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## Obama wrestles the ox



2009 is the Chinese Year of the Ox

**Amid economic flux, Obama faces challenges and opportunities across Asia, with the possibility of revolutionary change in China, but state failure in Pakistan, Simon Roughneen writes for ISN Security Watch.**

By Simon Roughneen in Singapore for ISN Security Watch

Just days after Barack Obama assumes office in the US, 26 January will mark the Year of the Ox in Asia. As the global downturn pushes dozens of countries into recession, Asia, like much of the world, faces a deeply uncertain 2009.

When the subprime crisis morphed into full-scale Wall Street meltdown and pan-European banking panic during in the fall of 2008, longer-term predictions about a rebalancing of global geopolitics - with the rise in relative importance of India and China in particular, and Asia in general - were taken as imminent by some.

Longer-term, this rebalancing seems inevitable. However, Obama will have to contend with a rising Asia, managing relationships with an array of economies, as well as contribute to defusing security threats on the Indian subcontinent, in Afghanistan, and with North Korea's nuclear weapons program.

### U-V Haze

But what about Asia? Amid what could yet turn out to be worst period for the world economy since the Great Depression, all bets must surely be off, for now at least, if one starts with the premise that uncertainty is - perhaps - about the only thing anyone can predict for sure.

There seems little prospect of a V-shaped recession, with the downturn sharp and short-lived, followed by a similarly rapid re-ascent to growth.

One optimist is Kishore Mahbubani, Dean of the Lee Kuan Yew School of Public Policy in Singapore, and most recently author of *The New Asian Hemisphere – The Irresistible Shift of Power to the East*. He told ISN Security Watch:

“There will be a shock to globalization. People will be cautious, but it won't be a long-term shift. As for Asia, people will be going for low cost now, so Asians see opportunities for themselves in the current crisis. Asians still feel that their growth prospects lie in opening the economies.”

Working to that effect, no doubt, Asian countries are inking an array of free trade agreements (FTAs). China and the Association of South East Asian Nations (ASEAN) have closed off on a deal that will create the world's largest free trade area, comprising 1.7 billion people. Japan and India have similar pacts with the 10-member grouping.

However, optimism that Asia can ride out the economic storm relatively unscathed is being tempered by the nature of the global economy, and the varying roles played by Asian countries in same.

Southeast Asia, the region between and below the politically explosive Afghanistan-Pakistan-India nexus, on the one side, and economic lynchpin East Asia region on the other, faces what seems likely to be a mixed year, and a longer-lasting "U-shaped" recession, prior to renewed growth.

### **Vicious couplings**

Proximity to China, and to a lesser extent, India, has been touted as insulation for many of the middle-sized emerging economies in the region, particularly across Southeast Asia. However, many of these countries remain entwined with western economies, with a good portion of exports, though ostensibly written-off as China-bound, often merely stopping there as a way-station for parts to be harnessed into finished goods for re-export to the US and Europe.

And with demand slumping in the west, these economies, China included, are revising forecasts downward. China is still expected to grow at a reduced rate, but hitherto strong performers such as Singapore, Malaysia and Thailand all face trouble, if not outright recession - partly based on their inability to decouple their economies from those in the West.

The image of yellow-clad protesters (<http://www.isn.ethz.ch/isn/Current-Affairs/Security-Watch/Detail/?id=91992&lng=en>) blockading Bangkok's two main airports was a severe blow for the international reputation of a country where exports and tourism account for 70 percent of national income.

Although the new Thai administration under Prime Minister Abhisit Vejjajiva won a recent set of elections, political instability seems likely, and Thailand's international reputation has been diminished further by an ongoing war against Malay Muslims in the south, and by allegations that Burmese and Bangladeshi refugees were turned back to sea by Thai soldiers.

The Philippines (<http://www.isn.ethz.ch/isn/Current-Affairs/Security-Watch/Detail/?id=94279&lng=en>), too, remains mired in a conflict with Muslim rebels in its south, and metropolitan politics throw up new graft scandals every few weeks, as power-hungry opposition leaders remain vigilant for renewed opportunities to force President Gloria Arroyo-Macapagal from power.

The largely Catholic Philippines recently cut a murky rice trade deal with Vietnam, apparently oblivious to the plight of those Vietnamese Catholics (<http://www.isn.ethz.ch/isn/Current-Affairs/Security-Watch/Detail/?id=94423&lng=en>) enduring what human rights groups have described as the harshest clampdown on religious freedom for many years in the communist, one-party state.

Bridget Welsh is Associate Professor of Southeast Asia Studies at the Paul H Nitze School of Advanced International Studies, Johns Hopkins University. She told ISN Security Watch:

"The financial crisis in the region will start to hit hard from March with varied intensity across the region. The region is still dependent on US markets and consumers. There is a myth that one is either dependent on China or US. The co-dependence of China on US markets has ripple effects in Southeast Asia and this year they will be negative."

Welsh however, had some words of optimism for the largest country in the region: "Indonesia will be the one to watch for democratic openness with its elections."

