

Capturing the Year 2006

Writings from the ANU College of Asia and the Pacific

Edited by Barbara Nelson with Robin Jeffrey



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Introduction

This collection captures aspects of the year 2006 and of the talents and interests of the ANU College of Asia and the Pacific. Formed in 2005, the College houses a remarkable assembly of scholars and resources devoted to the study of Australia's neighbourhood from Afghanistan to the Pacific and of the global context in which our region exists. *Capturing the Year* illustrates some, but by no means all, of those talents. Inside, readers will find more than 50 articles by more than 30 members of the College and published in more than a dozen newspapers and magazines.

Writing for a general audience is just one of the tasks that members of the College perform. They research in areas varying from linguistics and archaeology to defence studies and international relations. Their work appears as scholarly articles in journals or as books from university presses. They teach at all levels from undergraduate and Masters-by-coursework programs, and they guide postgraduate students through research that leads to theses and PhDs. They teach languages (Chinese, Hindi, Indonesian, Japanese, Korean, Sanskrit, Thai and Vietnamese), and they create opportunities for students to study in countries of the region and to acquire the skills of scholars and the qualities of rigorous analysis.

Because members of the College have long published widely and generally, it seemed worthwhile to bring together these writings in a single annual—in the same way that great newspapers often produce a collection of their most notable work of the year. The annual collection of *The Guardian* in Britain is an example that has influenced us.

Readers will find here articles about many events and trends in 2006. However, as a collection based on the work of distinguished researchers, *Capturing the Year* is more than basic comment about specific events. Readers will find provocative, wide-ranging essays, such as Coral Bell's 'Coping with the jihadists'. The authors are more than journalists—and

this is no disrespect to journalists—because they draw on years of close study of the places and people about whom they write. George Quinn’s beguiling essay on the late Indonesian author, Pramoedya Ananta Toer, Hal Hill’s piece about stalwart Indonesian policymakers, and Geremie Barmé’s long view of today’s China are such essays. Similarly, the economic analysis of Ross Garnaut and Peter Warr draws on 40 years of observation and practice. Some members of the College, such as Hugh White, Stuart Harris and Clive Williams, are regular contributors to the media. But *Capturing the Year* also highlights articles by colleagues who work in specialised areas—the borderlands of Thailand (Andrew Walker) or rural China (Nicholas Tapp), for example—and write less often in large-circulation publications.

Analysis of Asia and the Pacific today is just one of the tasks of the ANU College of Asia and the Pacific. In 2006, its members published books as varied as the monumental *Voices of Islam in Southeast Asia* (Singapore: Institute of Southeast Asian Studies), edited by Greg Fealy and Virginia Hooker, *The Encyclopedia of the Indian Diaspora* (Singapore: Editions Didier Millet), whose general editor was Brij Lal, and *The Great Wall of China* (Sydney: Powerhouse Publishing), edited by Geremie Barmé and Claire Roberts. Along with such titles were numerous specialist monographs ranging from *Economics for Fisheries Management* (London: Ashgate) by Tom Kompas, Quentin Grafton and colleagues, to Tamara Jacka’s *Rural Women in Urban China* (New York: M. E. Sharpe) and Katherine Morton’s *International Aid and China’s Environment* (London: Routledge).

Including its general staff, faculty, undergraduates, Masters students and PhD candidates, the College of Asia and the Pacific has about 2000 members. In daily practice, the rich experience displayed in *Capturing the Year* interacts with a stream of students and younger scholars. The policy-related research and specialised teaching that units of the College undertake are informed by historical knowledge and language skills that often lie only a short walk from one person’s room to another’s.

We thank the various publications that have allowed us to reprint material. We thank too the government departments, non-government

organisations, embassies, businesses and media outlets with whom members of the College have worked in 2006. We hope they and others will find that writings from the ANU College of Asia and the Pacific do go some way towards capturing the year 2006.

Robin Jeffrey and Barbara Nelson

Afghanistan

December 2005/January 2006

The Diplomat

WILLIAM MALEY

*A democratic future for Afghanistan?*¹

For the second time in less than a year, the people of Afghanistan have had an opportunity to go to the polls. On 9 October 2004, a presidential election was held which resulted in a comfortable victory for the incumbent Head of State, Hamid Karzai, who secured 55.4 per cent of the popular vote and outpolled his closest rival, former Interior and Education Minister Yunus Qanuni, by almost 40 percentage points. Just under twelve months later, on 18 September 2005, further voting took place, both for members of the 249-seat lower house of the National Assembly, known as the Wolesi Jirga, as well as for members of Provincial Councils for Afghanistan's 34 provinces. For those of us who had followed Afghan's travails over the past few decades, simply witnessing ordinary Afghans turning out to vote was a poignant and moving experience. And for those observers who equate democracy simply with electoral choice, Afghanistan had taken a massive step forward. However, for those with a sense of history, Afghanistan's recent encounter with democratic processes might better be seen as one part

of a much bigger story, the end of which remains far from clear. Just how far the country still has to go was demonstrated on 14 November 2005, just two days after final results were certified, when a suicide bomber rammed a convoy of the International Security Assistance Force just outside the headquarters of the Joint Electoral Management Body on Kabul's Jalalabad Road, killing a German soldier.

Contrary to what is often thought, Afghanistan had an earlier experience with democratic processes, in the 1960s. In 1963, King Muhammad Zahir (now known constitutionally as Baba-e Milli, or 'Father of the Nation') procured the resignation of the Prime Minister, his cousin Muhammad Daoud, and inaugurated an era officially known as 'New Democracy'. With advice from European experts, an impressively modern constitution was drafted, and elections for the Wolesi Jirga were held in 1965 and 1969. Yet not all went smoothly. The first elections were a largely urban affair, with the voter turnout even in the capital Kabul being less than 40 per cent. Parties—other than various communist factions—were weak, the King having failed to sign a statute providing for the legal operation of political parties, and governments proved fragile. Members of parliament were more concerned with enhancing their ability to stave off challenges to their positions than with realising a national vision; they often spent precious time in lobbying to extract resources from the state for the benefit of their followers; and on occasion political rhetoric was notably bitter. One lesson was and is clear. Simply 'having a parliament' is not an instant formula for 'democracy': the precise nature of a parliament, and of political competition more generally, is all-important.

Of course, the mere holding of elections in Afghanistan could legitimately be regarded as a triumph, and from a technical point of view this was indeed the case. Within tight timeframes set out in the December 2001 Bonn Agreement signed by anti-Taliban forces to lay out a transition path for post-Taliban Afghanistan, the Joint Electoral Management Body, exercising the delegated powers of the Afghan Independent Electoral Commission, did a remarkable job in mounting both presidential and

parliamentary polls in accordance with the new 2004 Constitution. In each case, some irregularities occurred on polling day, but experienced electoral managers expect nothing less: elections are typically the most logistically-complicated exercises which can be attempted in peace time, and the key question to ask is not whether problems surface, but whether they are on a scale which could have affected the outcome. Here, the 2004 and 2005 elections stood up to rigorous scrutiny, with polling proceeding smoothly in most parts of the country. However, the cleanliness of an election from a technical point of view does not guarantee that the outcome which flow from an election will be positive, and it is this deeper question that merits further attention in the Afghan case.

One feature of the 2005 election that attracted immediate attention was the low turnout. At the 2004 election, 8,024,536 valid votes were cast and the official turnout figure was 70 per cent, but taking into account the likelihood of multiple registration, the real turnout may have been closer to 90 per cent. In 2005, the turnout was far lower, coming in at 51.4 per cent (and only 34 per cent in Kabul); in many polling centres, it was all too obvious on the day that many Afghans had chosen not to vote. Just why the turnout fell so sharply in 2005 remains uncertain. Some commentators suggested that it represented 'democratisation fatigue'; others that Afghans felt that they had made their key 'democratic' choice when selecting an occupant for the constitutionally-very-strong presidency; others that few candidates for the 2005 were well known, and that those who were were not much liked.

Voting in Afghanistan was not compulsory, and in well-institutionalised political systems, low voter turnout is not necessarily a problem. However, in transitional societies it can be a pointer to unresolved tensions, especially if it is a result of intimidation. Sadly, in Afghanistan there is a good deal of anecdotal evidence to suggest that this may have been the case. There is an old saying among election observers that only an amateur tries to steal an election on polling day. The climate within which candidates seek to present themselves for election, and voters

make decisions about whom to support, is as important as the circumstances which prevail on the day of voting. Where candidates are threatened with dire consequences if they campaign—as clearly happened in parts of Afghanistan in 2005—the essential element of contestation in a democratic political system is compromised.

A further problem in Afghanistan related to the choice of Single Non-Transferable Voting (SNTV) as the electoral system for the 2005 polls, rather than a much more defensible system such as list Proportional Representation (List PR). Under the SNTV system, seats were allocated to provinces in accordance with their estimated populations, voters simply voted for a single candidate at province level, and seats were allocated to individual candidates in order of the number of votes received. This proved to be far from a simple system, since candidates could not be grouped under a party label but had to appear individually on the ballot, resulting in huge ballot papers that proved confusing even for educated voters. Furthermore, the system does little to ensure even approximate proportionality between the strength of opinion in a province and the representation of that opinion in a province. If, for example, a strong moderate candidate were to win 90 per cent of the vote in a head-on contest with a clutch of extremists, that moderate would only win one seat, with the remainder being divided between extremists who secured only 10 per cent. Not surprisingly, a survey of election specialists, reported in the April 2005 issue of the *Journal of Elections, Public Opinion and Parties*, rated SNTV last of all the systems the specialist were invited to appraise! The net result of the system is to produce a parliament of ostensible independents who are more likely to be beholden to behind-the-scenes fixers, or to drug barons, than to identified party leaders whose actions are exposed to at least some degree of transparency.

How blocs might take shape in the new Wolesi Jirga remains to be seen. As a legislative chamber it is likely at the outset to be highly fractious; its members range from Abdul Rab al-Rasul Sayyaf, an Islamist elected in Kabul whose Ittehad-e Islami militia in the early 1990s was implicated in serious human rights violations, to Sayed Muhammad Gulabzoi, elected in Khost, who

was one of the key instigators of the disastrous April 1978 coup and long the most prominent surviving member of the communist Khalq faction. In the face of such divisions, there is a danger that some supporters of the president may be tempted to draw on a rhetoric of ethnic solidarity amongst Afghanistan's Pushtuns—the largest single ethnic group in the country—in order to craft a stable bloc of supporters to ensure the passage of legislation. This would be an extremely undesirable development, almost certainly triggering counter-mobilisation on ethnic lines amongst groups such as the Tajiks, Hazaras and Uzbeks, and more generally an ethnicisation of elite politics that Afghanistan has largely been spared. On the positive side, however, there is one potential bloc of some significance, namely the 68 women elected to the Wolesi Jirga. Whether a distinct women's caucus actually emerges remains to be seen, but should one take shape, it would comprise not just a significant voting bloc, but also a significant voice. Once the Wolesi Jirga meets, it is likely that new political figures will emerge who hitherto have not attracted much attention, and some of them could well be women.

Beyond the functioning of the new parliament, there are diverse factors that will shape the future of Afghanistan's transition process. Elections alone do not deliver democracy: it is necessary to reinforce such choice mechanisms with a democratic political culture, a consensually-unified political elite, and consolidated, well-crafted institutions. A particular challenge will be managing the long-term relationship between the legislative, executive and judicial branches: already there is evidence of freelancing by conservative judges of the Supreme Court, for whom key democratic principles and constitutional human rights commitments should be subordinated to the judges' particular conceptions of the requirements of the Islamic faith. In this sense, Afghanistan's political framework remains a work-in-progress. But more broadly, Afghanistan's future will be crucially shaped by developments outside its formal political structures. Unless the Afghan state can meet the basic expectations of ordinary Afghans, especially expectations of improvements in day-to-day security, its legitimacy is likely to be increasingly under threat. And if the

attention of the wider world drifts to other theatres of conflict (such as Iraq or the wider Middle East) as part of a 'war on terror', the gains that have so far been made in Afghanistan may prove to have been ephemeral.

15 June 2006

Sydney Morning Herald

WILLIAM MALEY

West has been helping itself, not Afghanistan²

Next month, a contingent of 200 Australian soldiers will travel to the Afghan province of Uruzgan to join Dutch troops in a 'Provincial Reconstruction Team'. This deployment has not attracted nearly the attention of the 'Operation Muthanna' deployments in southern Iraq, or the more-recent dispatch of Australian personnel to East Timor. Yet the ongoing conflict in southern Afghanistan between the resurgent Taliban and forces of NATO, the US-led Coalition, and the new Afghan National Army is proving to be very nasty indeed, outdone at present only by the violence of the Sunni Triangle in Iraq, and the predations of the Janjaweed militia in the Darfur region of Sudan. Australia should brace itself for casualties, of the kind that the United Kingdom and Canada have recently had to endure.

How have things come to this pass? Wasn't Afghanistan a success story? The adoption of a new constitution in January 2004, a largely-peaceful presidential election in October 2004, and then parliamentary and provincial council elections in September 2005, all seemed to be important landmarks in the country's political evolution. President Hamid Karzai appeared to be an engaging and popular figure, and lively free media in Kabul

seemed to bridge the superficial gulf between the modernising 'West' and the exotic 'East'. But below the surface, things have not been going so smoothly.

Although many Afghans have contributed courageously to the mission of rescuing Afghanistan, the country continues to face severe problems, some a product of poor recent decisions, but others deeply-rooted. Key offices are increasingly falling into the hands of members of the Pushtun ethnic group, risking a backlash from other communities. Elite political competition is fierce, and outstanding ministers such as former Finance Minister Ashraf Ghani and former Foreign Minister Abdullah, were systematically white-anted when they seemed to be receiving too much of the limelight. Karzai, while articulate and incorruptible, has proved to be wedded to a politics of bargaining and networking which has seen unappetising figures promoted to positions which they have then abused. This has been a particular problem in southern provinces such as Kandahar, Helmand and Uruzgan.

More seriously, the commitments of the wider world have proved fitful and unreliable. Australia is returning to a theatre of operations which it had earlier abandoned, quite prematurely. In a move of staggering foolishness, the Bush Administration in early 2002 blocked the expansion of the International Security Assistance Force beyond the Afghan capital Kabul. This, more than any other single development, disrupted the momentum of Afghanistan's transition. Furthermore, the aid flowing to Afghanistan is per capita only a fraction of what Kosovo and even East Timor received, and much of it has entirely bypassed the Afghan government, leading to the emergence of what the World Bank has called a 'Second Civil Service' of UN agencies and private commercial contractors, receiving rewards that are astronomical by Afghan standards, but doing little to foster local capacity. Not enough is trickling down to ordinary Afghans.

All this has created space for the Taliban to surge back, with active Pakistani backing. The Afghan National Army is proving too expensive for the Afghans to fund from local revenue sources, and thus the country's security sector is subject to the vagaries of budget decisions taken in foreign capitals. The Afghan National Police is only a pale shadow of what is

needed, and the size of the opium economy poses a real risk that Afghanistan could become a narco-state.

It is not too late to turn things around, but time is now running very short. It is necessary that the Afghan Government refocus on the delivery of competent, clean and inclusive governance, with particular emphasis on the delivery of security through effective community policing. For its part the wider world needs to ensure that its practical commitments match its effusive rhetoric. Too much of the ‘assistance’ which Afghanistan has received has been crafted to meet short-term Western needs—for effective counter-terrorism and for the eradication of opium crops—without sufficient attention to what the Afghans’ long-term needs might be. Yet the irony here is that in the long run, the needs of the Afghans for social and political stability actually reflect what it is in the long-term interest of Western powers to promote. The first challenge for Australia as it deploys to the danger zone of Uruzgan is therefore to think very deeply about exactly what it is going there to do.

12 September 2006

The Australian

WILLIAM MALEY

Fledgling democracy a target for destruction³

On 5 September, Pakistani President Pervez Musharraf struck a remarkable deal with religious extremists in the tribal areas of the Northwest Frontier Province of Pakistan, involving a truce in their stand-off with the Pakistan Army in exchange for their ending armed attacks in Pakistan. In

Afghanistan, the reaction was less than enthusiastic, with the Governor of Paktia Province, Hakim Taniwal, warning that ‘if they are not being bothered, they will have more time to infiltrate here and do what they want’. On 10 September, only three days after these prescient remarks were published in *The Washington Post*, Taniwal was assassinated in a suicide bombing for which the Taliban promptly claimed responsibility.

The shock waves from Taniwal’s slaying are unlikely to settle down any time soon. Unlike a number of his fellow governors, Taniwal was a man of real substance. By training he was a sociologist, with a master’s degree from the University of Münster in Germany. An Australian as well as an Afghan, he had returned to Afghanistan in 2002 after living for some years in Dandenong, and had accomplished the near-impossible by easing out an obnoxious militia leader and establishing an effective local administration in the face of serious resource shortages. When I last saw him, in 2003, he was obviously care-worn, but his commitment to aiding the reconstruction of his homeland was completely undiminished.

The situation since 2003 in Iraq has been so grave that it has been all too easy to overlook the fragility of the situation in Afghanistan. While Afghanistan was the obvious theatre in which to confront al-Qaeda and its allies—‘obvious’ because world opinion strongly supported robust action and Afghan opinion yearned for an international intervention too—the momentum of transition was lost early, in March 2002 to be precise, when the expansion beyond Kabul of the UN-endorsed International Security Assistance Force (ISAF) was blocked by a Washington already mustering airlift assets for use against Saddam Hussein. This colossal blunder had a corrosive effect on the other elements of Afghanistan’s transition.

This is where the loss of Taniwal is so tragic. President Hamid Karzai, a thoroughly decent man with outstanding communications skills, has never been strong in the area of policymaking, and he inherited from the 2001 Bonn Conference a dysfunctional state structure in which ministries had been dealt out as prizes to various political leaders, who turned many of them into warring fiefdoms. With the state not performing effectively, and

faced with international backing that was stronger at the rhetorical than the practical level, he has increasingly resorted to a politics of bargaining and deal-making, seeking to secure local stability by pacifying potential spoilers. Thus, a number of Taniwal's fellow governors are at best pygmies, and several are profoundly unappetising, creating crises of bad local governance.

To this can be added three other problems. The first is one of governmental legitimacy. Here, it is easy to misread the implications of Karzai's comfortable victory in the October 2004 presidential election, where with 55.4 per cent of the vote, he outdistanced his nearest rival by nearly 40 percentage points. Alas, in countries such as Afghanistan, electoral victory does not mean what it means in consolidated, institutionalised democracies such as Australia and the United States where it confers legitimate authority until the next election is held. In countries emerging from decades of disruption, an electoral victory confers a provisional mandate to attempt to rule, but a ruler who cannot meet popular expectations in the spheres of governance and security will likely see his authority disintegrate, and there are alarming signs that this has begun to happen to Karzai.

The second problem is that of the ethnicisation of politics, which often occurs as weakening leaderships seek to shore up their support. The electoral system used in the 2005 parliamentary elections worked directly against political parties, but with the result that those who wished to craft a bloc in the parliament to promote new legislation then resorted to ethnicity as a basis for mobilising support. This has left at least some ethnic groups feeling marginalised, an apprehension which formed part of the context for the riots which engulfed Kabul on 29 May this year. Karzai is increasingly isolated as a result, and those whose fortunes have been rising, namely secular Afghan nationalists from the large Pushtun ethnic majority, are the very people who set Pakistani nerves jangling by reminding the Pakistan military of the 'Pushtunistan' border dispute which poisoned relations between Afghanistan and Pakistan from the 1940s to the 1970s.

The third problem, and probably the most serious of all, has been Pakistan's support for the Taliban's renewed campaign to destabilise

Afghanistan. President Musharraf has now admitted that the Taliban have been crossing into Afghanistan from their bases in Pakistan, but has denied any official involvement. This is belied, however, by the sophistication of the Taliban's equipment and tactics, by Pakistan's proven ability to turn the Taliban off like a tap (as it did under US pressure during the 2004 election), and by the sheer audacity of past Pakistani lying about its interference in Afghanistan. Now, with the Taniwal assassination, we may be witnessing the opening of a new and deadly Eastern Front for the Karzai Government to manage.

Notes

- 1 First published in *The Diplomat*, December/January 2006, pp.34–35.
- 2 First published in *Sydney Morning Herald*, 15 June 2006.
- 3 First published in *The Australian*, 12 September 2006.

China

2006

Yang Congming, *Rational Farming: Development and Change in Dade Miao Community*¹

NICHOLAS TAPP

Foreword

This is a fascinating study of economic and social change under the impact of the market economy for the Miao farmers of Taijiang County in Guizhou, China. The author demonstrates a deep and sympathetic understanding of local conditions and rural perceptions of the radical changes which have taken place in the transition from a planned economy to one based on a significant orientation towards market forces. The study throws considerable light on China's rural agrarian transformation as a whole, besides providing an in-depth account and analysis of the economic strategies and livelihood options pursued by the local farmers of Taijiang.

In Taijiang, a major transition has taken place from the traditional agroforestry practices of cultivating China Fir trees, towards new strategies of fruit-tree cultivation, but the author does much more than merely describe this process. Within a framework of political ecology which encompasses a resource access analysis together with a discourse-based analysis of needs and

aspirations and decision-making models, we learn how a variety of completely different strategies have been adopted at the local level towards fruit-tree cultivation and more traditional forms of agroforestry. Careful diagrams and tables, based on statistical surveys as well as Yang's considerable local and historical knowledge, illustrate the mechanics of this process of land distribution and the complex and difficult decisions relating to it. At the same time the views of Miao farmers themselves are expounded through individual case-studies and frank personal interviews which tell us a great deal about how local villagers really feel about things.

