geographical position makes it not only valuable to the states that border the waterway, but also an intensely critical region for foreign countries dependent on trade passing between the Pacific and Indian Oceans. The Strait of Malacca has good opportunities but also keeps a high risk for regional and international trade. Threats on land also negatively affect the governments of the littoral states. Unbridled smuggling and destabilizing non-state actors, like separatist rebels, already dominate the political discourse and aggravate the capacity issues faced by the littoral governments. Pollution, piracy and international conflict may be the main threat that can disrupt the world trade and result in losses that could not be previously thought for the world economy. When an oil tanker was attacked by a pirate, and ran aground, causing an oil spill and prevented other ships to pass through the narrow lanes, the economic losses and environmental issues quickly gave rise to high costs and the impact of it that could not be seen before. In a short period of time, the economic loss is probably going to reach billions of euros. This confirms the critical role of the Straits of Malacca generally accepted for stability in the entire region and beyond it.