After spending most of its post-independence history (<http://www.isn.ethz.ch/isn/Current-Affairs/Security-Watch/Detail/?id=53449&lng=en>) under the jackboot of kleptocrat Suharto (<http://www.isn.ethz.ch/isn/Current-Affairs/Security-Watch/Detail/?id=92076&lng=en>), Indonesia, the country with most Muslims of any in the world, emerged from the last major financial crisis to hit the region - in 1998 - as a thriving democracy. This is expected to continue, even if the country faces a difficult economic year, which could play into

the hands of a minority of Islamists.

### **Grave consequences**

India has its own problems with Islamists, both homegrown and Pakistani. The world's largest democracy will hold elections in mid-year, and after the Mumbai [terror attacks](http://www.isn.ethz.ch/isn/Current-Affairs/Security-Watch/Detail/?id=94193&lng=en) (<http://www.isn.ethz.ch/isn/Current-Affairs/Security-Watch/Detail/?id=94193&lng=en>) in late 2008, how the incumbent Congress Party handles the growing tensions with fellow nuclear power Pakistan will be a key issue, with the Hindu nationalist Bharatiya Janata Party (BJP) seeking to regain power.

Like China, India may have seen the global economic flux as an opportunity to at least boost its relative geopolitical weight, but like elsewhere, will feel the pinch in the short-term at least. Since ditching its regimented socialist economy in 1991, India's growth has, according to a 2007 McKinsey study, "been the most successful anti-poverty program in the country's history," with "431 million fewer poor people in India today than there would have been if poverty had remained at its 1985 rate."

However, the country began the year on a sour note, with a corporate scandal at Satyam being dubbed "India's Enron." For the immediate future, though, the world will wonder if "India's 9/11" in Mumbai will lead to a military reaction akin to that undertaken by the US in 2001.

That fight rolls on.

Incoming US President Barack Obama has pledged a harder line in Afghanistan and Pakistan than that of his maligned predecessor, but he will need additional support from "freeloading" European NATO allies - as UK Defense Secretary John Hutton so pointedly remarked in a recent speech.

Rohan Gunaratna, head of the International Center for Political Violence and Terrorism Research at Nanyang Technological University in Singapore, and author of numerous books on international terrorism, told ISN Security Watch that the Afghan-Pakistan borderlands "are perhaps the nexus of global terror."

The Taliban is now a cross-border Pashtun movement driven in part by pan-Islamic notions and backed by foreign jihadis, and the Pakistani government has the ideal excuse to reverse its janus-faced alliance with the US against the militias, and already has moved troops eastward to its border with India, and away from the fight against the Taliban.

"One direct economic knock-on effect will be the depletion of counterterrorism financing," potentially undermining successes across southeast Asia, and in the case of Pakistan, the threat of economic meltdown not only hinders the fight against extremists, it threatens to undermine the already shaky structures of the state," Gunaratna said.

He added: "If Pakistan becomes a failed state, the consequences for global security will be grave."

### **Chinese whispers**

Moving east, Japan might have plenty to tell the rest of the world about recession, given its flat-lining economic performance since the long post-war boom went bust in 1991. One salient, perhaps belated outcome might be a historic political shift, with the Liberal Democratic Party perhaps set to lose power it has held since post-World War II independence.

China is a more opaque case, with the communist regime there determined to hold on to power and "doing its utmost to prevent civil disorder, and resisting any idea of opening-up politically, as its legitimacy rests on two pillars, the now-shaky economic development pledge, and the maintenance of

civil order," according to Guy Sorman, author of *Empire of Lies - The Truth about China in the 21st Century*.

With China's economy under pressure, maintaining social order could prove difficult. Some analysts cite a minimum 8 percent growth as necessary to stave off unrest. But pre-Christmas government figures indicated that 10 million migrant workers had lost their jobs and nearly half of them had returned to their villages - some protesting outside their factories, demanding unpaid wages, before they left.

Sorman told ISN Security Watch that the downturn could prompt one huge change in China: the possibility that land could be privatized or put out to long-term lease. To Sorman, this would mark the effective end of communism in China, and could give the millions who look set to lose factory jobs the incentive they need to return to the countryside, with minimal impact on political stability.

Back to Obama. The US has become heavily reliant on China to finance its national debt, with Beijing's dollar holdings close to US\$2 trillion. As China seeks to stimulate its economy, it will inevitably need to spend more at home, save less and park less of its foreign reserves in US treasuries. However, this relationship is becoming increasingly interdependent, and China could harm itself if it pulled too much of its money too fast from the US.

When George W Bush assumed power in 2000, the US-China bilateral relationship-cum-rivalry was regarded as the most likely flashpoint, and most important foreign policy challenge of the coming administration. Events changed all that, but now it seems the wheel has come full circle once more.

Strangely therefore, neither Obama nor his secretary of state Hillary Clinton have said much about their prospective China policy, but what is clear is that amid the economic storms, Washington-Beijing relations will be central to any global economic upswing.

However, in wrestling with this ox, Obama may have to rein in his lofty human rights rhetoric and keep mum about Chinese-backed tyrants in Burma, Sudan, Zimbabwe and North Korea - causes close to the hearts of some of those who backed his campaign at home, and gloss over continued regime oppression of its own people.

Simon Roughneen is an ISN Security Watch senior correspondent, currently in Southeast Asia. He previously reported from the region in 2007.



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