This is an expert and professional study, which also introduces us to the topic of Miao culture and its traditional care for and understanding of the forest. The account of unequal forms of land distribution, the importance of property rights in trees, the competition and sometimes conflicts which have developed over this, and the range of new income-earning opportunities including the opening of restaurants and male out-migration to urban centres (resulting in what Yang calls a 'feminisation of agriculture') is fascinating. In the process of agrarian transformation far-reaching changes have been introduced into gender relations and also in the relations between the senior and younger generations. The author pays full attention to these issues of gender and unequal access, and examines the social creation of new 'needs' resulting in new local exigencies which feed into the adoption of particular livelihood strategies.

Sharecropping, hiring of labour and renting out arrangements have resulted in the deepening complexity of local social life and an overall lessening of the proportion of household income derived from forest-related activities. The author examines a subsistence model, a petty commodity model, and a commercial model of tree cultivation in five different villages and shows how diversification of land use has occurred, paying detailed attention to the processes of decision-making and choices under which these options are employed. The data on the variety of different types of access to agroforestry resources is particularly valuable; so too is the account of the variety of contractual arrangements and of

the relationship, in different contexts, between state enterprises, private companies and household units.

For the Miao, a huge change has taken place from a clan-based social structure towards a more individualist, household-oriented one, and the author charts a familiar process of the loss of Miao language and traditional indigenous knowledge as part of what is, after all, a much more general process of modernisation for the Miao as for the majority of China's farmers. This study throws considerable light on how villages actually work, for example with villagers still expecting some organisational inputs from cadres who are now themselves struggling to make a living for themselves and may have little time to spare for village affairs.

The work will be valuable not only for theoreticians, as it provides an excellent example of an interpretive approach towards farming systems research, but also for development planners and policymakers in that it shows so clearly the very diversity of economic alternatives and social forms at the level of the village community. Very different perceptions, very different solutions to common problems, from very different types of households in very different social and economic situations are highlighted here, in a study which nevertheless illuminates the apparently inevitable overall movement towards a wholly commercialised economy.

Moreover, the study is not completely confined to the villages or the county, but reaches out to give us some idea of life in Guangdong. The young workers are no longer available for farmwork. Networks of trading contacts are now necessary to supplement the traditional means of kinship connections through 'pal families' (hehouren), which a farmer, who opens a restaurant for bus drivers near the main road, may utilise for the speedy sales of his pears in the city. We thereby have an idea of how the village is linked to a much broader economy. Overall this major work shows that an appreciation of economic rationality must be combined with an understanding of the social, historical and cultural context in rural sociology; it provides an exemplary model of a study which takes into account local priorities and knowledge and agency as much as it does state and market forces. It forms an

important argument for the need for a deeper consideration of rural perceptions and the complexity of local social organisation at the village level when planning developmental interventions and rural assistance programs.

January 2006

APEC Economies Newsletter

LIGANG SONG

China's ownership transformation: progress and prospects

China's emergence as a global economic player has been accompanied by a major internal transformation described in a new World Bank/IFC publication.² Over the past decade, the economy has made the transition from complete reliance on state-owned and collective enterprise to a mixed economy where private enterprise plays a leading role. This is an ongoing process, during which the economy will remain structurally a very diverse one. While some Chinese companies are in the vanguard of globalisation, many are struggling with old legacies of planning. Thus, in these times of optimism and dynamism, increased attention must be given to solving the problems of the state-owned sector.

A key response is *gaizhi*, a Chinese term meaning 'transforming the system', which has become a major phenomenon in most parts of the country; in many cases it has involved full privatisation. Unlike the mass privatisation programs that have occurred in Eastern Europe and the former Soviet Union since the late 1980s, *gaizhi* programs in China have been gradual and low profile. However, the significance of the Chinese reforms should not be underestimated. In many ways they have been as far-reaching

as, and generally more economically productive than, those in Eastern Europe and the former Soviet Union.

Gaizhi has taken a variety of forms. The more radical forms involve the transfer of state assets to private owners. A properly managed transfer of assets from the state to private owners is a crucial part of the *gaizhi* process, with strong implications for preventing losses of state assets and maintaining social stability. An effective and transparent asset valuation system needs to be built to achieve fair and smooth transfers of state assets.

The restructuring of state-owned enterprises (SOEs) often requires a reduction of redundant workers. A large number of SOE employees have already lost their jobs as result of restructuring programs. To deal with this employment issue, the Chinese government has established a social security system consisting of pensions, medical insurance, unemployment insurance, and a social relief system, which together guarantee a minimum standard of living for urban residents. The government intends to expand the social security system further and to increase the share of the budget spent on social security.

Survey results show that *gaizhi* firms discharged more workers in the year when *gaizhi* was implemented than non-*gaizhi* firms, but they were able to afford to retain more workers in subsequent years. Therefore, it is possible that *gaizhi* and privatisation create a 'win-win' result for both employment and wages growth in the long run.

Market reforms have resulted in a significant degree of insider control, as SOE managers have gradually acquired considerable discretion over the use of state assets. Expanding managerial autonomy was a necessary complement to market reforms, as managers needed the flexibility to respond to market signals. However, this has exacerbated agency problems by enlarging the discrepancy between managerial control and the ownership structure. The agency costs of this increased autonomy have manifested themselves in various incentives for managers to maintain or acquire private benefits of control through on-the-job consumption and other rents related to investment and business expansion. Survey results

show that outside investors in controlling positions are more likely to use, and rely on, the new mechanisms of corporate control to provide effective checks and balances on managerial discretion, and to offer attractive incentives to senior managers.

The merits of *gaizhi* should ultimately be judged on how well the restructured firms perform. While improving enterprise performance was not the only goal of *gaizhi*, the experiment would have failed if efficiency does not improve. Survey results show that privatisation has brought considerable efficiency gains to the enterprise sector. It has a significant positive impact on firm profitability, although a weak or insignificant impact on unit cost and labour productivity. Outside ownership, irrespective of whether private or state, has a strong and significant impact on performance, though this impact tends to be concentrated in the early years of reform.

Although important, the efficiency aspects of the *gaizhi* process most likely will not determine the future of enterprise reform in China. Recently, fairness and distribution issues related to *gaizhi* have been attracting most public attention. The government and the general public are concerned that *gaizhi* has been accompanied by erosion of state assets, corruption, and 'inglorious' enrichment by private individuals. Ongoing public debate in China puts the main issues surrounding the future of privatisation in the country into sharp focus.

What are the implications of this debate for the future course of China's ownership transformation? The main findings from this study do not imply a halt of China's ownership reforms. But they do imply the need for regulations and stronger regulatory capacity. A notable feature of desirable regulations is that they establish stricter standards and a higher level of scrutiny when state assets are transferred to non-state entities. Specifically, regulations need to clarify the methods that can be used to reform SOEs, such as reorganisation, mergers, leasing contract operations, joint ventures, transfer of state assets, and the joint-stock and joint-stock cooperatives systems.

Regulations also need to specify the procedures to be followed, including preparation of restructuring plans, appointment of auditors and appraisers, the determining of the price valuation of state assets, method of payment, and the

need to protect the interests of creditors and employees. They must also require that the state property rights of non-listed enterprises be transferred on the property rights exchange without regard to the region, industry, investment, or affiliation of the enterprise. In addition, transfers must be made publicly and competitively by auctioning, public bidding, agreed transfer, or other means that are stipulated in state laws and regulations.

The new regulations should devote special attention to management buy-outs (MBOs). They should address conflict of interest issues by prohibiting the managers who are buying the state-owned assets of their own firms from participating in key decisions on any property transfer, such as financial auditing, the terminating audit, asset and capital verification, assets evaluation, and the setting of the base price of property.

The debates also imply the need for a competitive environment in which ownership structures evolve so that different interests provide checks and balances on each other and prevent concentration of economic and political power. A critical aspect of such a competitive environment is the ability of outside investors to inject capital and energy into enterprises. Given the limited role that private outside investors have played in the ownership reform process so far, the conclusion is that China needs more—not less—outside private ownership at this stage.

However, impediments exist on both the demand and supply side of the process. Investors have difficulty finding independent and reliable financial information about companies. Publicly available records on many aspects of a company's business are often either unavailable or unreliable. Corporate accounting is also frequently lax, especially by foreign standards. The existence of different classes of shares presents a major obstacle to the development of China's equity market as it creates conflicts between different shareholders, particularly between the holders of legal person shares and the holders of tradable shares. This complicates the corporate governance of Chinese listed companies.

While private enterprises are becoming more active in acquiring and restructuring SOEs, they still account for a small share of all *gaizhi* cases.

Government policy is to expand the role of the private sector, both domestic and foreign, in the process of ownership transformation. This will require sustained efforts from both the government and the private sector to improve the business environment for private economic activities and to move China's private enterprise towards global best practice. China is making substantial progress in improving official attitudes towards the private sector, which will significantly facilitate the process of its ownership transformation.

18 March 2006

The Age

HUGH WHITE

A rising China tests Australia's ties with the US and Japan³

Alexander Downer is in for a tough day. He sits down this morning for the first ministerial-level tripartite talks with the US and Japan. Top of the agenda is the complex and vital issue of the rise of China. And Downer will be in a minority of one against our major ally and our biggest trade partner.

These talks are not routine diplomacy. The US Secretary of State and the Japanese Foreign Minister have gone to a lot of trouble to be here together for today's session. They have a serious purpose: to arrest what they see as Australia's drift towards China. They worry that, dazzled by China's economy and seduced by its diplomacy, we are growing too close to Beijing.

From their perspective, Washington and Tokyo are right to be worried. Australia does take a different view of China from both the US

and Japan. In public Downer and Condoleezza Rice have downplayed them, but the differences are clear nonetheless.

Of course we all agree that China offers big opportunities. It has already underwritten economic growth in many parts of the world, and in doing so has become central to the prosperity and stability of the global economy. That is why talk of 'containment' is really beside the point. We could not contain China even if we wanted to, because we all rely too much on it to try and isolate it from the rest of the international system.

But the risks from China's growth are also obvious. As its power grows, China might start to throw its weight around, trying to impose its will on others. Washington and Tokyo think this is already a problem. They point to China's rapid military build-up as evidence. They emphasise these anxieties in talking of their relationship with China, as we have seen from Condoleezza Rice this week.

Australia takes a different view. John Howard and Downer describe our relationship with China much more optimistically, as 'good' and 'mature'. This is partly because Canberra thinks, as Downer said last weekend, that China has been using its growing political weight 'responsibly' in recent years.

These differences in tone point to a much deeper difference in our thinking about how to handle China's rise. America instinctively expects China, as it grows, to adapt itself to a regional order in which the US makes the rules. China expects much more: that as its power grows, it will have a role in setting the rules, not just following the rules set by Washington.

Australia tends to be more sympathetic to China's aspirations, and more worried about what China might do otherwise. Downer thinks we should reward and encourage China's responsible conduct. And Canberra is alive to the risk that if we do not give the Chinese a role in setting the rules, we may drive them towards trying to overturn them.

But to share power with China is a big ask in Washington. Even 'pro-China' Americans find it hard to imagine ever treating Beijing as an equal partner in managing regional affairs. They think it's up to China to

choose whether it is going to play by America's rules, or face America's wrath. That is what the Pentagon means when it says China is at a 'strategic crossroads'.

Thus while Americans sometimes talks as if they are willing to work with China, it remains clear that they will only do so on America's terms. And by that they mean changes to China's internal politics as well as its foreign policy. No wonder the Chinese are edgy.

Tokyo supports America's tough view. China has deep historical animosities towards Japan, and they fear that the more power China has, the more Japan will suffer. So they will be keen to support Rice's proposal this week that the three countries should work together to 'produce the conditions in which the rise of China will be a positive force in international politics, not a negative force'.

Whatever that means. The record of the Bush Administration leads one to be cautious about vague, grand concepts without clear implementation plans. There are real doubts whether the US and Japan any longer have the power to shape China's rise. Some Americans may think they can use economic pressure, compelling China to behave as the US wants by threatening its access to the US market. They are a good five years too late. Economically, America now needs China as much as China needs America. Neither side can afford to use this vital link as a political lever.

Others, including Rice, seem to think that America can compete effectively with China for the allegiance and support of China's Asian neighbours. Again, they are five years too late. Especially since 9/11, China's diplomacy has trounced America's everywhere in Asia except Japan. Unless Beijing starts behaving badly, it is too late to start building an anti-China coalition now. Not even John Howard and Alexander Downer will join them.

That leaves Downer with a big job: to persuade the US and Japan to take a more moderate, constructive approach to China. Not easy, but very important.

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Australian Financial Review

GEREMIE BARMÉ

A year of some significance⁴

History matters. It matters in Australia where, in January this year, John Howard declared that the teaching of history in high schools is of national importance. He also claimed that, 'too often, history... has succumbed to a postmodern culture of relativism where any objective record of achievement is questioned or repudiated'.

Just as the Prime Minister was exercising us with his historical lament, Hu Jintao, China's president and the head of its ruling Communist Party, was also taking a stand on history, one that was against those who presume to question and repudiate official accounts of that country's past. After all, leaders with a certain afflatus come to think that their tenure in power gives them a right not only to direct their nation's future, but that it also bestows upon them a *droit de seigneur* over all that has gone before.

Hu took the extraordinary step of involving himself in the suspension and reorganisation of *Freezing Point* (Bingdian), a leading magazine known for its thoughtful articles on politics, culture and society. In January, it was deemed that the editors had gone too far when they printed an incisive critique of the kind of biased historiography favoured by party propagandists and hack educators.

The offensive article was authored by Yuan Weishi, a noted historian at Zhongshan University in Guangzhou. Yuan expressed his dismay on reading some of China's modern history high school textbooks. In them he found dangerous distortions of the historical record. Highly selective and ideologically-driven descriptions of events leading up to the infamous razing of the Garden of Perfect Brightness, the imperial Manchu demesne outside Beijing which was destroyed by Anglo-French forces in 1860, and the Boxer rebellion of 1900, were not only incorrect but, Yuan warned, serve only to

inflare nationalistic passions among impressionable teenagers. Yuan also cautioned that the irrational spirit guiding history teaching in China endangers the country's mature and rational participation in the global community. He recalled that the xenophobic violence of the Red Guard generation was bred by just such a biased education.

Inculcated with a sense of patriotic ire through their school days, and convinced that the outside world was a malevolent enemy set on corrupting the purity of China's revolution, the Red Guards attacked all things foreign during the early months of the Cultural Revolution in 1966. Countless people would lose their lives in the ensuing *mêlée*, although today very few people will admit to being involved with murder. The US-based writer Rae Yang is one of a handful of former Red Guards who is candid about her past. She recalls that her teachers were astounded by the visceral fury of the young rebels. Why should they have been so surprised that we acted like wolves, she asks. After all, we had all been fed on a constant diet of wolves' milk at school.

In his article on teaching history in China today, Yuan Weishi observes with dismay that 'Our children are still being fed wolves' milk!'

II

On 5 April thirty years ago, thousands of people gathered in Tiananmen Square to mourn for the late Premier Zhou Enlai, who passed away on 8 January 1976. It was Chinese All Souls Day (Qingming Jie), a hallowed festival for remembering the dead. But the crowds were also in Tiananmen to protest against Zhou's enemies, the revolutionary extremists later known as the Gang of Four, and even Mao Zedong himself. 'The people weep while jackals laugh', read one of the many protest poems stuck up on the Monument to the People's Heroes in the centre of the Square. Those protests, spontaneous, sorrowful, and unprecedented, were soon crushed and the participants denounced as counter-revolutionaries.

To this day, people still debate just when the Cultural Revolution and the experiment with radical socialism that it represented came to an end. For many, the denouement came not with Mao's death in September

1976, or the arrest of the Gang of Four the following month. Rather it was the Tiananmen Incident of 5 April 1976, a sullen protest enveloping the symbolic heart of Maoist China, that marked the bankruptcy of the Great Helmsman's ideas more clearly than any other event.

Eventually, the Tiananmen Incident would be lauded by party leaders who came to power after Mao. They claimed the popular outrage aimed against the Gang of Four and their august backer as part of their political capital; they hinted that new freedoms would change China forever. They made no similar claim over the outpouring of grievances against the Communist Party—and themselves—that had occurred ten years earlier, during the early months of the Cultural Revolution, a momentous event that marks its fortieth anniversary this year.

In official commemorations of that era of chaos this year, it is most likely that the party's commentators will sidestep the fact that, intermixed with the calculated violence and youthful anarchy of 1966, there were also moments of genuine popular protest aimed against a corrupt and unresponsive one-party dictatorship. That raw mass outrage remains unsettling for China's authorities today.

Yu Luowen was a youthful activist and publisher at the time. He sums up what happened in the following way: 'The people in power had always suppressed the masses, while taking good care of themselves. So when Mao said to overthrow "officials taking the capitalist road", all those in authority were dumped. The masses couldn't care less who was taking what road. Initially at least, it was liberating'.

Luowen's older brother, Yu Luohe, was a recent high-school graduate. Refused entry to university despite his academic brilliance—he was penalised because his parents were classified as petty capitalists—he had to take a job in a factory. But in his spare time he wrote, lambasting Mao and all of his works.

In the pages of his 1966 diary Yu Luohe called Mao's purge of top leaders a 'palace coup', and he satirised claims that Mao Zedong Thought was some omnipotent ideological cure-all. He condemned the hypocrisy of

the nation's media and derided clumsy distortions of historical fact used to stir up mass dudgeon. He declared the Red Guards to be dangerous extremists, and predicted that the movement would never survive the test of time. Yu Luohe was one of the first people to quip that Mao's enterprise was neither 'cultural' nor 'revolutionary'.

In the short period of anarchic freedom that resulted from the collapse of party rule in 1966–67, Yu Luohe published a weekly paper expressing ideas that were truly radical for their time. However, as order was restored the paper was closed down, its editors investigated and, finally, Yu Luohe himself was arrested. His diary was found and confiscated. After years of obfuscation, the authorities told his family that he had been executed in early 1970. Although today he is a prescient hero for China's independent intellectuals and informed readers, Yu Luohe remains a fragmentary spectre. Only a few scant pages from his extraordinary diary have ever been returned to his family.

III

In September this year Mao Zedong's death thirty years ago will doubtlessly be acknowledged by Hu Jintao with due pomp and circumstance. After all, on the occasion of the celebration of the 110th anniversary of Mao's birth in 2003, the present Chinese leader declared: 'The banner of Mao Zedong Thought will always be held high, at all times and in all circumstances'.

But this year marks the passing of another important figure, one who will not be commemorated by the country's officialdom. For it is forty years since the leading publisher and writer Chu Anping, like Yu Luohe a tragic figure in the history of free speech in China, disappeared in mysterious circumstances.

Chu was a noted journalist and social democrat trained by Harold J. Laski at the London School of Economics in the 1930s. He returned to China and, as the battlelines were being drawn between the contending Nationalists and Communists in 1946 and civil war erupted (an historical turning point

that marks its sixtieth anniversary this year), he founded *The Observer*, a weekly that soon became the major forum for independent political debate in the country. Although his advocacy of a Third Way between the political extremes represented by the Nationalists and Communists failed, Chu Anping stayed in China after the communist takeover of 1949. His magazine was reborn under communist rule, but *The New Observer* lacked entirely the independence of its forerunner, and Chu no longer wrote the kind of powerful critique that had made him famous. However, a luxury that people did not enjoy under Maoism was the right to remain silent.

As the party insinuated itself into every aspect of Chinese life, Mao and his colleagues became aware that their draconian rule was unpopular with many segments of the society. In mid 1956, with Khrushchev's denunciation of Stalin in the Soviet Union and as opposition to communist rule spread in the Eastern Bloc, Mao Zedong decided to pre-empt a similar eruption of discontent in China. He launched the 'Hundred Flowers' campaign during which people were urged to criticise the party. In what was supposed to be a 'blossoming of a hundred flowers and contestation of a hundred schools [of thought]', a kind of freedom of expression was encouraged. While young workers and students put up critical posters and published independent magazines, many older people, like Chu Anping, remained wary of the party's motives, and for months they held back.

Eventually, even the most cautious individuals were emboldened to air their discontent. Chu Anping also reconsidered, and he made a speech at the *Guangming Daily*, where he then worked as editor. The title of his remarks remains famous to this day: 'The Party Empire: Some Advice to Chairman Mao and Premier Zhou'. He declared that the communists treated the country as though it was their personal property. By so doing, he said, they had reneged on their pre-1949 promises to bring freedom and democracy to the nation.

Like Chu, tens of thousands of men and women had similarly abandoned their caution and availed themselves of the rare opportunity provided by 1956 to make articulate and spirited critiques of the party's inept

policies and destructive style of rule. Mao, however, was outraged by the candour and accused these critics of launching a ‘frenzied attack on the party aimed at turning China into a bourgeois country’. Many were demoted, jailed, or sent into internal exile. While the vast majority of these wronged individuals were exonerated after the Cultural Revolution, Chu Anping is one of a handful of prominent figures (six in all) who were never rehabilitated. To this day he stands guilty of conspiring against the party.

IV

In 1986, thirty years after the Hundred Flowers campaign, twenty years after the start of the Cultural Revolution, and ten years since the 1976 Tiananmen Incident, a group of Beijing journalists and academics decided to organise a commemorative symposium. Ostensibly about the Hundred Flowers, it would feature leading liberal intellectuals and writers who were agitating for the legal protection of free speech in China. The proposal for the symposium came at a time of openness and public debate not seen since 1949. In every sphere there was a frenzy of activity; it would become known as ‘cultural fever’: an avant-garde art movement was beginning to flourish, academics revitalised a tradition of debate about modernity and China’s place in the world, and writers of all persuasions published manifestoes, held readings and became literary stars. Among them was the journalist Dai Qing. Famous today as an environmental activist, back then she worked for Chu Anping’s old newspaper, *Guangming Daily*. Invited to speak at the symposium, she prepared a lengthy study of Chu’s career as an independent journalist and his advocacy of social democracy. With neither warning nor explanation, the symposium was banned.

In that contrastive atmosphere of openness and dark repression, it is little wonder that one of the most talked about books that year was the Chinese version of the historian Ray Huang’s *1587, A Year of No Significance*. In his highly readable account of decadent court life in the late Ming dynasty, Huang evoked a world of political rigidity and unbounded

corruption, although it was also one of philosophical foment and cultural efflorescence. It was a tale 400 years old, but it struck a powerful chord with readers in contemporary China.

At the end of 1986, the mounting tensions in urban China exploded in mass protests against the government. University students in Beijing and Shanghai rallied to demand media freedom and democratic reform. They, too, were crushed.

V

And so it is that 2006 is a year of some significance for China. It is a year in which historical anniversaries, as well as uncomfortable commemorations, crowd the calendar. Some will be duly acknowledged, others will pass by subjected either to a frosty silence or ridiculous distortion.

For his temerity in questioning the content of China's high school history texts, the historian Yuan Weishi has been attacked for 'grievously hurting the feelings of the Chinese people'. The bile of his critics might rise even further if they chose to read some of his other work. For in 2004, Yuan published a book entitled *Farewell to the Middle Ages*, a selection of major essays by China's leading progressive thinkers and political activists of the 1910s. It reflects the first tumultuous decade of the Republic of China and the nation's fitful century-long experiment with democracy, free speech and cultural innovation.

In the entries for 1916, Yuan recalls events of great moment that in many ways resonate with the years of significance that will be commemorated in 2006. For 1916 saw the culmination of the career of Yuan Shikai, an imperial general who through guile, might and betrayal became president of the nascent Republic of China. He had also used assassination to achieve his ends—he was implicated in the death of the important democrat Song Jiaoren (d.1913), as well as of the outspoken journalist Huang Yuansheng (d.1915). Buoyed by murderous success, he proclaimed himself emperor on 1 January 1916. National outrage and

military opposition led to the collapse of this dynastic interregnum, and Yuan died shortly thereafter in ignominy.

The year 1916 saw imperial ambition thwarted, and it also witnessed the flourishing of a new and independent press. Ninety years later, and in a vastly different world, authoritarian rule in China continues to assert itself, while free speech and journalistic independence are frustrated. Earlier this month, *Freezing Point* resumed publication under a new editor. It may have been tamed for the moment, but the issues raised by its closure, and by Yuan Weishi's remarks on historical distortions in education, are not so easily shunted aside.

When it comes to China, there is a lot of history to recover before questions of veracity and achievement can be productively explored. History might not repeat itself, however the stymieing of basic rights means that the histories of years past continue to haunt the present.

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Far Eastern Economic Review

JONATHAN UNGER

China's conservative middle class⁵

In the literature on democratisation, the rise of a large middle class is often seen as a prerequisite for the development of civil society and a well-functioning democracy. In East Asia, the cases of Taiwan and South Korea have been pointed to as examples. Is a similar future scenario on the cards for China?

Certainly, the urban middle class has grown very rapidly in the years since the massive Tiananmen protests more than a decade and a half ago, when angry university students were joined largely by throngs of middle-

class protestors. In the major cities of China today, the expansion of the middle class is obvious. The major thoroughfares of cities like Chengdu in Sichuan province, where I have lived on and off in recent years, are lined by vast new gated housing projects with manicured gardens, built to accommodate a burgeoning population of middle-class professionals. Beijing contains 40 new mega-malls that cater to their tastes, and similar temples to consumerism are springing up in dozens of other cities.

These newly affluent middle class households possess family incomes of at least 80,000 yuan (US\$10,000) per year, according to recent studies by Chinese sociologists. This marks the lowest income at which a household can afford to purchase a flat and small car, the two *sine qua non* of middle-class prosperity.

The prosperous shoppers and residents of the gated high-rises are not principally businesspeople or members of the Party elite. They include these groups, to be sure, but most of them are salaried employees, and among these, the greatest number are public servants. They are academics and high-school teachers, doctors, engineers, and the white-collar staffs of state-owned enterprises, as well as government administrators of all stripes. Their numbers are large enough that they set the tone and tastes of respectable urban society.

They distinguish themselves from the businesspeople who crowd the same shops and restaurants. They view the latter, if not well educated, as parvenus, and hold in disdain the uneducated business class's supposed lack of taste. The well-educated salaried middle class perceives its own status as superior.

The urban populace of China agrees. Even though China's bookstores are filled with books on how to do well in private business, surveys show that the most highly admired occupations are those of the salaried well-educated. In 2000, the anthropologist William Jankowiak asked hundreds of young adults in one large city to lay out dozens of cards, each bearing the title of an occupation, in descending order from most to least admired. The four most admired occupations turned out to be those of professor, lawyer, doctor and middle-school teacher, listed above the province's Party

Secretary, the mayor, an international businessman, or the director of a joint-venture company, and far, far higher than the esteem held for a low-level official (who ranks below a barber). A similar recent Chinese survey showed the mayor at the top of the prestige ladder, but he was followed closely by the engineer, scientist, and university teacher, all of whom are more admired than a high government bureau head or the manager of a foreign enterprise. On this admiration chart a middle-school teacher outranks the manager of a state industrial enterprise. If educated middle-class people feel they deserve a high status, they are not alone in believing this. The rest of the population admires them and aspires to be like them.

The government's strategic generosity

At the time of the Tiananmen protests in 1989, China's urban educated populace had good reason to be angry. Their salaries were low, and sour jokes circulated about private barbers earning more with their razors than hospital surgeons with their scalpels. They were bitter that the sons and daughters of senior Party officials were doing well in private business, which they thought smacked of corruption, and rumours circulated about how these 'princelings' were living high off the hog. The urban educated were furious that 'political connections' took precedence over their own expertise and loyal service when it came to determining living standards.

But in the years since, as China's economy has continued to expand at a breakneck pace, there has been a deliberate government policy to favour them through their pay slips and perks. Year after year those on government payrolls have been offered higher salaries. During one year in the late 1990s, the pay of all of the academics at China's most prestigious public universities was literally doubled in one go.

Even earlier, in the first half of the 1990s, a huge government-endorsed construction program was initiated to build vast numbers of pleasant new apartment blocks, which were immediately sold off to favoured state-sector employees at knock-down prices, sometimes as low as 20 per cent of construction costs. Some of the most recent high-rises are

truly fancy, with Japanese-style garden ponds and waterfalls, ornate statuary and health clubs. Thanks to the hefty subsidies to purchase flats, the most fortunate members of the salaried middle class can afford to live in comparative luxury alongside wealthy businesspeople who earn many times more.

They also have enough cash left at their disposal to buy autos, and in the early 2000s the sale of cars began leaping by close to 40 per cent a year. State employees who in the 1980s could not afford a fridge or colour TV or even leather shoes and who lived in dreary tiny walk-ups now have gained a material life that they had never imagined possible. They do not want to upset the apple cart. If the government's plan was to co-opt the salaried middle class, the strategy has worked.

China's intellectuals are part of this educated middle class. Their writings today in academic journals and high-brow magazines are often imbued with a sense of satisfaction. There are, of course, exceptions, but most intellectuals tend to accept and approve of the status quo and see the straitened circumstances of China's peasants and workers as the necessary price to be paid for China's globalisation and modernisation.

Throughout the 20th century, intellectuals and university students had been at the forefront of organised unrest. This involvement reaches back to the liberal May Fourth Movement protests of 1919 and the 1920s, to the Communist-aligned student agitations of the 1930s and 1940s, to the Hundred Flowers Movement outcries of 1957 against the Party's deadening style of rule, and more recently the Tiananmen protests of 1989. In view of this past, China's rulers have learned to worry about the potential of the educated as catalysts and organisers. The feeling within China today, valid or not, is that without their participation any surge of major social unrest would be incapable of toppling a government—that it would be leaderless, disorganised and local. But as of now there is very little chance of mass participation by the urban educated. In fact, if there is another outbreak like Tiananmen, many of them would prefer to be on the government's side of the barricades.

This is true not just of the middle-aged among them, but also of the university students. They are, after all, the incoming generation of the educated middle class, and most of them look forward to their own material futures. Many are wannabe yuppies. In one survey of university students, about half said that money is as important as, or more important than, having ideals or friends. In another survey, 83 per cent of the students at a teachers' training university chose, as the most commonly selected value statement, 'A modern person must be able to make money'.

The educated middle class vs democracy

The educated middle class is elitist. Many of its members do not want democracy—that is, multi-party elections for the nation's top leaders. Nor did they want this at Tiananmen a decade and a half ago. They did not and do not want China's peasant majority to play a decisive hand in deciding who rules. Most of them hold the rural populace in disdain, and their fear is that the peasants would be swayed by demagogues and vote-buying. They believe that the rural populace is not yet ready to participate in elections. This is ironic, since villagers have been the only ones in China who have been allowed to cast secret ballots to elect their locality's leader.

Many members of the educated middle class are vaguely pro-democratic just so long as democracy can be put off to a future time. This is not only the case today, but also was true at the time of Tiananmen. The then Party Secretary of China, Zhao Ziyang, favoured a policy called 'neo-authoritarianism', under which the Party would act as a benevolent autocracy until such time as the middle class had developed sufficiently to predominate in a democratised polity. Until then, China would remain in a state of tutelage, much as Sun Yatsen had proposed in the 1920s. This was the program of the Party elite's reform camp, and it drew support from among the urban educated.

At Tiananmen, what many of the university students and their middle-class supporters wanted, instead of multi-party democratic elections, was political relaxation in ways that concerned themselves. They wanted

to be able to play a role in organising their own clubs and associations. They wanted ‘personal space’—to have the government not interfere in their personal lives. They wanted access to more interesting magazines and films, and the freedom to have public intellectual discussions (just as today, they want their own websites and access to web chatrooms). As patriotic citizens, they wanted their expertise to be listened to in the making of government policy. They also wanted what they considered a more fair distribution of incomes, in which they would be beneficiaries. In all these respects, they are largely getting today what they wanted then.

If anything, many of them at Tiananmen were more in favour of political liberalisation than they are now. At the time, they admired Gorbachev and the political reforms he was carrying out. But the collapse and dismemberment of the Soviet Union in the early 1990s and the corruption and plunging living standards that soon followed under Yeltsin’s rule soured China’s educated on the idea of Party-led political liberalisation along Gorbachev’s lines. By the mid-1990s, young Russian women were flowing into China in large numbers to work as prostitutes, in what many Chinese considered shocking evidence of Russia’s penury and humiliation. Many of the urban educated who had demonstrated in 1989 began to feel relieved that China had followed Deng Xiaoping’s policy of economic rather than political reform.

Nevertheless, many today still think of themselves as pro-reform, albeit in modest ways. They are apt to shake their heads in dismay at China’s environmental problems and express hopes that the government will give greater priority to the issue. Those with expertise are often eager to offer up suggestions on how to enact this or that small, incremental reform. What pass in China for academic papers are often really policy prescriptions on how to improve one or another aspect of China’s physical or administrative infrastructure, or relieve traffic congestion, or provide for a more effective education curriculum.

A small number of writers go further. They worry in print about corruption, and about the awful working conditions faced by many millions

of migrant workers, and about the plight of farmers. Gutsy journalists, bona fide members of the educated middle class, have written exposés about the seamier side of the Chinese economic miracle; and exposé TV programs similar to *60 Minutes* are popular. But these often are loyal expressions of concern that exploitation, corruption and grinding poverty might lead to instability. China's top leaders have publicly expressed similar concerns about corruption and the difficult situation of struggling farmers. Barely any of the exposé journalism hints at displeasure with the national leadership, and this does not just seem to be a question of censorship. Even most of these exposé journalists appear to live comfortably within the boundaries of China's status quo.

The educated middle class and nationalism

The government has consistently pushed patriotism as a means to prop up public support. Chinese leaders tend to play this card less fervently or blatantly than American Presidents recently have, but at times when Chinese pride is injured the government has reacted angrily for domestic consumption. It did so in 1999 when the Chinese embassy in Belgrade was bombed by American planes, and most recently when Japan rewrote textbooks to picture Japan's military behaviour in China during World War II in a softer light. In encouraging nationalism at such moments, though, Beijing has run the risk of seeming too mild in its actual reactions in the international arena, and a portion of the middle class has felt uncomfortable whenever this occurs.

But the grumblings have been fleeting. Few among the middle class actually put great stock in nationalism as a personal ongoing political concern. They look approvingly on most things foreign and modern and are eager to sample foreign foods, fashions and fads. The best of the university students eagerly prep for the TOEFL exams so that they can study abroad, and many are quite happy ultimately to settle abroad, with their parents' encouragement.

The educated middle class and the national leadership

Most members of the educated middle class find little to be irritated about on a daily basis in regard to the central government. This is quite unlike earlier times. Under Mao in the 1970s, when the government had directly controlled almost all economic activity and was responsible for all services, it naturally took the blame whenever there were shortages or inadequate services. This was a problem all Communist political systems have faced.

But as the central government in China has pulled back from dominating everything directly and has devolved responsibilities to lower levels or to the private sector, it can no longer be blamed by the populace for the various frustrations of daily life. Instead, it is now the private employer, or the school head, or a local official who is perceived as blameworthy, and the central government is no longer the lightning rod for people's frustrations and anger. This is especially true among the urban middle class, which has little to feel resentful about in any case.

Instead, when the educated middle class sees the national leaders on the evening television news, they are perceived in a generally favourable light. The current leaders fit the image of the type of people the middle class wants to see in charge. The President and Party Secretary, Hu Jintao, and Prime Minister Wen Jiabao are university-educated technocrats who rose to the very top through what has increasingly become a Party meritocracy. They look like members of the educated middle class, and share many of its values. When people from the educated middle class bother to think fleetingly about politics, they do not, by and large, favour some imagined alternative political system. This is, to a large extent, their leadership.

The Chinese educated middle class has, as a whole, become a bulwark of the current regime. Summarising a large questionnaire survey of political attitudes in Beijing, a recent book by the political scientist Chen Jie concludes that, among all urban groups, 'those who perceive themselves to belong to the middle class and who are government bureaucrats are more likely to support the incumbent authorities'. Don't expect regime change or democratisation any time soon. The rise of China's middle class blocks the way.

April/May 2006

The Diplomat

GRAEME SMITH

The New Socialist Countryside: feeding the poor or feeding the beast?⁹⁶

The Chinese Government's Work Report, delivered to the National People's Congress by Premier Wen Jiabao on 5 March, unveiled a set of pledges to improve the welfare of rural residents, whose average income is one-third of their more fortunate urban cousins. Wen promised to waive miscellaneous fees for rural students by 2007, and to implement a nationwide cooperative health system by 2008. Large amounts of funding are earmarked for grain subsidies, rural roads, and irrigation. Most of the speech was based on a government White Paper, drafted in late 2005 and publicly released less than two months ago, which has coined the slogan 'Building a New Socialist Countryside'.

Soon after the vision of a rural socialist utopia was unveiled, Xu Kuangdi, the vice chairman of the Chinese People's Political Consultative Conference, said, 'As Premier Wen was giving his speech, I made a quick calculation: If 300 billion yuan were divided up among China's 800 million peasants, each would only get 424 yuan (\$A80). What worries me the most is that they won't even get 24 yuan. In constructing rural irrigation, as the funding travels from the ministries down through the provinces, counties, and townships, it's certain that each level will grab the lion's share of the funds; in funding "grain for green" (a reforestation policy), the Ministry of Forestry will walk away with a cut; and there will be areas where local cadres waste the funds on cheaply-built vanity projects, or just embezzle it, so what will be left over for the peasants?'

That such strong opinions can be voiced by a senior leader, and be printed in the Party's mouthpiece, *The People's Daily*, indicates that the wind has changed, at least among some elements at the top of the Communist Party hierarchy.

The new White Paper also contains plenty of strong language. As well as outlining the priorities, such as spending on education, health, and rural infrastructure, much of the document details what the funds should not be used for, which suggests that the leadership in Beijing has a clear picture of how things work on the ground in rural China.

In Article Three, the document states: 'In Building the New Socialist Countryside, we should emphasise actual results, not engage in superficial work; act according to our abilities, not engage in blind comparisons and boasting; consult in a democratic fashion, not force directives through; give prominence to distinguishing features, not impose uniformity; be supportive and not try to do what should be left to others.'

Reaction is mixed in the rural county where I am currently living. I have been based in this relatively prosperous county in the agricultural heartland of China for the past two years. Ordinary people welcome more spending on education and health—miscellaneous fees levied by schools are a major grievance, and the outrageous cost of medical treatment is a major reason why some rural households fall below the poverty line.

But most of the local people I've spoken with are sceptical. They have seen county and township cadres waste money on grandiose projects too often to believe that the government funds will end up being well spent. Notable among the previous expenditures is the county's empty 30 million yuan airport that saw a grand total of one flight (carrying the Party secretary and the developer from Zhejiang, who quickly left town without having invested a cent). Currently, residents are watching the construction of a brand new county government headquarters, at a cost of over 300 million yuan (\$A50 million). One township government has managed to run up 7 million yuan in debts, largely on 'entertainment' for visiting delegations from higher levels of government.

An agribusiness entrepreneur told me this week that he is delighted with the New Socialist Countryside program, seeing it as exactly what China needs to stimulate investment in the countryside. After some reflection, though, he lamented, 'But why did they have to use the word

“socialist”? That worries me. They should keep the money as far from local cadres as possible. They don’t have the first notion about agricultural development; they only understand eating, drinking and gambling. Every agricultural development scheme and infrastructure project around here ends up being used to pay the wages of the county government staff and to line the pockets of the leading cadres’.

Local cadres are greeting the policy with a mixture of hope and fear. Hopeful because township and village governments are paralysed from lack of funding since the central government’s decision two years ago to abolish the agricultural tax. Fearful because they have seen their share of fine sounding but underfunded central government programs. The compulsory education scheme was launched in the late 1990s with the noble aim of ensuring that every child received nine years of schooling. It also saddled many township and village governments with debts that they will never pay off.

Certainly the plan to implement a nationwide cooperative rural health system, which foresees a 4.2 billion yuan (\$A700 million) increase in funding, seems an underfunded pledge. Even if the numbers do add up, the wisdom of pouring money into an overstaffed, corrupt and woefully organised rural health-care system has to be doubted.

To draw a simple example of wasteful bureaucratic over-supervision, in my rural county the primary school teachers, who stand to be major beneficiaries of the program, have no less than seven people to whom they are answerable at the lowest level of government. In ascending rank, they are the headmaster; above him the headmaster of the township’s ‘key school’; the head of the township education office; the ‘sent down’ cadre responsible for education; the deputy township Party secretary in charge of education; the township head; and finally the township Party secretary. Beyond this are the county, prefecture, provincial and central governments with equally labyrinthal hierarchies. As money flows down from the central government, all of these officials gain opportunities to divert portions of it to cover their own expenses.

With the abolition of agricultural taxes two years ago, and with insufficient revenue passed on from higher levels to make up for the local loss

of tax revenue, village and township governments are selling off land to developers just to feed their staff. Campaigns to streamline local government have frequently been launched, but many of the government staff members here in my county are tightly linked to the local leadership by ties of blood, friendship and bribes. Ways are usually found to keep everyone on the books.

Much of the new White Paper is dedicated to reprimanding grassroots cadres. But without fundamental changes to the structure and funding of local government, the New Socialist Countryside may result in the worst possible outcome: an increase in the number of local cadres as a sudden influx of funds allows them to hire more friends and relatives, followed by an even worse crisis when the funds dry up.

June 2006

APEC Economies Newsletter

CHUNLAI CHEN

China's agricultural trade after WTO accession

With China's entry into the WTO in December 2001, China's economy has been growing rapidly, averaging more than 9.8 per cent from 2002–05. As agreed with the WTO, China reduced its import tariffs substantially to an average tariff on all products of 9.9 per cent in 2005 from 15.6 per cent in 2000 and on agricultural products to 15.3 per cent from 23.2 per cent in 2000.

China's foreign trade has been expanding even more rapidly than its overall economic growth. The total value of China's foreign trade grew annually by 28.6 per cent in 2002–05 compared with 9.4 per cent during the 1990s. China's total foreign trade rose to US\$1,263 billion in 2005, increasing 177 per cent over 2001. Undoubtedly, China's economy has

benefited from entry into the WTO, especially from its more open and liberalised international trade regime.

The impact of China's entry into the WTO on its agricultural sector has been a major concern of the Chinese government and has been a hot topic among policymakers and academics inside and outside China. In general, experts argued that, based on China's resource endowments and comparative advantage, after entry into the WTO China's land-intensive farming sector would shrink, but labour-intensive horticulture, animal husbandry and processed agricultural product sectors would expand. So China would import more land-intensive agricultural products, like grains and vegetable oils, and would export more labour-intensive agricultural products, like vegetables and fruits, animal products and processed agricultural products.

The importance of agriculture in China's economy has been declining. Agriculture's share of China's total GDP declined from 15 per cent in 2001 to 13.8 per cent in 2004. The structure of the agricultural economy has also changed. Although the farming sector remains the most important sector, its share has been declining from 55.2 per cent in 2001 to 50 per cent in 2004. Animal husbandry and fishery sectors have been growing rapidly, increasing from 41.2 per cent in 2001 to 46 per cent in 2004.

These changes demonstrate that, with the rapid economic growth especially after China's entry into the WTO, the comparative advantage of China's agricultural sector has been declining in general, and the comparative advantage of China's farming sector has been declining in particular. This changing pattern of comparative advantage is consistent with China's resource endowments. China's per capita arable land is 0.11 hectare, only 43 per cent of the world average. China's per capita pastoral land is 0.33 hectare, only one third of the world average. China has abundant labour supply: a population of 1.3 billion, nearly 70 per cent living in rural areas; half of the entire labour force is in the agricultural sector.

Some aggregate trends are evident in China's agricultural trade over this period. After entry into the WTO, agricultural imports increased more rapidly than agricultural exports. From 2002 to 2005, the annual growth

rate of agricultural imports was 31.5 per cent, while that of agricultural exports was 11.6 per cent. In 2005, the value of agricultural imports surged to US\$26.64 billion, increasing 136 per cent over 2001, while the value of agricultural exports was US\$23.81 billion, increasing 55 per cent over 2001. As a result, in 2004 and 2005, agricultural imports exceeded agricultural exports and China has had two consecutive years of agricultural trade deficit since the 1990s. Higher growth of agricultural imports is expected to continue.

China's agricultural exports are dominated by processed agricultural products, animal products, and horticultural products. Thus China's agricultural exports are dominated by labour-intensive agricultural products, while China's agricultural imports are dominated by land-intensive agricultural products. These patterns of agricultural trade have been strengthened after China's entry into the WTO.

Entry into the WTO has helped China move closer to a comparative advantage in agricultural trade with the rest of the world. China's overall comparative advantage in agriculture declined especially quickly after entry into the WTO. China has a clear comparative advantage in labour-intensive agricultural products. However, apart from processed agricultural products, where comparative advantage increased marginally, the comparative advantage of horticultural products and animal products declined rapidly after entry into the WTO. Since China has no comparative advantage in land-intensive agricultural products, their comparative advantage declined quickly and dramatically under a more liberal trade regime.

What are the reasons for the changes of China's revealed comparative advantage in agriculture? Undoubtedly, changes in China's revealed comparative advantage in agriculture after entry into the WTO are mainly the result of the fast economic growth and the dramatic structural changes that happened in China. China's rapid economic growth has led to changes in the structure of China's economy. Growth in the manufacturing and services sectors has been much faster than the agricultural sector.

China's remarkable industrial growth played a large part in driving up agricultural imports. Over 30 per cent of the growth in China's

agricultural imports in 2004 came from raw materials used in production of non-food manufactured products: cotton, wool, animal hides, as well as other agricultural-derived products used in industrial production. In particular, growing textile production is generating demand for cotton and wool that is beyond China's production capacity.

The continued increase in per capita income in China has led to not only a rise in food consumption, but also a change in the structure of food consumption. Since the late 1990s, China has dramatically increased imports of vegetable oilseeds (mainly soybeans) and vegetable oils (mainly soybean oil and palm oil). Driven by consumer and food industry demands, since the early 2000s, China has also significantly increased its imports of meats, fish, milk, cheese, wines, and fruits.

Significant barriers in international trade in agricultural products still exist, and developed countries have increasingly resorted to sanitary and phytosanitary (SPS) measures for animal and plant health and technical barriers to trade (TBT) to block agricultural imports, especially from developing countries. According to Chinese government sources, SPS and TBT have resulted in huge direct losses for China's agricultural exports, with indirect losses even greater. In 2001, about US\$7 billion worth of Chinese exports were affected by SPS and TBT. According to China's Ministry of Commerce, about 90 per cent of China's exporters of foodstuffs, domestic produce, and animal by-products were affected by foreign technical trade barriers and suffered losses totalling US\$9 billion in 2002.

China's recent experiences with SPS barriers have been mainly with the EU, Japan, and the United States, which accounted for 41 per cent, 30 per cent and 24 per cent respectively of China's trade losses attributed to SPS measures in 2002. Because failure to pass SPS inspections often leads to closer inspection of future exports, China's agricultural products have confronted much stricter inspection in these markets following SPS-related problems. For example, in early 2002, the EU began to ban imports of Chinese animal-derived food, seafood and aquatic products, resulting in a 70 per cent slump in China's aquatic product exports in the second half of that

year. From August 2002 to July 2003, the U.S. Food and Drug Administration refused 1285 shipments of Chinese foodstuffs for entry into the United States. Excessive pesticide residues, low food hygiene, unsafe additives, contamination, and misuse of veterinary drugs have been major issues. Although the WTO SPS Agreement requires members to ensure that SPS measures are based on sufficient scientific evidence, concerns remain that countries may abuse SPS measures by using them as trade barriers.

Conclusions

Entry into the WTO has boosted China's agricultural trade, especially its agricultural imports. The pattern of China's agricultural trade is consistent with its resource endowments. After entry into the WTO, this pattern of agricultural trade has been strengthened, indicating that China is moving closer to its comparative advantage in agricultural trade with the rest of the world.

China's has a comparative advantage in labour-intensive agricultural products, but has a comparative disadvantage in land-intensive agricultural products. However, after entry into the WTO the level of the comparative advantage in labour-intensive agricultural products has been declining especially quickly in animal and horticultural products. Fast economic growth, structural change, and an increase in per capita incomes have all played a significant role in driving the changes in comparative advantage in China's agriculture. However, TBT and SPS measures may also contribute to a rapid decline of China's comparative advantage in labour-intensive animal and horticultural products.

Because of low production and labour costs, some agricultural products exported from China are very competitive in world markets. Consequently, importing countries may look to restrict imports from China by setting relatively high SPS standards or may impose strict inspections in order to protect domestic markets.

China itself should first increase and strengthen SPS levels to meet the international standards in order to increase its exports of animal and horticultural products to international markets, especially to developed

countries' markets. As China faces more SPS disputes, the government needs to initiate bilateral negotiations to counter unfair trade restrictions and discrimination and could use the WTO to coordinate and resolve trade disputes. As a WTO member, China can now participate in the negotiation and establishment of international regulations and standards to obtain a more equal position for its agricultural exports.

August 2006

APEC Economies Newsletter

ROSS GARNAUT

Some questions raised by the 'China Resources Boom'

The current period of exceptionally high growth in demand for and prices of energy and metallic minerals is a 'China boom', rather more than high metals prices from the late 1950s to 1973 represented a 'Japan boom', or in the two decades preceding the First World War a 'United States-Germany' boom. The first reason why the current resources boom has been generated in one country, China, to an exceptional degree, arises out of the nature of rapid, internationally oriented economic growth. Such growth, which Australians associate with East Asian development over the past half century, involves backward economies 'catching up' with the technologies, institutions and intensity applied in the most advanced economies. The global frontiers of productivity investment incomes continue to be extended over time, so that latecomers can move more rapidly than their predecessors, because the gap is larger between the productivity of their own and the world's most advanced economies.

The second reason why the impact of rapid Chinese growth on international markets is greater than that of any of its predecessors is

simply that China has a much larger population—almost twice as large—as all of the established advanced economies taken together. This means that when it reaches the peak of its per capita demand for metals and energy—in a few decades in the most likely case—China will be using considerably more metals and energy than the rest of the developed world combined. It will probably account for the majority of the world's growth in import demand for resource-intensive products for most of the intervening years.

Finally, China has a low per capita domestic endowment of most economically valuable natural resources relative to the established developed economies—especially relative to the United States, but also relative to other populous developing countries such as Brazil and India, that have been experiencing acceleration of economic growth over the past decade. Following its trade policy reforms of the past two decades, a high proportion of incremental Chinese demand for most minerals flows directly into imports. Coal is an exception, and this has major implications for the impact of Chinese industrialisation on the global resources economy.

While there are risks to the sustainability of rapid economic growth in China, there is a reasonable prospect that growth will proceed for several decades at rates near the average growth achieved for the past quarter century. China's per capita rates of consumption of energy and metals will have approached the average for the developed world by the end of that time. In the absence of major changes in behaviour in response to higher prices or to take account of negative environmental effects, the expansion in China's own consumption will have raised global energy demand by around 40 per cent of what it would otherwise have been. In the absence of major changes in behaviour, the growth pattern of China's demand for metals is expected to be somewhere between that of Japan and Korea, but China's proportionate impact on global metals markets will be somewhat larger. The trend increase in Chinese demand may be augmenting global energy demand by about 3 per cent per annum for a considerable period.

Where would the supplies come from and what would be the nature of the impact on global markets?

Given the slowdown in growth in established developed economies, even this rate of growth in Chinese demand would not push the total rate of increase in global energy consumption to the high levels of the last decade of rapid economic growth in Japan, 1963–73. Those high rates of increase in energy demand were supported by low-cost expansion of petroleum production. There was some tightening in oil markets over time, but prices did not move much until the political shocks of 1973.

The long lead times in exploration and development mean that we know now that there are no opportunities in the decade ahead to expand global oil production painlessly in the manner of the years of rapid growth in Japan. This time, the international market response will be more varied and complex. Prices will rise above the average levels of the past two decades. This will lead to economies in use of oil, as happened following the high prices in the decade after 1973, as well as more rapid development of the many alternative sources of energy all over the world. Amongst much else, we will see heavy investment in expanding production from China's own coal reserves and in nuclear energy generation in China.

The increases over the past two years have already taken oil prices to levels where economies in use of energy are becoming evident in the global numbers. Investments in many alternative energy sources are now profitable. The price increases over this period may turn out to be unnecessarily large or small, but there are reasonable prospects that we have seen most of the necessary adjustment in relative prices. For the global economy, the greatest costs of higher prices are borne in the adjustment to change, and we are in the process now of bearing a major part of those costs.

The experience of the last decade of rapid economic growth in Japan (1963–73), may provide a closer guide to prospective global market developments for metals than for energy. Strong growth in post-war demand led to average real prices for most metals that were twice as high as the average during the long stagnation from 1914 until the post-Second World War recovery. This induced steadily expanding supplies, including from countries that had hitherto played marginal roles in global markets.

New forms of long-term contracts and project finance underpinned the development of major new sources of coal and alumina in Australia and iron ore in Australia and Brazil.

The big lift in copper prices over the past two years has taken real copper prices to around the high averages of the 1960s and early 1970s. There have also been large price increases for other metals—some a bit more than for copper, some a bit less. All metals have witnessed large increases in investment in exploration, mine development, and expanding output from established mines. As in the 1960s, the focus of large investments has been on new institutional arrangements (the Chinese multinational corporation) and on new suppliers (Papua New Guinea for nickel and several African and Latin American and Central Asian countries for a wide range of metals). As with oil, most of the price adjustment has probably already occurred, and there is no reason to doubt the capacity of global markets to meet this new demand.

One note of caution: China's rapid growth involves economic, social and political change on a scale that is unprecedented in world history. It is unlikely to proceed over decades without bumps in the road, and an occasional dead end and detour. With China in a few decades consuming annually more resource-based products from world markets than the whole of the currently developed world, the rest of the world will feel every bump through energy and metals as well as other markets.

Notes

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- 3 An edited version was first published in *The Age*, 18 March 2006.
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- 6 An edited version was first published as 'Pick a cadre, any cadre', *The Diplomat*, April/May 2006, pp.50–51.

East Timor

26 May 2006

The Australian

JAMES FOX

Internal squabbles cripple independence¹

No one, not even the most ardent of East Timorese, ever dared to assert that the creation of a viable East Timorese nation would be an easy task. President Xanana Gusmao repeatedly proclaimed that the struggle to create a nation would be as difficult as the struggle for independence. In the first flush of liberation, graffiti on the walls of burnt out buildings promised that Timorese would be willing to live on yams alone, if only to be free but as reality has set in, the difficulties of maintaining simple livelihoods has become an increasingly pressing problem.

The productivity of agriculture in East Timor, which supports over 80 per cent of the population, is the lowest in Southeast Asia. The birth rate has skyrocketed and is now one of the highest in the world. The towns of Dili and Baucau have swelled in population but with little industry to support employment. Revenue from oil and gas has begun to contribute to national income but this new income has yet only partially replaced donor funds that underpin the government's budget.

Governance of a poor and struggling state has been made all the harder by internal differences. Differences in the ruling Fretilin party surfaced briefly last week in the challenge to Mari Alkatiri by Jose Luis Guterres, a Fretilin stalwart who is currently the Ambassador to the United States and the United Nations.

More fundamental and potentially more destabilising are long-standing local differences between groups associated with the eastern and western halves of East Timor. These two groups, known as Firaku or Lorosae from the east and Kaladi or Loromonu from the west, regularly confront each other in Dili. It is these differences that underlie the present unrest.

The Firaku, particularly those in the former Falantil guerilla force who held out against the Indonesian military from strongholds in the mountains at the eastern end of the island, see themselves as the country's liberators. Many of these Falantil commanders, such as General Taur Mata Ruak and Lieutenant Colonels Lere Anan and Falur Rate Laik, have assumed key positions in the new East Timorese Defence Force. The apparent preponderance of Firaku triggered an initial disaffection by a large Kaladi group and their outright dismissal by General Taur Mata Ruak then produced the breach that has sparked the current conflict.

This Kaladi group claim that only President Xanana as Commander of the Army can dismiss them. Vowing loyalty to the President, they left their barracks and have positioned themselves in the mountains to the south and west of Dili. They call themselves the Armed Movement for the National Stability of East Timor (MAEN-TL).

The actions of this group, however, are only one element in a larger problem of insecurity stemming from the creation of the Defence Force itself. Prior to 1999, the East Timorese Counsel of National Resistance insisted that an independent East Timor would never have an army-only a gendarmerie. After the rampage by Indonesian forces, this policy changed.

The East Timorese Defence Force was created with a battalion of 500 men chosen from among the veterans of Falantil and was then followed by a second battalion that was eventually selected from a younger cohort. Australia and Portugal were given the task of training this force.

The question from day one was what this Defence Force would do, once it was trained. This became even more acute when the first battalion was deployed to the east rather than to the west where its presence might seem provocative to the Indonesians. It was further complicated when, after independence, the East Timorese Minister of the Interior created a separate armed rapid response unit within the police. Since then police and defence forces eye each other warily and have, on occasion, clashed. Since Australia has also been contributing to police training, Australia is doubly implicated in security issues in East Timor.

Once deployed in East Timor, Australian forces will face a difficult situation. Reconciliation between opposing forces must be sought if any stability is to be achieved. Passions on both sides, combined with popular unrest and political manoeuvring, will make this a formidable task. In the long-term, East Timor must decide on the role of its military and their relation to the police, if the country is ever to attain a degree of internal security.

30 May 2006

Sydney Morning Herald

HUGH WHITE

We'll need a lot of luck to beat the odds in East Timor²

Last week we sent the Australian Defence Force to East Timor to help the government in Dili, but now we seem to be trying to replace that government instead. In the process we have ended up taking responsibility for the security of 800,000 East Timorese. This was not what our government intended, and we may live to regret it. We have accepted a big job, and it is not clear that we can either manage it ourselves, or shift it onto others.

How did this happen? Simple enough: events took control of policy, rather than the other way round. The initial idea was to send troops to help the government in Dili deal with unruly soldiers. But the biggest threat is posed by soldiers aligned with the government itself, so our aim became to disarm all of East Timor's soldiers and police. Meanwhile mob violence flared in Dili, and the government was consumed by a constitutional crisis.

Naturally, by rounding up East Timor's own security forces, we have become responsible for stopping the violence ourselves. We cannot hand that responsibility back until there is a stable, trustworthy and effective government to accept it. So now we find ourselves committed to fostering fundamental political reform. That will take a while. Ministers have started to talk of the deployment lasting until new elections next year.

Perhaps we will get lucky. Perhaps, within a few weeks, peace will have been restored to Dili's streets. The political crisis will have been resolved by the installation of a new and more broadly-accepted government. The police and military may have started to take up their proper functions again. The UN will have come back in to pick up the pieces and mobilise international help. And perhaps East Timor's people and leaders, having confronted squarely their failure to build a just and workable political system, will try again in a new spirit of selfless cooperation.

So far things are not going that way. Our government apparently expected that the mere presence of our troops would restore peace in Dili. If so, they have been disappointed. Some of the reports from Dili suggest a degree of impatience that our forces have not moved faster to impose peace and stop the immediate problem of mob violence.

This is a bit unfair. We should wait a few days more before passing judgement on how well they are doing this initial job. But it does show how hard the task we have taken on is. Soldiers in the end must rely on lethal force, or the threat of it, to impose order in a situation like this. So there are limits to what can be achieved when the ADF is very rightly reluctant to start shooting.

Disarming East Timor's police and military might not be easy either, when it is so unclear what happens next. No one will want to be caught

without a gun when the Australians leave. How much force do we use to persuade them otherwise?

In the end the problems of the security forces in East Timor are mostly the fault of a deeply dysfunctional political system afflicted by communal divisions, personal ambition, and a ruthless political culture of violence and intimidation. And the worst of East Timor's politicians include the current Prime Minister.

Alkatiri himself may be moved aside, but that won't fix the political system. That will need a longer, deeper process of reform. Until that happens, it will be hard for Australia to shift the burden of security in East Timor onto others' shoulders. But it is far from clear that Australia has the mandate or legitimacy to manage East Timor's security for a period of many months or even years, let alone supervise a process of political reform.

In short, things might go badly for us in East Timor. We might find it hard to pacify Dili. We might find it hard to make the army and police factions give up their guns. We might find it hard to shift responsibility for security back to the East Timorese. We might find it hard to bring the UN in to take over the mess. And we might find it hard to work with whatever East Timorese government emerges from the political chaos in Dili this week.

It's hardly a case study of tidy strategic policymaking, but in a sense it is not all the Government's fault. They are only trying to do what we expect of them. Most Australians now seem to accept that Australia is responsible for making sure that our neighbours—at least the smaller ones—are well-governed. There are good strategic and humanitarian reasons why we should try to help. But as we have found in Solomon Islands and PNG, this is easier said than done. Deep political reform is hard to impose from outside. Now we find ourselves, somewhat unintentionally, trying to do the same thing in East Timor. Do not assume we will succeed.

28 June 2006

Australian Financial Review

GEORGE QUINN

No quick fix in East Timor³

If Mari Alkatiri had resigned a month ago East Timor's crisis might have been quickly resolved. Instead, strongly supported by the ruling party Fretilin, Alkatiri put on a bravura display of his famous stubbornness. As he clung to power, the weak seams in East Timor's political and social fabric tore apart. Unfortunately for the nation's impoverished people it is now too late to do a quick repair job with a bit of political needle and thread.

Alkatiri has been unfairly demonised. Contrary to popular opinion he was a relatively effective Prime Minister, at least until he blundered by sacking a third of the army. So the question is, who can replace him? Two names have been mentioned, Jose Ramos-Horta and Anna Pessoa. While both are widely respected as ministers neither is a particularly good prospect as Prime Minister. Ramos-Horta is not a member of Fretilin and may have trouble getting the kind of support from the dominant party that Mari Alkatiri could rely on. Anna Pessoa is renowned for her brusque style, her hostility to Indonesia, and reputedly, her unwillingness to speak Tetum, the indigenous national language.

The worst of the crisis is now over, but with security in the hands of foreigners, the government badly split, services and commerce paralysed, and thousands of people still cowering in camps around Dili, East Timor is looking apprehensively to the future. A general election is due in May next year. It is inevitable that Fretilin will lose seats in Parliament, possibly even lose its current majority. When this happens you can bet on one thing: driven by a sense of revolutionary entitlement Fretilin will not take it on the chin.

Fretilin remains close to East Timor's Defence Force which was formed from ex-members of the Falintil guerilla force. We have seen over the last two months how eager some Fretilin ministers and the army itself

have been to use force against dissidents and rivals, even against the police. This is ominous for the future of democratic order in East Timor.

On the other side of the divide, among the army dissidents still defiant in their mountain bases, there have been calls for East Timor to adopt a presidential rather than parliamentary form of government. If this were to happen (and at the moment it looks unlikely) it too would almost certainly strengthen the hand of the military in the country's political life.

If the temptations of military force and presidential rule can be fended off, a reduced Fretilin will probably have to rule in coalition with smaller parties after next year's election. Even now there is talk of an interim broad-based government of national unity, but the sharp hatreds that the current crisis has exposed make power-sharing, now or after the election, a recipe for instability.

The multiple crises that afflict East Timor will be around for years and demand patient long-term solutions. The deep fractures in the military, the political elite and in society at large will not heal quickly. Like Cyprus, East Timor is likely to need a long-term UN policing operation to guarantee security, perhaps for a decade or more into the future.

But the country's key problem remains the economy. The current crisis has struck hard at commercial activity and investor confidence. The widespread, almost mythic, belief that oil revenue will solve East Timor's problems needs to be greeted with healthy scepticism. Significant revenue is still a few years off, and as we have seen in the streets of Dili, the youth of East Timor may not be willing to wait that long. Even when it comes on stream, oil revenue may be more of a curse than a blessing. Repeatedly across the world (most notably in Nigeria), oil-rich countries plagued by ethnic rivalry, weak governance and an off-the-leash military have frittered away their oil wealth in failed projects and corruption.

Although many in the public have made Alkatiri a scapegoat, East Timor's disarray has to be sheeted home to the government collectively. In fact the current crisis may mark the twilight before eclipse for the Portuguese-speaking political elite that dominates government. None of

them has emerged from the current crisis with reputation intact. Several leading figures—most notably Mari Alkatiri and Roque Rodrigues—have seen their careers come to a truly ignominious end. Even President Gusmao, though still respected, has looked vacillating, and Nobel Laureate Ramos-Horta made the mistake of resigning from his ministry in a huff.

On the other hand the so-called *loromonu* faction or the indigenous ‘westerners’ have gained some traction from the crisis. Their ‘success’ may presage better representation in East Timor’s political processes for the nation’s *maubere* poor who cannot (and don’t particularly want to) speak Portuguese.

9 September 2006

Canberra Times

GEORGE QUINN

Normality far off for East Timor⁴

It is hard to describe the air of lassitude that lies like a twilight over Dili. Pot-bellied pigs root in uncollected piles of rubbish. Grass runs wild in gardens and sprouts in wiry tufts through cracks in the pavements. A thin haze of smoke rises from cooking fires in the squalid camps where tens of thousands of people now shelter. Everywhere there are blackened shells of houses and buildings, hundreds of them. As night falls the ubiquitous taxis disappear, people hurry off the streets and an uneasy emptiness grips the city.

Dili has fragmented into ethnic ghettos. Many residents from the eastern end of the country have fled to their home regions or are living rough in the jumble of tents and plastic sheeting that fill the precincts of

churches and spread like rubbish-filled pools under the trees of many parks. Less than half the city's population remain in their houses. A few enclaves of easterners are holding out in the suburbs but for the most part a kind of ethnic cleansing has occurred and westerners dominate.

Schools and universities are reopening, but here too there is creeping division. Because most state schools are in western-dominated areas, the children of easterners are afraid to enrol in them. They are flooding into the Catholic school system which they see as more tolerant and secure. While the National University stands on neutral ground in the centre of the city and is admitting both easterners and westerners, the city's many minor universities are losing their eastern students, a few of whom are even choosing to head for campuses in Indonesia.

How has it come to this? According to one young university student I met desperately hawking bananas in the street, the situation is very complex and seems to be getting more complex by the day. But three factors stand out: ethnic divisions, urban unemployment and strong contempt for the Fretilin-dominated government.

The Timorese have always recognised the idea of 'westness' and 'eastness'. Possibly the colonial division of the island into West and East was comprehensible and even became acceptable because this notion helped make it so. Within East Timor itself *loromonu* westerners have often spoken disparagingly of those from the *lorosae* east, especially the Fataluku-speaking people whom some describe as crude and stropic savages. Conversely easterners have tended to regard westerners as lazy and lacking backbone.

In colonial times these prejudices were kept in check—the Portuguese didn't allow their subjects to move around a lot and the two ends of the territory didn't see much of each other. Under Indonesian rule ethnic prejudices were submerged in the common suffering that all endured. The euphoria of independence too was dazzling enough to hide divisions, at least for a few years. But freedom and the passage of time have removed the old constraints and prejudice is now back in the open.

Since East Timor's secession from Indonesia villagers have flooded into Dili looking for work in the cash economy. In Dili working for wages means working for the government or one of the host of NGOs that seem to dominate the city's economy. The commercial sector is very small. The Alkatiri government was fiscally conservative and declined to sponsor a fat public service. Brutal competition broke out for the few jobs available. In the alienating environment of the city, far from the certainties and moral constraints of village culture, primordial stereotypes came back to life. The city became a tinderbox waiting for a spark.

The Alkatiri government lost its hold on public popularity. Although new Prime Minister Jose Ramos-Horta is widely respected, many in Dili see his government as a clone of Alkatiri's. He will have to perform if he wants to survive, and many doubt that Ramos-Horta has the discipline and attention to detail that the job demands.

There is now a powerful disconnect between ordinary people and government. It is not just dissatisfaction with certain policies or with the government's incompetent handling of the military rebellion. There is a smouldering sense of outrage that the bright promise of independence has proved to be a mirage.

In Indonesia the perpetrators of serious crimes and human rights abuses are thumbing their noses at the law, and many in East Timor see their government as complicit in this. The government's wacky insistence on the use of Portuguese in education is a millstone around the neck of those who want a good education and want it quickly. Worst of all, the government is perceived as less than interested in job-creation.

New Prime Minister Jose Ramos-Horta is taking steps to address these problems but he may be too late. It is clear that the ruling party Fretilin is riding for a fall in next year's election. The election campaign will be rough and, when the results are known, more than likely Fretilin hardliners will be unable to accept the loss of parliamentary power that will be inflicted on them.

A move towards more authoritarian government is possible and could well be popular with ordinary people. Already many are disillusioned with the whole idea of parliamentary democracy, believing that cliques of unscrupulous politicians are stage-managing and directly funding the current tension. People are asking why Xanana Gusmao doesn't take over from the parliamentarians and run the country himself backed by the military that still reveres him.

Waiting in the wings is the big winner from the current turmoil, renegade soldier Alfredo Reinardo. He has the status of a heroic Scarlet Pimpernel among the disaffected 'western' youth who rule Dili's streets. But we can expect no political or policy solutions from him, only a spoiling role and possible armed insurgency driven by personal ambition.

In the streets of Dili I have spoken to many people. Most are resigned, many are angry, all are bewildered about the causes of the violence. But they agree on one thing: there will be no quick return to normality. Matters have gone too far. The divisions and hatreds that have been exposed run too deep. For the foreseeable future we are looking at a more-or-less permanent state of tension with periodic outbreaks of violence. This does not bode well for next year's general election.

Notes

- 1 First published in *The Australian*, 26 May 2006.
- 2 First published in *Sydney Morning Herald*, 30 May 2006.
- 3 An edited version was first published in *Australian Financial Review*, 28 June 2006.
- 4 An edited version was first published in *Canberra Times*, 9 September 2006.

Indonesia

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Far Eastern Economic Review

BEN HILLMAN

New elections, old politics¹

On 1 June 2005 Indonesia held its first direct election for a head of local government in the East Kalimantan Regency of Kutai Kartanegara. By the end of the year 226 such elections were carried out across the archipelago, with 214 more scheduled for 2006–07. While these local elections are a critical step for Indonesia's democratic reforms, their implementation highlights the many obstacles that Indonesia continues to face in its transition to a more open and democratic society.

Since the first poll in Kalimantan it has become clear that local elections are indeed a serious business. Campaigns have been sophisticated and well funded, with candidates hiring armies of consultants, pollsters and activists to increase their chance of success. One reason for the competitive fervour is that local governments, particularly those in districts and municipalities (kabupaten/kota) enjoy more resources and decision-making powers than ever before. Administrative reforms in 2001 devolved to these local levels the authority to legislate on most questions of governance bar a

few subjects of national political and economic security such as defence, foreign affairs, immigration, the judiciary, religious affairs and monetary policy. The laws make districts and municipalities responsible for education, health, labour, public works and natural resources. Another important reason is that national Party leaders see control of local governments as crucial to their success in future parliamentary and presidential elections. The control of local government resources helps coordinate local rallies for national campaigns.

With so much at stake, and no previous experience in running local polls, it comes as no surprise that there were a few hiccups. The General Election Commission (GEC) was the first casualty, coming under heavy fire for inadequately funding its regional offices. This caused uncertain delays in many polls and encouraged corruption. Voting registration periods and locations were limited, making it difficult for many eligible voters to register in time. Astute candidates and their advisers were quick to take advantage of lax controls, organising multiple registrations for hired supporters and faking registrations for ineligible voters including babies and the deceased. Vote buying was common in nearly all districts. Wealthy local candidates proved more than willing to support election officials in return for favours such as reopening voter registration booths to allow candidates to enrol more supporters (regardless of eligibility), and the turning of blind eyes to multiple voting.

These problems are, of course, not unique to Indonesia. Electoral shenanigans are par for the course in newly democratising countries where political elites and new political players struggle to come to terms with the new rules of the game. They are technical problems that can be easily fixed. The real problem with Indonesia's fledgling democracy, however, relates to substance more than procedure. As more localities go to the polls there are indications that the main beneficiaries of local democracy are not ordinary citizens, but local 'bosses' and patronage networks that play 'money politics' as ruthlessly as political, military and business elite did under the former authoritarian regime. In fact, decentralisation and democratic reform appear

to have made Indonesia's 'money politics' more capricious and unpredictable. As one businessman turned politician noted, 'Under Suharto, at least you knew whom to bribe. Now it isn't so clear'.

We know from Eastern Europe and other newly democratic parts of the world that those close to the centre of power in the old regime are very often able to reinvent themselves as new democratic leaders. One only has to look at contemporary Russia to see that many new 'democratic' political leaders and business elites are former KGB bosses, state enterprise managers, and Communist Party power brokers. In authoritarian regimes where political opposition is squashed, groups representing new social interests tend to be inadequately resourced and poorly organised to navigate the new pathways to political power. In post-Soeharto Indonesia former bureaucrats, military officers and political fixers have been equally quick to ally themselves with new parties and present themselves as democratic candidates. Those with money and clout will never be stopped from doing so, but what is particularly troubling is the unwillingness of some old players to open the game to new competition.

While in some localities, voters have rejected machine men and local bullies in favour of new candidates from smaller parties, electoral rules tend to shut out candidates who are not supported by patronage and favour. Law 32/2004 requires that candidates must be endorsed by a party (or coalition of parties) with more than 15 per cent of seats in the local legislature or 15 per cent of the vote in the 2004 elections for national parliament. Not surprisingly, party bosses seized on this as an opportunity to suck up spoils, putting plump price tags on their endorsements. Prices vary according to location, and the level of party representation in the local legislature: more seats translate into more post-election power to the executive. The price of nominations for district and municipality leaders ranges from one billion to more than five billion rupiah (US\$100,000–US\$500,000), with endorsements for provincial governors costing much more. Even incumbent mayors and governors have to fork out or risk losing their Party's endorsement. Aspiring candidates must raise this money themselves, usually

by forming tactical alliances with local bosses and power brokers, many of who are political strongmen from the former regime. As evidence of the instrumentality of the alliances, many candidates turn out to be non-members of the parties that endorse them.

The tactical alliances formed between local political actors and business interests mirrors politics at the centre. Despite the mushrooming of new political parties, the party system remains weakly institutionalised. Parties tend to represent elite factions and personalised followings rather than constituencies sympathetic to their platforms. This is true even of some Islamic parties. Eight years after the fall of Soeharto, Indonesia's political parties have failed to win legitimacy from the people. In a recent survey Indonesians overwhelmingly ranked political parties as among the country's most corrupt institutions.

The weakness of Indonesia's party system lies in its authoritarian past. During the Soeharto era (1966–98) only three political parties were permitted—Golkar, the politico-bureaucratic Leviathan and tool of authoritarian domination, the Indonesian Democratic Party (PDI), and the Muslim United Development Party (PPP). And all three were forced to adopt as their platforms the state ideology of Pancasila, the five principles of belief in one God, humanitarianism, nation unity, democracy, and social justice. Today political parties are free to adopt their own platforms as long as they do not contradict the principles of Pancasila, but few have even taken that step. Political parties remain the vehicles of elite factions, preoccupied with the capture of power and resources at the expense of developing policies for the regulation of economy and society. Admittedly, leaders of President Susilo Bambang Yudhoyono's relatively new Prosperous Justice Party (PKS) have strived to build organisational complexity and maintain party discipline, but even PKS has had to play 'money politics' to win seats. PKS did not have the resources to fund the President's successful election bid in 2004. For that he relied on running mate Jusuf Kalla—Golkar's president. As a non-Javanese, Golkar's president could not have aspired to the top job, but his command of patronage and favour has made

him a powerful deputy whom many Indonesians refer to as the 'real' President.

Party politics in the new local elections is about tactical alliances rather than long-term objectives. Local politicians forge patron-client alliances with leaders of local groups like village and neighbourhood chiefs, but also with leaders of criminal gangs. With ideologically weak parties behind them, candidates promise little more than roads and shopping malls. In one uninspiring example, in Manado North Sulawesi several candidates promised to build the same road. In some cases, challengers promise clean government, but few candidates present a vision of how they might deliver it.

Local electoral campaigns are focused on mobilising people rather than ideas. Willy candidates recruit their campaign advisers from among the ranks of social activists, promising them jobs and access to power if victorious. Leaders from Muslim, student and other activist organisations are useful assistants because they can mobilise supporters at rallies and during campaigns. This is considered essential for electoral success because political theatre continues to be an important a symbol of power and legitimacy. In this way, the political opposition from the Soeharto has acquired access to politics, but democratic activists complain that they have sold out.

The recent mayoral race in the city of Depok, a Jakarta satellite with a population of 1.3 million serves as an instructive example of some of the problems faced by Indonesia's new local democracy. Five candidates and their running mates contested the poll on 26 June, but the outcome remains unclear. The frontrunners were the incumbent mayor Badrul Kamal, a wealthy entrepreneur endorsed by Golkar, the National Awakening Party (PKB) and the National Mandate Party (PAN) (although he is not a member of any of these parties), and Nurmahmudi Ismail, a popular Muslim intellectual and founding president of the Justice Party (PK) the precursor to the increasingly successful Prosperous Justice Party (PKS). Neither candidate ran an inspiring campaign. The incumbent's singular platform was a plan to build more shopping malls on the city's periphery to convenience rural residents—his main constituency.

His challenger simply promised to review the budget. In a city with choked traffic and chronic pollution, such offerings are lame in the extreme.

After a healthy first-run voter turn-out of 70 per cent, Depok city's GEC (KPUD) declared Nurmahmudi the winner with 232,610 votes to Badrul Kamal's 206,781. However, after investing millions of dollars in the campaign, the incumbent refused to accept the verdict. He took the case to the West Java High Court, alleging that the tally was incorrect. Among other things he accused Nurmahmudi's team of falsifying voter registration records, and bribing the electoral commission to turn away Golkar supporters from polling stations. His legal team presented its own surveys as evidence that Badrul should have won. After hearing the statements of 10 witnesses for the applicant, one witness from the GEC, and no witnesses from any other parties, five High Court judges declared the election result invalid. Without counting a single vote themselves, the judges adjusted the final tally to make Badrul the winner. While it must have helped that Mayor Badrul and the West Java governor had just become close relatives through the marriage of their children, the power of entrenched political networks to hijack democratic institutions runs far deeper than petty nepotism.

While local media largely condemned the High Court's decision, the Golkar elite rallied to defend it. The vice president and other leading Golkar figures such as the former Justice Minister Muladi, publicly supported Badrul's reinstatement as being in accordance with the law. Luckily, Nurmahmudi, himself a former central government minister, was cautiously supported by an increasingly confident media. This is probably why the Supreme Court eventually agreed to review the case even while admitting that the law delegated Supreme Court powers to the West Java High Court for determining local electoral disputes. After months of political wrangling beyond closed doors, the Supreme Court handed victory back to Nurmahmudi.

But, as is frequently the case in Indonesian politics, nothing is ever final. According to one of Badrul Kamal's campaign advisers, the Supreme Court's December decision is only a temporary victory for the Nurmahmudi

camp. The incumbent's team rented a crowd to protest the Supreme Court decision outside the Depok government building before launching a challenge to Indonesia's brand new Constitutional Court, claiming that the Supreme Court acted *ultra vires*. But as the nature of previous court decisions suggest, it is difficult to predict whether the case will be decided strictly according to the law or by political intervention. In the meantime, both sides are mobilising their factional networks. In December 2005 Nurmahmudi mobilised PKS representatives in the Depok legislative council to write to the President requesting his timely installation as mayor in accordance with the Supreme Court decision. Badrul's strength rests on Golkar's extensive patronage network that binds many local and community and business leaders. In early January of this year Badrul mobilised 42 out of 63 *lurah* (village chiefs) to send a submission to the President rejecting Nurmahmudi as mayor. At least 10 of them said they would resign if Badrul were not reinstated, putting pressure on the Minister of Home Affairs to support Badrul in the interests of political stability.

In other parts of Indonesia, many elections have been marred by even more blatant corruption and frequent violence. Political thuggery continues to poison all levels in the system. Only last year Munir, one of Indonesia's better-known democracy and human rights activists, was assassinated on flight to Amsterdam. Police found evidence linking the killing to intelligence officials and political 'untouchables' so the case will probably never be pursued. Munir's death should serve to remind us that democracy is about more than elections. It is about popular participation in collective decision-making—something that most Indonesians are still denied.

While some democracy theorists reassure us that democracy takes time to consolidate—after all, America and Europe took centuries to get it right—it would be negligent to assume that Indonesians have the weight of history on their side, especially given the nature of Indonesia's party system. And there is no guarantee that democratic institutions will grow to resemble those in Europe or America. The post-authoritarian transition in the Philippines might serve as a better guide. As in the Philippines after Marcos, the speed of

electoral reforms in Indonesia appears to have wrong-footed the weakly organised democratic movement and played into the hands of well-resourced political networks that are preoccupied with the capture of power and resources rather than good government. No democracy is perfect, but if Indonesia's political reforms are to offer genuine space for the management of conflict and interests, and to liberate the economy from the high costs of patronage and favour, there must be urgent changes.

The international community has a role to play. These days aid programs are targeted at market liberalisation and economic growth. The World Bank explains in its Indonesia country strategy that 'Bank Group support will be directed to address five key areas that are essential to raise the rate of investment from its current level of 20 per cent of GDP: deepening macroeconomic stability, building a stronger financial sector, fostering a competitive private sector, building Indonesia's infrastructure, and creating income opportunities for poor households and farmers'. Market liberalisation and economic growth are pursued in the name of poverty, but also on the assumption that expanding markets and economic modernisation create pressures for political liberalisation. This assumption is sometimes based simply on the observation that the world's richest countries also happen to be its oldest democracies. The bad news is that political scientists find no clear causal link between economic growth and political liberalisation. On the contrary, economic growth can sometime serve to prop up illiberal regimes. This was certainly true under Soeharto. His eventual downfall in 1998 was triggered by a devastating financial crisis, rather than growing demands for political participation.

More than nine billion dollars in international assistance has been pledged to Indonesia in the wake of the tsunami disaster. This is much more money than Aceh needs so large chunks of it are being diverted into countrywide aid programs. While funding for schools and health clinics appeals to voters back home, if donors want to foster better political representation in new democracies like Indonesia's, they would do well to support the kinds of initiatives that the Indonesian government would be

unlikely to fund itself. Training and funding for leaders of political parties, labour organisations and peasant associations would be a good start. While many international donors claim to fund 'democratic governance' initiatives, only strong social groups can put questions of good government on the electoral agenda.

On the home front, some technical adjustments will help. First, national and local elections need to be better coordinated so that there are not major elections every year. This will give social interest groups and new political parties more time to build meaningful platforms and alliances instead of floundering in frenzied grabs for power and resources. Second, the electoral commission must be properly resourced to discourage it from pursuing off-budget revenues and cosying up to powerful candidates and factional alliances. Third, clear legal procedures for resolving electoral disputes must be established. In Depok voters still do not know the result of an election that took place seven months ago. Fourth, and perhaps most importantly, Indonesia needs to drop the requirement that only candidates nominated by major parties can run for local elections. While some central government politicians have warned that doing so risks opening the door to ethnic or religious-based parties, the real reason is that central party bosses are reluctant to give up control. And election results of the past few years show that Indonesian voters have overwhelmingly shunned extremists and sectarian rabble-rousers. Genuine local candidates will weaken the position of political bullies and money politics. Instead of cashing in on candidacies, parties will be forced to cultivate and organise local leaders. The new agreement ironed out with Aceh's former separatist rebels already allows for the formation of local parties in that province. Maybe it can serve as a model for the rest of Indonesia.

January–March 2006

Inside Indonesia

DAVE MCRAE

Blood money: links between corruption and violence in Poso²

On 28 May 2005, two bombs exploded in Tentena market, Poso district, killing 22 people and wounding more than twice as many. The bombs instantly attracted national and international attention, as they killed more people than any explosion in Indonesia since the October 2002 Bali bombing.

After a series of riots in December 1998, April 2000 and May 2000, Poso became a site of protracted communal conflict. Local political and business interests were implicated in the first riots, but over time it became a conflict between Christians and Muslims. The situation has improved markedly since the worst of the fighting, but sporadic shootings and bombings still occur.

One of the first men that police arrested for the Tentena blast was Abdul Kadir Sidik, a local civil servant who was on trial for corruption of assistance funds provided for people displaced by the Poso conflict (IDPs or internally displaced persons). Sidik was a provincial civil servant seconded to the district-level Social Office team set up to disburse the funds. It is highly unlikely that Sidik was involved in the bombing, and police have not since charged him. There is a growing perception, however, that those responsible for some of the more recent violence in Poso are doing it for profit.

This link between corruption and violence in Poso has been evident in several other recent incidents there, including the beheading of a village chief in November 2004 and two smaller bombs outside NGO offices in April 2005.

Corruption of IDP funds

Sidik was originally arrested in late 2004. His arrest came during an investigation into misuse of a significant portion of Rp2.2 billion (\$A300,000)

of IDP assistance funds disbursed to thirteen villages from August–September 2004. The funds were intended for families that had not yet received living expenses and small enterprise seed funding in earlier rounds of disbursement.

The Social Office distribution team proved an effective mechanism to embezzle funds, particularly because the money was not paid directly to the recipient families. The team instead made a cash payment to the village heads of the thirteen villages to which assistance had been allotted. The village head was then responsible for paying the money to the families.

The payments took place outside the villages so villagers did not witness how much money the village head had received or know exactly when the money should be disbursed. This provided the opportunity for the Social Office team to intimidate the village heads into initially accepting less than what their village was entitled to or later returning a portion of the funds to the team.

Most of the legwork involved in intimidating the village heads was done by the two members of the Social Office team who were not civil servants—Andi Makassar and Ahmad Laparigi.

The Poso city suburb of Sayo provides a good example of how this process worked. Sayo was allocated Rp877.5 million, almost half of all funding. According to police interrogation dossiers, Laparigi picked up the Sayo village head, Jacob Albert Lumansik, at Poso's central market and drove him to the distribution point at the Coral Sea Hotel in Moengko.

Although Lumansik signed for the whole Rp877.5 million at the hotel, he was given only Rp500 million. In addition, according to Lumansik, Makassar and Laparigi took all but Rp100 million back off him when they dropped him at the market afterwards. The money Makassar and Laparigi brought back was then allegedly divvied up between the team, policemen guarding the disbursement and other civil servants. Of the Rp100 million that Lumansik received, he may have distributed as little as Rp5 million to the intended recipients. This represents less than one per cent of the funds allotted to Sayo.

Beheading of Ndele

Unlike suspicions of corruption in earlier rounds of disbursement, the August–September 2004 round has been thoroughly investigated. The breakthrough appears to have come in early November when police arrested Laparigi and Makassau under the anti-terror law (which is now applied to most violence in Poso and Maluku) four days after one of the village heads who had received the funds was murdered.

The doomed man was Carminelis Ndele, head of Pinedapa village. His murder was particularly sadistic: his head was dumped in Sayo, while the remainder of his corpse was found near his house around 20 kilometres away. Unlike most other village heads, Ndele had received his funds directly at the Social Office on 11 August, not through the distribution team. Many observers believe that Ndele was killed because he had refused to hand back his share of the IDP funds.

Another village head who received his money at the Social Office, Djahrin Galoro (Masamba village) told police that Ahmad Laparigi visited him the night after he had received the funds and asked that he return Rp12.5 million, equivalent to five families' allotment, which he handed over.

A Poso police report dated 8 November states that Ahmad Laparigi and Andi Makassau also unsuccessfully tried to elicit a portion of the funds from Ndele on two occasions in August. Witnesses also stated that a man resembling Laparigi picked up Ndele at his house in Pinedapa on the evening that he was murdered.

In the end, police did not have sufficient evidence to implicate Laparigi in the murder, nor to charge Makassau with a shooting outside a church in Poso in October 2004. Both, however, were successfully charged with corruption, and the investigation stemming from their arrests also resulted in four other arrests including that of Sidik.

When the Tentena bomb exploded in May 2005, Sidik should still have been behind bars because his trial was ongoing. Police instead found him on the road back to Poso from the coastal town of Ampana and subsequently announced they had discovered traces of TNT matching the

bomb material in Sidik's car. This reinforced belief amongst some anti-corruption activists that a link between corruptors and the Tentena bomb would emerge.

High-level involvement

There was a further part of the rationale for believing that corruption had something to do with the Tentena bomb. Laparigi and Anwar Ali (then the Head of Poso Social Office) had implicated a number of much more senior district and provincial level officials during their questioning. Ali had claimed that he had given Rp605 million of IDP funds to Joko, the National Intelligence Body's (BIN) representative in Central Sulawesi, and Raden Badri, former head of the Poso District Prosecutor's office.

Laparigi claimed that, prior to the commencement of disbursement process, Sidik had told him he expected that around Rp1 billion (of the Rp2.2 billion) would be embezzled. Laparigi also stated that he saw a list of names at Ali's house who would be paid amounts between Rp30 million and Rp100 million. This list included the head of Poso District Prosecutor's office, the Chief and Deputy Chief of Poso Police, the Poso district head, the Head of the Detective Unit of Poso Police, the Poso district secretary and Laparigi himself.

No further evidence has been made public to implicate any of the other men, although both the Poso police chief and the district head were questioned. The Poso police chief and the BIN representative have since been rotated to other posts.

Anti-corruption activists continued to campaign in particular for the investigation to be intensified into Andi Asikin Suyuti, the caretaker district head who was also head of the Central Sulawesi Provincial Social Office, through which much larger amounts of IDP assistance were channelled.

This made some of the activists the target of intimidation, through SMS terror messages, local youths coming to the activists' offices and most notably when two bombs exploded on 28 April 2005 outside the offices of LPMS (Institute for the Strengthening of Civil Society) and PRKP

(Centre for Conflict Resolution and Peace in Poso). The bombs caused only minor damage to the buildings. A local contractor, Mad Haji Sun, was arrested in September in connection with the bombings. Mad has close ties to both local officials and jihadist groups.

The possible involvement of senior officials in corruption and the much smaller-scale, targeted bombing at the NGO offices provided the rationale for a theory that the Tentena bombing may have been intended to divert all resources away from a further corruption investigation. Under this rationale, its perpetrators might also have hoped that the then Provincial Police Chief Brig. Gen. Aryanto Sutadi, who had provided impetus to the corruption investigation, would be removed.

There was a precedent of sorts for the latter: Deddy Woerjantono, then police chief of Poso, was removed in the midst of another corruption investigation after the April 2000 riot in which six people were killed. This idea of the bomb diverting attention from corruption initially had some powerful backers, including members of a national legislature working group on Poso, but ultimately appears to have proved false.

Containing corruption

There is little doubt that corruptors working by themselves or together with veterans of the fighting in Poso have been behind some of the violence there over the past year. But the two clearest cases of corruption and violence coming together were targeted: the murder of a village head who had not given money to the corruptors, and the bombing of the offices of activists who were calling for wider investigations.

The motives for the Tentena bomb more likely lie elsewhere. Primary suspicion must fall on the jihadist networks that entered Poso after the May–June 2000 riot there, in which at least 246 people, mostly Muslims, were killed. The bombs in Tentena in fact exploded on the fifth anniversary of the Walisongo massacre, the worst single incident in 2000 in Poso, in which an unknown number of Muslims—around 100—were killed in and around an Islamic boarding school.

However, determining whether any of these networks were in fact responsible is complicated by the failure of many previous investigations into violence in Poso. This includes investigation into the last fatal incident before the Tentena bomb: a bomb placed in a public transport van at Poso's central market in November 2004 which killed six of the van's Christian passengers. As with the Tentena bomb, there are no suspects in custody for this explosion either.

Although corruption appears not to have played a role in the Tentena bomb, there are strong indications that corruption is linked to many other acts of violence in Poso. These events show the importance of successful investigations and appropriate sentencing of those convicted of corruption.

Another important step is to solve cases like the Tentena bomb, the beheading of the village chief and the Central market bomb. By regularly solving such cases, there will be increased risks for those who seek to use violence to support their personal agenda. This will not provide a comprehensive solution to the problems that several years of communal violence in Poso have created, but it is important to head off any alliance between corruptors and violent men.

April 2006

APEC Economies Newsletter

CHRIS MANNING

Labour market dimensions of poverty in Indonesia

Labour market dimensions of poverty in Indonesia have not so far been the subject of detailed analysis, although sufficient reliable data is available to provide the basis for such research. This topic is of particular interest now,

partly because jobs have grown very slowly and unemployment has risen in Indonesia since the 1997–98 financial crisis.

The question arises as to whether the lack of jobs is the major challenge for poverty alleviation programs. Alternatively, the main issue may not be just overcoming unemployment through job creation programs, or through such programs alone. Rather it could relate to ensuring that people have access to more productive and stable jobs, either through improved human capital (training, education and health interventions), providing better information on job opportunities, or by encouraging the ‘right’ kinds of investment that enable workers to receive a decent wage. Research in Latin America suggests, for example, that poverty is partly associated with labour market failure: the poor experience high rates of unemployment and underemployment because of low levels of mobility across regions and sectors, rather than because there are not enough jobs to go around.

A joint study on the relationship between the labour market characteristics and poverty among working age people in Indonesia was undertaken by Armida Alisjahbana of Padjadjaran University in Bandung and Chris Manning of the Research School of Pacific and Asian Studies in Canberra. Chris Manning presented the findings of the study at a recent ANU seminar. The study mainly used data from Indonesia’s National Social-Economic Survey, SUSENAS, for 2002.

The presentation focused on the findings of the study in three areas. The first related to participation of the poor in work. Low participation in the labour force—including both unemployment and underemployment—was found to be important for poverty status. Multivariate analysis using a logit model suggested that greater participation in work contributed to lower poverty among household heads, but this was not the case among their spouses. To explain the latter finding, it was suggested that spouses in poor households (who were mainly female) were more likely to be forced into less preferred jobs in order to make ends meet. Among the participation variables, the intensity of work (proxied by underemployment) rather than

participation rates or unemployment, appeared to be more directly related to poverty. While unemployment is the main focus of government attention, many poorer people cannot afford to be unemployed. Their main challenge is to find enough work to make ends meet in low paying, informal and agricultural jobs.

It was also argued that low participation in work was less significant than the kind of jobs workers undertook in its effect on poverty. Individuals who worked in agriculture and were attached to the informal sector were especially likely to be poor. Dependence on the agricultural sector has long been associated with high levels of poverty in Indonesia, and the study showed that movement out of agriculture was positively correlated with poverty decline in the pre-crisis period. Although not examined in the multivariate analysis, low average earnings (and presumably productivity) appeared to be the major factor associated with high levels of poverty in agriculture.

Second, the study examined urban-rural differences in the labour market characteristics of poor households. The authors found that employment in certain non-agricultural sectors, such as transport and construction, was more likely to be associated with a higher incidence of poverty in urban rather than rural areas. In towns and cities, many poor workers were engaged in the informal sector, either in marginal, self-employed work or as casual labourers. The authors suggested that many of these poor, informal sector workers were most likely to be rural-urban migrants. While they were poor, many still experienced higher absolute incomes in towns and cities than in their areas of origin.

In rural areas, by contrast, the poor were not overrepresented in most non-agricultural sectors, and were significantly under-represented in some, such as construction, trade and transport. Non-farm jobs are often an initial step towards improving household incomes among agricultural workers, whereas the same jobs are frequently crowded with rural-urban migrants in the cities. It is not surprising, therefore, that the poor were much more heavily concentrated in agriculture among all status groups in rural areas.

Third, the study examined poverty status and labour market characteristics among population sub-groups. Poverty was especially likely to be associated with underemployment among younger household members and females than among prime-age workers. Young people in poor households, in particular, demonstrated a very low level of participation in non-agricultural work (outside construction) and a high incidence of unemployment, especially in urban areas. Differences in the earnings of employees in poor and non-poor households, on the other hand, were especially large for females.

The presentation also touched briefly on changes in the labour market attributes of the poor over time, and also regional dimensions of the labour market in relation to poverty status. Interestingly, the study did not detect any major change in the structure of poverty in relation to labour market participation over the period spanning the economic crisis and recovery, 1996–2002.

The poor tended to be concentrated in agriculture and the informal sector in both periods. In the immediate pre-crisis period (the decade through to 1996) a substantial number of people moved out of agriculture into formal sector jobs. At the same time, poverty declined steeply. However, slow growth in formal sector jobs seems to have inhibited such a development in recent years.

However, the study found some important inter-regional differences, especially between densely populated and more industrialised Java-Bali, and all the major Outer Island groups. Unemployment, underemployment and participation in the informal sector were all higher among the poor compared with the non-poor in Java-Bali, relative to other regions. The authors suggested this was partly related to the more differentiated labour market in Java-Bali, and the heavy concentration of poorer people in agriculture in the Outer Islands.

In conclusion, the authors suggested that from a labour market perspective, economic policies that facilitate employment in ‘better’ jobs—those with higher wages and more stable earnings and employment—are

likely to be the most effective approach to alleviating poverty in countries like Indonesia. Access to better jobs should be focus of both supply-side investments in human and physical capital, as well as policies that influence labour demand, such as trade and investment policies. It was also concluded that the close association between employment in the informal sector and poverty should be a matter of special concern for policymakers, given that the number of jobs in the informal sector increased much more rapidly than those in the formal sector in the post-crisis period.

May 2006

APEC Economies Newsletter

ANDREW MACINTYRE

Assessing political reform in Indonesia

Indonesia has made extraordinarily rapid progress in establishing and enhancing a democratic framework of government. Only eight years ago it was a highly centralised authoritarian state. By global and historical standards, it is truly remarkable that so much has been accomplished so quickly—and without more violence or more economic suffering. There is no question that Indonesia still faces many serious challenges, but who would have imagined in the early months of 1998, as the country's economic and political circumstances spiralled downwards, that in little more than half a decade Indonesia would be a stable working democracy.

Interestingly, appreciation of Indonesia's progress is much greater outside the country than within. Commentary in the Indonesian media and among Indonesia-based analysts is typically very critical, and not

infrequently despairing of the prospects for decent governance. There have been countless complaints about leaders being weak and legislators being more focused on selling their support on particular issues for money rather than on fulfilling their representative responsibilities and law-making. While it is certainly the case that some of Indonesia's national leaders in the post-Soeharto era have been disappointing and that the members of the House of Representatives in general have yet to impress, all of this needs to be kept in perspective. It is entirely normal—especially in fledgling democracies—for the initial idealism that accompanies dramatic political reform to be replaced by disappointment and even cynicism. Patterns on display in Indonesia thus far are consistent with the great bulk of international experience in new democracies. I certainly do not suggest that murky political horse-trading is something about which we can be complacent, but I do suggest we should not despair that it is so common in Indonesia. As the current scandals in Washington and London over influence peddling remind us, democratisation does not eliminate trading in policy influence, but it does make law-makers more accountable for the results of their actions and the manner in which policy favours are traded.

A wider consideration here is that not all shortcomings in national political life are the fault of individual leaders and legislators. Certainly it is normal for us to want to blame someone when outcomes don't live up to expectations. Why can't he or she just be more far-sighted, show greater political will, or be more honest? While the qualities that individual politicians bring to their jobs make an important difference, one of the clear messages from studies elsewhere in the world is that the design of a country's political institutions also exerts a strong influence. The details of a country's national architecture have a powerful bearing on the incentives to political actors, whether they be politicians, bureaucrats or indeed voters.

A large and increasingly sophisticated literature—generated by political scientists, economists and lawyers—has emerged in recent years, exploring the impact of different institutional configurations on governance. There are many dimensions to this, but as I have argued in a

recent book,³ one of the most fundamental factors is the extent to which a country's political architecture concentrates or disperses decision-making power. Indonesia has gone through radical change in this regard, swinging from highly concentrated configuration under Soeharto to an initially confused and fragmented state of affairs and then, following further political reform, a more viable configuration for power-sharing between the presidency and the legislature.

The political framework within which the Habibie and Wahid administrations had to operate was all but unworkable. Further institutional refinements since then have opened the door to the possibility of more effective governance at the national level, something that has worked to the advantage of President Susilo Bambang Yudhoyono's administration. With direct elections, security of tenure, and an institutional bias in favour of larger parties, the business of governing Indonesia has become more tractable. The president and his ministers are now in a much better position to negotiate effectively with the legislature.

The specific details of the Indonesian experience may be unique, but along with a string of other cases in the Asia Pacific region (inter alia, Thailand, South Korea, New Zealand, Japan, Papua New Guinea, Mexico) it provides a clear illustration of how altering the rules of the political game can have a powerful effect on how the game is played as well as on its outcome. In Indonesia's case, the process of institutional reform has evolved on an episodic basis, beginning at the national level and moving to the sub-national. A possible next episode may centre on the new House of Regional Representatives (DPD). Currently it has little real legislative power; but some see potential for it to take on a role akin to the United States Senate as an effective legislative coequal of the House of Representatives (DPR). Those arguing for a strengthening of the DPD see it as an instrument to boost regional representation and achieve greater institutional checks on executive power.

I would urge great caution in contemplating any such move. The United States has combined a presidential framework with bicameral legislature effectively, but it does so in the context of a stable two-party

system. The Philippines, with its weaker two-party system, struggles to make a similar framework function. The fact that Indonesia has an even more fractionalised multi-party system should give advocates of bestowing full legislative powers on the DPD serious cause for pause. Weakening the ability of the presidency to drive a policy reform agenda scarcely seems a priority in Indonesia at the moment.

Whether or not the DPD will be strengthened or left on the margins of Indonesian political life is just one of a number of major institutional questions the country will face as it continues down the path of refining and consolidating democratic government. These range from basic questions of political architecture through to quite specific issues such as organisational frameworks for aggregating business inputs into Indonesia's trade policy strategy.

Happily, the university sector is poised to make a significant contribution to this great challenge. The Governance Research Program, a new collaborative framework based at the ANU's Asia Pacific School of Economics and Government,⁴ will bring together policy-oriented scholars from around Indonesia and Australia, with strong financial support from the Australia-Indonesia Partnership for Development. Results of key collaborative research projects will be presented each year at a policy research forum, involving senior policymakers.

Indonesian citizens are right to demand that their government perform at higher levels than it currently does. But even as we recognise that there is much more still to be done, it is appropriate to recognise just how far the country has come in a short time.

27 March 2006

The Australian

HAROLD CROUCH

Nothing to gain by antagonising Jakarta⁵

Indonesians have reacted with outrage at the Australian decision to grant temporary protection visas to 42 of the 43 Papuans who reached Cape York in an outrigger canoe two months ago. By granting the visas, Australia is acknowledging the credibility of the Papuans' claim that they fled 'from the intimidation of the killing and the persecution inflicted by Indonesian authorities against us'. The withdrawal of the Indonesian ambassador in protest indicates that Australia faces a serious problem in managing its relations with Indonesia. Still, it is premature to suggest that we are moving towards the sort of breakdown that occurred during the East Timor crisis of 1999.

Since the loss of East Timor in 1999, Indonesia has been obsessed with the possibility of national disintegration. In fact, there are no serious separatist pressures in most of Indonesia. Armed separatist movements have been active since 1999 in only two provinces—Aceh and Papua—which together make up about 3 per cent of Indonesia's population. In both cases, the mainstream military opposed compromises with rebels and preferred to concentrate on 'eliminating' them through military action.

In Aceh, after much bloodshed over many years, a peace agreement that promises to integrate former rebels into a democratic political process was finally reached last August in Helsinki.

It is important to remember that leading members of the peace camp now occupy top positions in the Indonesian government. President Susilo Bambang Yudhoyono and Vice President Jusuf Kalla both played important roles in this process long before they attained their present offices, while Foreign Minister Hassan Wirajuda was Indonesia's negotiator in the first round of talks in 2000.

Progress has been much less marked in Papua where the small Free Papua Organisation, with its obsolete weapons, launches occasional isolated attacks but has never constituted a serious military challenge. Discontent with Jakarta, however, is widespread. Even local government officials in casual conversations often refer to the central government as 'Indonesia', as though Papua is not part of Indonesia.

Following the fall of President Soeharto in 1998, a non-violent independence movement led by Theys Eluay garnered substantial support until Eluay was murdered by Special Forces soldiers after being invited to a dinner at their base in 2001. Non-violent activists have often been imprisoned for symbolic acts of resistance such as singing the Papuan anthem and raising the Papuan flag.

Among them was the leader of the current batch of refugees, Herman Wanggai, who served a year in prison for this crime. In recent times much unrest in Papua has focussed on exploitation of resources by the giant Freeport gold and copper mine and the failure of the government to implement fully a special autonomy law adopted in 2001.

It is in this context that Indonesian officials are now talking as if Australia's granting of visas to Papuan refugees is tantamount to challenging Indonesian sovereignty over Papua. They claim that Australia 'vigorously' rejects applicants for asylum from other countries but rushes to grant asylum to Papuans, evidence, they suggest, that Australia must have some hidden motives (although in fact Australia provides asylum to thousands of non-Papuans from all over the world).

The chief security minister, Admiral Widodo Adisutjipto, spoke of 'speculation about the presence of elements in Australia who support the separatist movement in Papua' and the chief of intelligence revealed the 'involvement' of unnamed Australian NGOs in the clash between students and police near Jayapura a fortnight ago. Behind these attitudes is the persistent, if usually unstated, belief that Australia somehow plotted East Timor's exit from Indonesia and is now looking for a way to implement a similar scenario for Papua.

Indonesian officials have attempted to assure the recent refugees that they can safely return home. The military commander says that the military was not searching for them before their flight and the government has 'guaranteed their security' if they decide to return.

But the problem with guarantees of security is that the past behaviour of the security forces has made it difficult for Papuans to have much confidence in such promises. Although the murderers of Theys Eluay were eventually brought to court in 2003, they seemed proud of their achievement, their sentences were short (their leader, a lieutenant-colonel, received three years) and the then army chief of staff, General Ryamizard Ryacudu, hailed them as 'national heroes' for their defence of Indonesian sovereignty, an attitude that reflected the sentiments of many military officers. Until Indonesia's military reformers can bring about a transformation of military culture, it will not be easy to convince Papuan dissidents that their rights are likely to be respected.

Australia and Indonesia have experienced regular mini-crises in their relations that usually prompt observers to declare that ties have reached their lowest point since East Timor. Often the substantial issue in such crises—Corby, the Bali Nine or Papuan asylum seekers—are irresolvable. We don't have much choice but to accept that there will be differences in approach.

But that doesn't mean that such differences can't be managed. During the past few years, the multiple strands connecting the two countries have created beneficial bonds at many levels that neither would want to see broken.

Without doubting the genuineness of Indonesian protests on the visa issue, it is likely that President Yudhoyono and his advisors are focusing their attention on a more pressing domestic issue. Next month the Indonesian parliament is expected to vote on a law to implement the Aceh peace agreement. The bill is facing strong opposition from nationalist elements in the parliament, the same people who are most vocal on the issue of Papuans gaining refugee status in Australia. Even former presidents

Megawati Soekarnoputri and Abdurrahman Wahid are among those who believe the government is making too many compromises on Aceh.

If the government upsets the nationalists by soft-peddalling on the Papuan issue, it is not impossible that it could find it harder to pass the Aceh law relatively intact, with the risk that the peace achieved in Helsinki could be threatened.

The Australian government, with bipartisan support, is right to downplay the present crisis. One lesson of the East Timor experience is that, while maintaining our position, we should avoid statements that stir up public opinion in Indonesia and make it more difficult for Indonesia's leaders to preserve the warm relations that have been achieved in recent years.

20 September 2006

Jakarta Post

DAVE MCRAE

Executing Tibo solves nothing⁶

Barring a last minute reprieve, Tibo, Dominggus and Marinus will be executed this Thursday. The three Catholic men have now been on death row for five years, after being sentenced to death in 2001 for inciting others to commit murder during the communal conflict in Poso. Although their deaths now appear imminent, the case for executing the men does not stand up to scrutiny and the facts of their case remain poorly understood. Executing the men is unlikely to lead to renewed open conflict in Poso, but it will solve nothing.

One of the key arguments in favour of the executions has been that it is necessary to respect the final decision of the courts and the punishments

set out under the Indonesian legal system. In fact, even putting aside the well-documented irregularities in the conduct of the trial, the court's judgement does not bear close inspection. The judges—two Muslims and a Christian—did not always make it clear what items of evidence supported the conviction or how they concluded the men were guilty. When they did cite particular witness testimony, it was the testimony of a young Muslim man called Anton, the least credible witness at the trial.

Anton provided a very detailed account of Tibo, Dominggus and Marinus's alleged role in training other Christians to fight, but he also made the implausible claim that Christians took delivery of 727 factory standard firearms. The judges tacitly acknowledged his claims about the guns were false, but did not feel this discredited the remainder of his testimony.

In any case, the basis for the murder conviction is often misunderstood by supporters and opponents of the execution alike. The prosecution did not present any witness who saw the men perpetrate a murder. The judges found Tibo, Dominggus and Marinus guilty because they believed that the three men had been proven to be among the leaders of Christians forces during fighting in May–June 2000 and had incited others to kill. As a result, whether or not the men were leaders became the crucial point in convicting them, rather than their presence at any specific violent incident.

Contrary to a common misconception that the case against each man is identical, the evidence presented at the trial to prove each man was a leader varied markedly. Both Tibo and Dominggus appear to have been more than rank-and-file combatants, though not the highest leaders of Christian forces. Each also acknowledged the veracity of their interrogation depositions, of which Tibo's in particular contained incriminating, if inconsistent, information.

The case presented in the trial against Marinus was very weak. Apart from the testimony of Anton, who said Marinus had instructed other Christians in the use of arrows, Marinus was hardly mentioned during the trial. Despite these differences, the judges in the three men's trial (they were tried together) did little to treat the men's cases individually.

Even if Tibo and Dominggus were more than rank-and-file combatants, their death sentence is excessive, and highly unusual in Poso. Although at least 150 people have stood trial in connection with a conflict that has persisted for eight years and in which at least 500 people have been killed, no one else has received a sentence longer than fifteen years. Most sentences—for both Muslims and Christians—have been five years or less, even for murder or the equivalent offence under the terrorism law. And despite the relatively high number of trials, a striking number of cases of violence directed at both religious communities have never been satisfactorily investigated.

Some argue that executing the men is a way of showing respect for the victims of violence in Poso and their families. This sets a poor precedent: that death is the only appropriate response to violence. This could have consequences for the Muslim men suspected of perpetrating the October 2005 beheading of three schoolgirls and the May 2005 bombing of the Christian town Tentena, which killed 23. In the Tibo case, protests in Poso itself for and against executing the three men have largely been polarised along religious lines, aggravating old enmities from the conflict. If the executions do go ahead, it could start a cycle of public demands for the death penalty, again playing upon the same religious enmities.

Nor should it be thought that executing Tibo, Dominggus and Marinus will address demands from Poso's Muslim community for justice. Demands will rightly continue for other unsolved cases to be investigated, and those implicated in violence to be brought to trial. Two particular incidents that Muslims see as symbolic of injustice are the May 2000 Walisongo massacre—in which around 100 Muslims were killed, and July 2001 Buyung Katedo killings—in which fourteen Muslims were murdered. The way to satisfy demands for justice is to systematically investigate unsolved cases, including these two incidents, not to use executions as a band-aid solution.

The choice is not simply between executing the men or not punishing them at all, as some DPR members have suggested. The best course of action now would be to commute the three men's sentences to life imprisonment.

This is what President Yudhoyono should have done when Tibo, Dominggus and Marinus first submitted their plea for clemency in April 2005. In so doing he would have prevented the men's case becoming such a focal point for protests. He still has one last chance to prevent three more deaths being added to the Poso conflict.

Editors' note: Fabianus Tibo, Dominggus da Silva and Marinus Riwu were executed by firing-squad on 22 September 2006.⁷

Notes

- 1 An edited version was first published in *Far Eastern Economic Review*, January/February 2006, pp.26–29.
- 2 First published in *Inside Indonesia*, January–March 2006, pp.19–20.
- 3 Andrew MacIntyre, *The Power of Institutions: Political Architecture and Governance* (Ithaca: Cornell University Press, 2003).
- 4 Now known as the Crawford School of Economics and Government.
- 5 First published in *The Australian*, 27 March 2006.
- 6 First published in *Jakarta Post*, 20 September 2006.
- 7 Mark Forbes, 'Mobs riot after Indonesia executes Christians', *Sydney Morning Herald*, 23 September 2006, Factiva, <http://global.factiva.com/> (accessed 6 November 2006).

Korea

October 2005

APEC Economies Newsletter

PETER DRYSDALE

The economics of the North Korean settlement

The 19 September agreement on principles at the Six-Party talks in Beijing on the political-security dimensions of the North Korean problem is a major step forward in resolving the Korean security crisis. North Korea is to come back within the International Energy Agency Nuclear Non Proliferation Framework. The United States has declared that it has no aggressive intentions towards North Korea. The other parties are to provide energy and food support. And North Korea and Japan are to resume talks on normalisation of their relations. This means the elements are now in place for working through the many details of implementation, despite North Korea's warning that, for it, a priority is the installation of a light water nuclear power station.

What are the prospects of Pyongyang now playing economic ball, by making a commitment to economic reform and opening the world's most isolated state to economic relations with market economies?

There are two key questions about the North Korean economy.

The first is whether the economic reform that was formally launched by Pyongyang in July 2002 has been sufficiently deep to induce what economists call a 'supply response' in the economy. If it has been, then there would be evidence of reform gathering its own momentum.

The second is whether there is credible political commitment to comprehensive economic reform. This question is of central interest to managing the political–security issues, since commitment to continuing economic reform implies a need for engagement and openness. The ratio of North Korea's exports or imports amounts to no more than 5 to 6 per cent of gross domestic product on the most generous estimate. So North Korea could not dream of trading its way out of its food and energy crisis without a significant increase in trade dependence. Commitment to continuing economic reform and openness ultimately requires a lasting political deal with the United States, Japan, China and South Korea to break the economic embargo strangling the North Korean economy. It also provides a critical lever that allows these countries to satisfy their various political and security concerns about Pyongyang's intentions.

No major firms from industrial countries will risk exploring investment opportunities in North Korea on any terms while the American embargoes remain, and while the IMF, the World Bank and other international organisations are inaccessible to North Korea. Neither circumstance will change without a permanent political settlement with Washington.

While there has been no clear high-level commitment to a North Korean economic reform strategy, of the kind initiated by Deng Xiaoping and the Chinese leadership in the early phases of their reform process, the rhetoric of reform in Pyongyang is now pervasive. A new national economy research group has been put in place to advise Cabinet on managing the economic reform agenda. The line ministries are 'openly' grappling with the implications of the reforms and with the development of market forces already let loose, as well as with the issues that reform will pose down the track.

A modest Australian aid program, put in place in 1997 and directed at building North Korean capacities to manage the development of a market economy, has had a significant impact in this process, though this program is now in suspension.

The food and energy supply situation in Pyongyang has palpably improved since the depths of the crisis six or seven years ago. This occurred over a period in which food aid has remained steady, if not declined, and domestic food supplies have slowly recovered from their low point in the year 2000. Statistics on the overall food situation in 2005 are not yet available. A big question relates to the distribution of food supplies and how much it has favoured urban elites. But even hardened observers like Nicholas Eberstadt at the American Enterprise Institute—famous for predicting the collapse of the North Korean economy—agree that food and economic conditions appear to have improved over the last five or six years.

Two additional issues deserve note.

The first is that the recovery of domestic food production in North Korea after the year 2000 was achieved without substantial additional agricultural inputs. Seasonal factors have helped, but the steady lift in production must have been at least in part a result of market reform.

The second is that North Korea is a naturally food-dependent economy. Prior to the food crisis it relied—appropriately, given its limited arable land resources—on food imports as well as domestic production to secure national needs. Historically, in the 1920s and 1930s, Australia was a principal supplier of grain to this part of the Korean economy. It is unlikely that the recovery and potential growth of domestic food production will ever be able to secure national food needs without the addition of substantial food imports.

So Australia has a particular interest in the success of Korean reform and in the resumption of North Korea's reliance on commercial food imports. The resumption of large-scale commercial food imports will require access to international markets for other goods—especially labour-intensive exports in the early phases of transition—as well as a commitment to economic openness.

The process of economic reform in North Korea has been very messy, as evident in the inflation that has accompanied it, and more fundamentally, in the very limited policy capacities to manage it and deal with its many complicated and unanticipated consequences.

In this context, Australia's withdrawal of support for training for North Korean officials in the development of capacity to effect the transition to a market economy would seem neither economically or politically wise.

It is now even more important to have a better understanding of what is going on in the North Korean economy and, where possible, to provide support for enhancing capacities to assist the reform process. Both tasks will be important to resolving the political and security problems with Pyongyang—in either the best event, in which the practical difficulties of implementing the Six-Party September agreement are satisfactorily sorted out, or in the worst-case event, in which it collapses. And both tasks are important to securing Australia's particular national interests on the Korean peninsula and Australia's broader interests in regional security.

7 July 2006

Canberra Times

STUART HARRIS

North Korea and missiles¹

North Korea's test firing of missiles into the Sea of Japan has generated excitement internationally and hostile reactions from the US and other major powers. Japan television showed pictures of Japanese military and officials running to the Prime Minister's office for an emergency meeting. South Korea put its military on high alert.

Why such a reaction is just one of the questions the launches raise, many of which are difficult to answer. The tests were not unexpected—the preparations for the launch have been observed for some time. Nor is it an illegal act under international law; sovereign nations are allowed to test missiles if others are not endangered. The link with its nuclear weapons program gives a long-range missile particular significance; a North Korean nuclear weapon capability and its miniaturisation for transport on a missile, however, would seem to be some considerable time away. Moreover, although Kim Jong-il may behave differently than we expect, he is not irrational; he would know that firing a nuclear tipped missile at either Japan or the US would be his last act.

Part of the response reflects North Korea's breach of its 1999 moratorium on long-range missile testing, after a previous test that passed over Japan. Moreover, these actions, as the Russian Foreign Ministry has said, run counter to the expectations of the global community and complicate even further the resolution of the North Korean nuclear crisis. Whether Pyongyang's tests have advanced its negotiating position is doubtful; its threat to test may have been more useful than the tests themselves, and the Taepodong 2's failure has clearly been unhelpful for Pyongyang.

What were North Korea's motives? Speculation ranges from reinforcing support for Kim of North Korea's military, regaining global attention to its security concerns, revenge for the financial sanctions the US currently applies to North Korea, and pressure on the US for bilateral discussions. There may be something in all of these but the wish to negotiate with the US is probably most important.

Negotiations in the Six-Party talks have been going nowhere. The Chinese, in trying to mediate among the various parties, face an inflexible United States and an inflexible North Korea. The US wants to manage the talks but leave China to resolve the problem by pressuring the North. China believes that the North does not respond to pressure; Kim, playing from a weak hand, cannot afford to look weak and would in practice

intensify his response. China also believes that North Korea would respond to a mix of carrots and sticks. In a process of intense shuttle diplomacy China had gained agreement from participants in the Six-Party talks to a Joint Statement. This achieved considerable common ground but this was rejected eventually by those taking a hard line in Washington.

China also believes that undue international pressure on North Korea could lead to a North Korean collapse. This is China's great fear because of the likely influx into China of North Korean refugees, and the fear of general instability on the Korean peninsula. The US says it does not reward threats and believes that the only way to deal with Kim is to escalate pressure and that that is what China should be doing.

Ultimately, a further part of the missile tests response reflects the international community's difficulty in visualising what effective action it can take in response. Japan has applied some barriers: on financial transfers, that are likely to be ineffective, and on travel. US may intensify its existing financial and trade barriers and seek UN endorsement of such action generally. That, however, is unlikely to gain Russian and Chinese support despite China's obvious unhappiness at the tests. Japan's Prime Minister Koizumi has stressed that dialogue has to continue.

It is perhaps unfortunate therefore that not only among some members of the Six-Party talks, and notably the US, coercion is seen as the way forward even if it leads to regime change. There are many in the US administration, moreover, who see regime change as a desirable outcome—and this was part of the reason the 1994 nuclear weapons agreement between the US and North Korea broke down.

For not only North Korea but also for China and South Korea the idea of regime change is, to say the least, unattractive. For China, apart from its need to respect its own domestic interests, such as its military with historic links to North Korea, regime change is not a viable policy, and its outcome would be unpredictable and unwelcome. Moreover, North Korea's nuclear program is in part but only in part a proliferation issue. It is ultimately a security issue where North Korea, however awful the regime

and irrational some of its actions appear to be, does have some genuine security concerns.

The solution to the problems which manifest themselves from time to time on the Korean peninsula is a resolution of the issue of North Korea's nuclear weapons program. President Bush has said that the response to the tests 'crisis' has to be a diplomatic one, as he has said of the nuclear 'crisis' on the peninsula. Refusing to have dialogue, to talk of not negotiating but simply laying down demands, and to put forward sticks but no corresponding carrots, is not only not diplomacy but is most unlikely to work.

31 July 2006

The Age

TESSA MORRIS-SUZUKI

Northeast Asia at tipping point²

The long-range Taepodong 2 missile recently tested by North Korea may have proved a dud, plopping into the sea not far from its launch site; but the fallout from North Korea's missile launches is sending dangerous shock-waves through the already unstable world of Northeast Asian international relations.

To borrow a phrase popularised by US journalist Malcolm Gladwell, Northeast Asia is now at the tipping point—the point at which a chain of small events may trigger an unstoppable transformation. While the eyes of the world have been focused on the Middle East, a series of little-reported developments to our north are threatening to topple regional relations into a spiral of deepening conflict, with profoundly damaging implications for other Asia-Pacific nations (including Australia).

Unlike the Middle East, Northeast Asia is not mired in violent conflict; so, with US Middle Eastern policy floundering from crisis to crisis, it has been all too easy to neglect Asia. There has been a bland assumption that the economic interdependency generated by China's remarkable economic growth would translate into regional harmony.

It is now obvious that that assumption was wrong. A decade or more of efforts at Northeast Asian regional reconciliation and integration are rapidly unravelling. The Six-Party talks (which bring the two Koreas, China, Japan, Russia and US together to search for a solution to the crisis on the Korean Peninsula) were seen by some observers as a possible framework for growing regional collaboration. But they have stalled, not just because of North Korean intransigence, but also because of a lack of commitment and imaginative leadership from the US.

In retrospect, 2005–06 may well be seen as the period when the rest of the world looked the other way, while the world's most populous and economically dynamic region was allowed to slide into instability and insecurity.

Some observers have seen the North Korean missile test above all as a desperate and self-defeating stunt to thaw US attention back to the Korean Peninsula. However, the collateral damage from the North Korean missiles is also shaking the domestic politics of regional neighbours, particularly Japan and South Korea, and provoking a heightening of nationalist sentiment in all the countries of Northeast Asia.

In Japan, Junichiro Koizumi is about to step down as Prime Minister, and intense political bargaining to determine his successor has been underway for months. The hawkish Shinzo Abe, whose popularity is founded on intense nationalism and an outspokenly belligerent attitude to North Korea, quickly established a strong lead in the Prime Ministerial race.

The prospect of an Abe administration has raised alarm amongst more liberal members of the Japanese political and economic establishment, and also in some US political circles. It is feared that Abe's accession to power could further damage the already severely strained

relations between Japan and its two major neighbours, South Korea and China, as well as aggravating tensions with North Korea. Quiet moves were underway to support an alternative and more moderate candidate for leadership, veteran politician Yasuo Fukuda.

Abe's chances of succession, however, received a huge boost from the North Korean missile tests. An opinion poll conducted by the national broadcaster NHK shortly after the missile launches showed a dramatic surge in popular support for Abe, and on 21 July Fukuda withdrew from the Prime Ministerial race. Now Abe's main challenger will be the relatively colourless Finance Minister Sadakazu Tanigaki, whom few see as having a serious chance of victory.

Meanwhile in South Korea, the 'Sunshine Policy', which has transformed relations between the two halves of the divided peninsula over the past decade, is vanishing behind the gathering clouds of criticism and voter disillusionment. The policy, pioneered by Nobel Peace Prize winner Kim Dae-jung, and continued by his successor as President, Roh Moo-hyun, once enjoyed immense popularity, particularly amongst younger generations of South Koreans. However, a series of gaffes and policy blunders has seriously eroded support for Roh's Presidency.

South Korea's ruling party fared disastrously in recent local elections, and there is growing support for high-profile opposition politician Park Geun-hye, daughter of former dictator Park Chung-hee. A Park victory in next year's Presidential elections would mark a significant retreat from the past ten years of détente and domestic political reform. Park's chances of success (like Abe's in Japan) have, of course, been greatly boosted by the rise in tensions following the North Korean missile test.

Conservative politicians in Japan (including Abe) have recently started to suggest that Japan, despite its 'Peace Constitution', has the right to launch pre-emptive strikes if it fears an imminent attack from North Korea. These comments, against a background of moves to revise the Constitution in ways which will allow Japan greater military might evoke alarm in Seoul, adding to a marked recent deterioration of relations between Japan and South Korea.

Most significant of all is the rapid worsening of relations between the region's two major powers, Japan and China. In Japan, fear of the rise of China is generating a widespread populist nationalism, expressed in a stream of best-selling paperbacks and comic books on the 'Chinese menace'. In China, memories of war and anger at Prime Minister Koizumi's insistence on visiting the Yasukuni Shrine (which contains the remains of war dead, including convicted Japanese war criminals) sparked a series of anti-Japanese riots in April of last year.

The North Korean missile tests have further strained the relationship. Efforts by Japan to persuade the UN Security Council to impose sanctions on North Korea were opposed by China and Russia, and in the end, Japan's ally the US was reluctant to alienate China, whose support it needs on other vital issues such as Iran's nuclear program. Japan thus found itself isolated and out-manoeuvred, forced to accept a modified Chinese and Russian resolution which excluded the wide-ranging sanctions sought by Japan.

The Japanese media tried to put the best spin on the outcome, stressing the unanimous Security Council criticism of North Korea. But the incident has served to add further fuel to popular Japanese suspicions of the region's rising superpower. 'China Cannot Be Trusted', read a typical headline in a Japanese newspaper following the Security Council resolution.

Is the slide into regional crisis already inevitable? The portents for the future certainly seem gloomy. But even now, a new initiative from inside and outside the region could make a crucial difference.

It is time for the US to take Northeast Asia seriously. The focus must be on the Korean Peninsula, where the last unhealed wound of the Cold War is poisoning regional relations. The only realistic way of achieving a breakthrough is to find a forum which will allow the US to speak directly to the North Korean regime; either within the Six-Party framework or through a parallel channel. Australia should be pushing its US ally in this direction. If continued, the current deadlock between a distracted and inflexible US and an increasingly erratic North Korea will tip the balance from regional cooperation to conflict, with consequences which may be felt for decades to come.

6 October 2006

Canberra Times

STUART HARRIS

North Korea intention to undertake a nuclear test³

Here we go again. In this long running saga, North Korea's president, Kim Jong-il has again raised international tensions by announcing that he will conduct a nuclear test in the near future. In the relative calm since July when Pyongyang conducted missile tests, North Korea largely fell off the international agenda as other issues, notably Iraq and Iran, forced themselves to the forefront. Perhaps this lack of attention stimulated President Kim's latest action, one reason suggested for his announcement. There are many others—anger at US financial sanctions, a concessionary international community offer to Iran, and concern that South Korea's candidate might win the top UN job. They also include Pyongyang's stated reason, that North Korea wants to deter a US attack; for Pyongyang, US statements that 'all options remain open' for dealing with North Korea undermine President Bush's assurance that he would not attack North Korea.

President Kim's statement is about what North Korea intends to do. We do not know for sure whether North Korea has that capability; it could be simply yet another negotiating tactic. Moreover, testing a nuclear device is not the same as making a deployable nuclear weapon, which needs a highly complex process of miniaturisation of the physics package for weaponisation and delivery.

What North Korea would do with such a weapon, assuming it has one, is unclear; it could be used either for deterrence or, in practice improbably, for 'nuclear blackmail' as so often asserted by US politicians. Generally, however there are arguments that, although symbolically important, in reality possession is not that important, a view expressed by Colin Powell when Secretary of State.

Perhaps the more important issue for Australia is what will be the response of the other countries in the region. Japan apart, their specific

responses have been strong but carefully measured. This, no doubt, is because it is unclear what effective response the international community can make.

The general concern is that it will lead to the proliferation of nuclear weapons elsewhere in the region. It is often assumed that Japan will move to become a nuclear weapon state given a North Korean nuclear capability. It may move in that direction for other reasons, but if the main nuclear weapon state, the US, cannot deter North Korea it is not clear what effect a Japanese nuclear capacity would have. Again, this would apply to South Korea, which would be more inclined not to go down that track; even if it accepted that possession of a nuclear capacity would make conventional warfare more feasible it may feel sufficiently strong in conventional military terms to deter any potential North Korean adventurism.

China will be the big loser from a North Korean test. Its efforts in the Six-Party talks have given it diplomatic prestige, particularly when a Joint Statement was agreed by all six parties (US, China, North and South Korea, Japan and Russia) in September 2005. This major step forward quickly became a casualty of internal divisions in both the US and North Korea. Yet the US expects China to manage the continuing negotiation process and, in effect, deliver Pyongyang, but it has also wanted to micro-manage how China does it. China has asked for more flexibility from Washington but without success. China was, however, angry when Pyongyang tested its missiles in July, against Chinese advice. It has shown this anger by supporting a Security Council resolution critical of North Korea, reducing substantially its food and oil shipments to the North and allowing some North Korean refugees to go to South Korea. South Korea similarly showed its displeasure in practical ways.

The international community's room for manoeuvre in response to a North Korean test is limited. A pre-emptive strike is generally accepted as unlikely to succeed. Potential action seems reduced to applying further sanctions, and tightening the containment of North Korea. The differences among the six parties, however, are likely to widen. Many observers believe a diplomatic solution may still be achievable but it would need US flexibility and compromise, and bilateral US discussions with

Pyongyang, a consistent North Korean objective. Although the US has had bilateral discussions with Pyongyang on financial sanctions, it refuses to do so on nuclear issues except in the context of the Six-Party talks. Hardliners in Washington will not allow flexibility in its negotiating stance hoping, as they have for many years, for the internal collapse of the regime, an unlikely early prospect. In any case, such a collapse would have substantial practical and adverse implications for China and South Korea; they will want, instead, to maintain dialogue and to seek a diplomatic solution which they believe Pyongyang still desires. Neither, however, appear winning strategies at this time; the failure to persevere with the, admittedly flawed, 1994 Agreed Framework between the Washington and Pyongyang that did freeze Pyongyang's nuclear program for some years, now looks like a significant missed opportunity.

The new Japanese Prime Minister, Mr Abe, reverting to an early form of language used by President Bush, said that Japan would not tolerate a nuclear North Korea. If a compromise deal is not achieved, and Pyongyang tests, Japan like others may well have little choice but to do so.

6 October 2006

The Australian

Ron Huiskens

Correct response to Pyongyang's stance critical⁴

North Korea's progression to a likely nuclear weapon capability is perhaps the most clamorous on record. The nine countries accepted as having got to the bomb—US, Russia, UK, France, China, Israel, South Africa (temporarily),

India and Pakistan—all did so as quietly as possible until they were ready to test. And two of them, Israel and South Africa, have never conducted a recognised test explosion. North Korea's story may have something to do with modern technical intelligence capabilities but it certainly has a lot to do with Pyongyang's 'look at me' fetish. This has been the one aspect of Pyongyang's behaviour over the past 15 years or so that suggested it remained ambivalent about making its way in the world as a state with nuclear weapons, that is, that it really was open to a deal. In most other respects, however, its behaviour is a source of despair.

Pyongyang announced on 3 October that it planned to conduct a nuclear test to confirm that it had the 'reliable war deterrent for protecting the supreme interests of the state and the security of the Korean nation from the US threat of aggression'. A year ago, however, in September 2005, the Six-Party process set up in 2003 to address North Korea's nuclear program agreed on the elements of a deal including an undertaking from the US, on paper, that it had 'no intention to attack or invade the DPRK with nuclear or conventional weapons'. This illustrates an observation made by a Chinese Foreign Ministry official after an earlier frustrating episode in the Six-Party process: Pyongyang has its own logic (and, by implication, a logic that more often than not baffles Beijing along with everyone else).

The examples of Israel and South Africa (and to some extent India and Pakistan in the years immediately prior to their tests in 1998) suggest that conducting a test should not be overdramatised. It would not rule out all prospects of reversing Pyongyang's nuclear program. What it would do is sharply narrow the political space that the states directly concerned have to operate within in shaping their responses. Until a test is conducted, the issue is one of transforming an apparent intention to acquire nuclear weapons. This is a challenge against which the full panoply of diplomatic techniques, sticks as well as carrots, can be deployed in shifting combinations as the parties search for a meeting point. A nuclear test makes the reality of a new nuclear weapon state in the neighbourhood much more immediate and pressing. And being seen to be responsive to

this new reality can be expected to cramp political and diplomatic options, and to further reduce whatever prospects existed for a negotiated solution.

Pyongyang's golden rule throughout the present crisis has been to ensure that its negotiating partners remain divided. This has not been all that difficult but, even so, Pyongyang has won grudging respect for its skill in avoiding a united front in the Six-Party process. None of the other players are attracted to or relaxed about the prospect of a nuclear-armed North Korea. But China and South Korea appear to put an even higher premium on stability, the avoidance of abrupt change, and have therefore been reluctant to join the US and Japan in sharpening the pressure on Pyongyang to embrace the negotiations. South Korea's motives are the easiest to discern. It would bear the brunt of both renewed conflict with the North and of regime collapse. It has studied German reunification closely and concluded that this aspiration should be deferred as long as possible. In addition, Seoul has to cope with generational change that has transformed the balance of public opinion about the North away from the bitter enmity that characterised much of the past 50 years.

China shares these concerns but also reasons that prolonging the status quo helps ensure that the Korean peninsula will eventually fall securely within its sphere of influence while abrupt change could prove unmanageable and result in a continuing if not strengthened role for Japan and/or the US.

Pyongyang's clamorous development of a nuclear weapon capability has impinged most directly on Japan. Japan can be said to now be committed to progressively shedding its singular post-war security posture in favour of normality or having the same options as other major powers. This is partly due to an assessment that it has done its penance for the 1930s and 1940s and partly a response to the perception that it will be submerged by China if it does not level the playing field. Pyongyang's behaviour since the late 1980s has made this path even easier politically than it otherwise might have been. Most of Japan is already within reach of North Korea's No Dong ballistic missiles. North Korea already has chemical warheads for these missiles but the prospect of nuclear warheads demonstrably has a lot of

traction both within government and the general public. This development also falls on the negative side of the ledger in Beijing when it assesses the merits of continuing to support and protect the regime in North Korea. The longer term possibility that a nuclear-armed North Korea would gradually erode Japan's aversion to nuclear weapons (which it could acquire very quickly if it chooses to do so) only strengthens this calculus.

In Washington, the threat to conduct a nuclear test is likely to strengthen the hand of the faction that has always favoured a policy balance skewed to encourage regime collapse ahead of a deal that would prolong the life of the regime. The Bush administration's inability or unwillingness to resolve this division has certainly played a part in the Six-Party process never getting close to engaging on the substance of a bargain. Washington can be expected to intensify its drive for a new Security Council resolution imposing wider sanctions on North Korea and to keep up its relatively invisible activities to disrupt North Korea's international financial transactions, particularly those linked to the export of missiles and drugs, and to the circulation of counterfeit US dollars.

In July this year, Pyongyang miscalculated and broke its golden rule. It persisted with missile tests in the face of strong protests from all quarters only to be slapped with a surprisingly harsh Security Council resolution. Even in South Korea, the perception of irresponsible North Korean petulance in proceeding with these tests promptly swung Seoul behind a robust response through the Security Council. Coming so soon after this humbling miscalculation, the threat to conduct a nuclear test (which we know Beijing has counselled against strenuously in recent years) suggests an ominous departure from Pyongyang's calculated brinkmanship to date. We will continue to see clear differences of emphasis in the response from the five parties directly concerned, but one suspects that the centre of gravity within this group has shifted to the right.

We can but hope that North Korea's real intent is to return to the Six-Party talks, but reasoned that it had to negate the miscalculation over the missile tests by upping the ante in order to avoid entering the negotiations at a psychological disadvantage.

10 October 2006

Australian Financial Review

RON HUISKEN

Why Kim has blundered⁵

North Korea yesterday confirmed that it is able to build an explosive nuclear device. This may be some distance from a genuine nuclear military capability but it undoubtedly remains a watershed event. North Korea, with just 23 million people and a per capita GDP of less than US\$1000, has just become the eighth country in the world to achieve this milestone. Israel and South Africa both developed nuclear weapons before North Korea but neither has conducted a recognised test.

And, in my view, it is a serious error of judgement on Pyongyang's part. Pyongyang has won grudging respect over the past four years for keeping the other players off balance and preventing them from presenting a united front. It has taken its nuclear program forward inch by inch, with each step accompanied with fanfare and bluster. It was this uncharacteristically noisy approach to nuclear weapon status that offered some hope that they really did want to cut a deal and trade their nuclear program for legitimacy and acceptance and long-term economic assistance, particularly in the energy and agricultural fields. Put another way, it seemed that Pyongyang was not certain that getting the bomb would be advantageous.

Now it has taken a very large step down that road and made it much harder to walk back. Conducting a test is not in itself an irreversible development. And Pyongyang is still likely to be some distance from a capability to deliver nuclear weapons, particularly with missiles. Clearly, however, the balance of views in Pyongyang, has shifted in favour of even greater risk-taking.

A year ago, in the Six-Party talks, Pyongyang was offered the outline of an eventual deal. It included diplomatic relations with the US and Japan, economic assistance, moving from the present armistice that

concluded the Korean War to a proper peace agreement, and even the likelihood of nuclear power reactors after it has dismantled its weapon program and rejoined the nuclear non-proliferation treaty. Furthermore, the US committed itself, on paper, not to attack or invade North Korea, something that Pyongyang has simply ignored with its recent statements that it was being driven to a test by the threat from the US.

The other players directly involved—the US, Japan, China, South Korea and Russia—now face a very different dilemma. Until yesterday, the task was to stall and reverse an intention to acquire a nuclear capability: now much more weight has to be given to dealing with a new nuclear weapon state in the neighbourhood. We may see some pointing of fingers as to whom should be regarded as responsible for this development. There is some blame to go around, but we should not look too hard beyond Pyongyang. A good deal for them—better than they deserve—was within reach but they declined even to explore what it might look like. Pyongyang appears to believe that it merits an absolute sweetheart of a deal but has realised too late that no one regards them as sweethearts.

Worse, from Pyongyang's point of view, Beijing and Seoul have now gravitated sharply toward the position long held by Washington and Tokyo. The odds now look pretty strong that all four capitals will be discussing how broad and severe the political and economic sanctions on Pyongyang should be, not whether to take this step. Sanctions will have to be carefully targeted. North Korea's population has little to be deprived of and no means of influencing the government.

There will still be differences of emphasis. South Korea probably has the most acute dilemma. Not only has Pyongyang sunk the South's 'Sunshine Policy' of engagement with the North, Seoul's two worst nightmares have become more probable. The city of Seoul is hostage to many thousands of North Korean artillery pieces and rocket systems should matters spiral out of control. In addition, if the North Korean regime were to implode, the South would face the prospect of reunification, something that it studied closely in the 1990s and concluded should be delayed as long as possible.

Beijing is also likely to hold out for a last attempt to get the North back to the negotiations, although I believe that it will first participate in designing a sanctions regime and use the threat of supporting this regime as leverage.

Australia has little to throw into this mix. We do have diplomatic relations with North Korea but it would be a waste in the present highly-charged atmosphere to take the initiative and sever this link. Pyongyang simply would not notice. It would be better to see what countervailing action is agreed upon and then decide whether and when this step would contribute most to the momentum of pressure on Pyongyang to reconsider.

Notes

- 1 First published as 'Bullying not the way to solve crisis', *Canberra Times*, 7 July 2006.
- 2 An edited version was first published as 'The world's other crisis zone', *The Age*, 31 July 2006.
- 3 First published as 'How to handle North Korea', *Canberra Times*, 6 October 2006.
- 4 An edited version was first published in *The Australian*, 6 October 2006.
- 5 First published in *Australian Financial Review*, 10 October 2006.

Papua

11 April 2006

Sydney Morning Herald

HUGH WHITE

Principles vs pragmatism in Papua¹

Australia's debate over Papua in the past fortnight has fallen into the ruts worn in our national consciousness by East Timor. We hear of principles on one side, and pragmatism on the other. But that is a false dichotomy, as we all should have learned from East Timor. Unless we can rethink the issue in new and clearer terms, we will have little hope of avoiding another tragedy.

Both sides have reoccupied their old positions unthinkingly. On one side there are the supporters of moral principle, who are back arguing again that Australia's values should place us squarely on the side of independence. On the other are the advocates of pragmatism, who are telling us again that our interests in good relations with Indonesia require us to acquiesce in what they seem to accept is the serious oppression of some of our nearest neighbours.

Strangely enough, the Government itself seems to accept this way of seeing the issue, and to have abandoned the language of principle to their opponents. For the past fortnight, Canberra has talked about Australia's policy on Papua in purely pragmatic terms. Its first priority has been to

uphold its reputation for being tough on illegal immigration. Its second priority has been to keep relations with Indonesia in order. The welfare of the people of Papua seems to enter the Government's equation as a distant third, if at all.

But Howard must know that a policy which elevates pragmatism over principles cannot be sustained. After a while, pragmatism starts to look like appeasement. That was one of the lessons of East Timor. As Howard said seven years ago, on the day after Australian forces landed in East Timor in 1999, 'national interests cannot be pursued without regard to the values of the Australian community'.

Jakarta understands this lesson from East Timor better than Canberra does. They realise that events in Papua could easily put irresistible public pressure on Howard to live up to his principles, abandon pragmatism and support Papuan independence.

But that too would be an unsustainable position, for a simple but very important reason. Australian support for independence cannot deliver freedom to Papua, but it would make it much harder for the Papuans to find a better life within Indonesia. Those who urge that Australia can force the pace on Papuan independence are also drawing a wrong lesson from East Timor, based on an inflated view of Australia's role in 1999. East Timor's independence was an Indonesian decision. Australia's role was in the end more marginal than most Australians (and many Indonesians) like to admit.

There is no reason to expect that Indonesia can be persuaded to let Papua go, and very little Australia can do to force the issue. On the other hand, Australia can have great influence on the way Indonesia deals with Papua. This influence is mostly negative. Australian support for Papuan independence would poison the political waters in Jakarta, scupper hopes for special autonomy, and quiet probably provoke a more brutal conflict in Papua which we would be powerless to abate.

These risks need to be carefully considered by Australian supporters of independence. Those who believe they have principles on their side still have an obligation to consider the likely consequences of their proposals.

There is no high moral justification for ill-informed decisions and ineffectual gestures that end up doing more harm than good.

So where do we go on Papua? There must be better options for Australia than a stale choice between the Government's unsustainably amoral pragmatism, and the high-principled but feckless adventurism of the pro-independence lobby. To find better options we need to reframe the debate. We should start by affirming that our foreign policy must uphold our principles. That means we need to put the welfare of the people of Papua firmly in the centre of the policy frame. We need to ask what, pragmatically, in all the circumstances, is the best achievable outcome for them.

The answer is most surely the effective implementation of the special autonomy package which has been on the table in Jakarta since 2001. We then need to ask what Australia can do to promote special autonomy. Most likely the best thing Australia can do is to neutralise the false arguments of autonomy's opponents in Jakarta. We need to make clear that Australia does not and will not support independence for Papua. To do that the Government has to start arguing forcefully and effectively in favour of special autonomy against those here in Australia who advocate a pro-independence posture. And it needs to argue on the basis of principle not pragmatism.

Finally, we need to remind ourselves that Australians have legitimate and morally-important interests in this situation too. It's not mere pragmatism for the government to want to preserve a good bilateral relationship with Indonesia. The consequences for Australia of a hostile relationship with Indonesia would be very serious, and could affect the welfare of individual Australians deeply. There is nothing immoral in weighing these factors in the policy balance alongside the welfare of the Papuans. As it happens, our interests and theirs converge on special autonomy.

27 April 2006

Sydney Morning Herald

ED ASPINALL

Focus on Papua a symptom of narrow vision²

In the past, some Australians used to look to the vast country of Indonesia to our north and see only East Timor. Many such people, especially those in parts of the left and the Christian social justice lobby, now look to Indonesia and see only Papua. The reasons, they say, are obvious: there is a history of severe human rights abuse there and Australia is in a position to do something about it.

No fair observer could deny that human rights problems have been, and continue to be, very great in Papua. There is no systematic campaign of genocide, and there have been improvements since the fall of Soeharto. However, supporting human rights there is still a legitimate cause. But advocates of the Papua cause also need to examine their motives to ensure they are not also partly acting on the basis of unexamined fears and prejudices.

After all, if a concern for human rights is the main motivation, why the paucity of interest in human rights issues elsewhere in Indonesia?

When, for example, in March 2004 five protesting farmers were killed in Ruteng, Flores, the story didn't rate in any major Australian newspaper. When tens of thousands of Indonesian workers protested for their rights in April, it caused hardly a blip in Australia. This despite the fact that exploited Indonesian workers make many of the shoes and clothes that Australians wear. Why is there so much interest in Papua from people who are indifferent to the other 240 million or so people in Indonesia?

One explanation for Papua's appeal is that it seems to be a David and Goliath story. People in the West are often most interested in human rights when they occur in the context of independence struggles. We often romanticise such struggles, especially when small communities are pitted against apparently large and powerful ones. They also appear to promise an easy solution, in the form of the magic bullet of self-determination.

However, the romanticisation of independence struggles cannot be the whole explanation. The Indonesian army committed arguably worse human rights abuses in its campaign to eliminate separatists in Aceh, but few people in Australia cared much about this. The Acehnese were Muslims and, to outsiders, they appeared ethnically similar to most other Indonesians.

This points to a second factor. There is deep-seated hostility toward Indonesia in Australia which has replaced fear of Asia in general over the past few decades. This is mixed up with a good dose of Islamophobia, especially since the Bali bombings. Some supporters of the Papuan cause, whether intentionally or not, seem to be playing that card. Papuans are mostly Christians, while most other Indonesians are Muslims.

According to Sister Susan Connelly of the Mary MacKillop East Timor Institute in *The Catholic Weekly*, Islam has overtaken Christianity as the new religion to the extent that the Papuans say they are becoming strangers in their country.

Many Australian commentators add that Papuans should be independent simply because they are so ethnically or racially different from other Indonesians. As one reader of the left-wing website Sydney Indymedia explains: 'To me, it seems ludicrous that Indonesia should have sovereignty over Papuan native people!'

Presumably, this person would be repelled by suggestions that different ethnic groups cannot co-exist in Australia. Yet it is apparently inherently absurd to imagine that Melanesians and Southeast Asians can do so in Indonesia. It's worth remembering that Indonesia was a country founded on a multicultural ideal. Indonesian nationalists fought the racist exclusivism of Dutch colonialism while we were still in the grip of White Australia.

Moreover, Papuans are not so dissimilar ethnically and religiously from their nearest neighbours in eastern Indonesia. Many Australians see only the difference between Java and Papua, and have no idea about what eastern Indonesians look like or the prevalence of Christianity in eastern Indonesia.

Finally, there is a belief in Australia that Papua is part of our natural sphere of influence and it is thus our duty to protect its inhabitants. These

attitudes should also give us pause, given our colonial history in the region. The notion of the white man's burden is not dead when it comes to Australian attitudes to the Pacific, as recent events in Honiara, and the deployment of Australian police to Papua New Guinea, suggest.

To repeat: none of the above is to deny that human rights problems are severe in Papua. However, Australian sympathisers need to reflect upon what motivates them, take care with their language and ensure that their concern for human rights in Papua does not prevent them from viewing other Indonesians, too, as human beings.

Notes

- 1 First published as 'Autonomy a better deal for Papuans', *Sydney Morning Herald*, 11 April 2006.
- 2 First published in *Sydney Morning Herald*, 27 April 2006.

Philippines

28 December 2005

Wall Street Journal Asia

HAL HILL

Why does this country run into trouble so frequently?¹

What ails the Philippines? Why does this country, with so much talent among its almost 90 million people, and such a promising beginning at independence almost 60 years ago, run into trouble so frequently?

A few decades ago, its per capita income was the envy of almost every other country in East Asia. Now it is among the lowest. The term 'cronyism', an art perfected under the 20-year rule of Ferdinand Marcos, originated in the Philippines. It has replaced Thailand as the country where the possibility of military coups is a regular topic at dinner party conversations. Its public debt problems are daunting. And a long-running Muslim insurgency continues unabated in the lawless southern provinces.

With her extensive political and bureaucratic experience, President Gloria Macapagal Arroyo, the daughter of a respected president in the 1960s, seemed to promise so much when she came to power in 2001. But now she is preoccupied with surviving the so-called 'Hello Garci' affair, in which Ms Arroyo is accused of trying to interfere with the count during

last year's presidential election. That scandal is doing serious damage to the country's image. Citing allegations of electoral fraud, on 19 December 2005 the international human rights group Freedom House downgraded the Philippines to 'partly free' from 'free', in its annual survey of political rights and civil liberties.

The country's fiscal situation is very grave and resembles that of an economy in crisis rather than one which—as is the case with the Philippines—has recorded almost continuous economic growth throughout the past 12 years. About 40 per cent of revenue goes on interest payments, and a further 30 per cent on salaries. That means the government has very little room to move, and has become highly expert at continually compressing expenditure. But this comes at the cost of the country's long-term needs. For example, the Philippines spends about half the East Asian average (as a percentage of GDP) on infrastructure. Political uncertainty also deters potential private-sector providers.

Moreover, even these precarious fiscal equations conceal additional vulnerabilities. The country would be hit hard by significant increases in global interest rates or a loss of confidence in the peso, especially since about half the public debt is dollar-denominated. And the country has had a worrying tradition of contingent liabilities—unfunded public sector obligations—being revealed at times of fiscal stress.

Yet there is much that is positive about the Philippines. Its civil society is noisy, but at its best world class. It has some excellent think tanks. Its press is free and very good in parts. Its academic community is still arguably the best in Southeast Asia outside Singapore. For all the imperfections, democracy is deep-rooted and it more or less works.

Moreover, the economy is holding up quite well under the political strains. It has recorded positive growth almost continuously for the past 12 years, and is currently growing at around 5.3 per cent annually, which is comparable to the average growth level in East Asia with the exception of China. Remittances from the eight million or so Filipinos abroad are now estimated to be running at about \$15 billion per year, equivalent to almost half the country's merchandise exports.

The floating exchange-rate regime, adopted in the wake of the Asian economic crisis, is working well. The country has run a current account surplus for seven consecutive years, which is unprecedented in Philippine history. It reflects a combination of success and failure: moderate growth, strong remittances and the reluctance of international capital markets to lend to the Philippines. The result is that the country is unlikely to experience a balance of payments crisis for the foreseeable future, unless there is a serious fiscal cum political crisis. The mining sector, essentially shut down for the past two decades by NGO activists, has a new lease of life owing to the recent introduction of legal and policy guarantees.

There are in reality two economies. One, where Filipino talent is stifled by patronage politics and a demoralised bureaucracy, is—not surprisingly—underperforming. But the other, where such talent is left to demonstrate its skills, is thriving. In these enclaves of success, areas able to operate free from government interference, the Philippines is highly competitive. Examples include manufacturing in export processing zones, and a wide array of service activities in areas as diverse as IT, call centres and medical support.

But for the Philippines to be restored to its former position as a leading East Asian economy, much more is needed. Strong and durable economic development will require at least the following:

- A resolution of the fiscal crisis, through a substantial increase in government revenue. The Philippines Congress has finally agreed to pass some major tax reforms. However the key is to improve tax collection. Although the Philippines has one of the highest corporate tax rates in East Asia, it has one of the lowest collection rates.
- Given the complexity and fluidity of Philippine politics, measures which insulate the business world from political machinations—the much discussed firewall between economics and politics—are needed. For example, the charter providing for the independence of the Central Bank independence, introduced in 1993, is generally working well. Decentralisation arrangements, introduced in 1992, are beginning

- to encourage competition among local governments. But much more is needed, especially in the area of regulatory reform.
- The debilitating conflicts in Mindanao, and elsewhere, need to be resolved. The key is a durable peace settlement, as there was for a period under former President Fidel Ramos.
 - The military needs to be kept in the barracks. The longer the conflict in Mindanao continues, the longer the military is woefully underfunded, and the longer the current political impasse persists (and with it, superficially, the pretext for intervention, to restore order), the less likely it is that restless and ambitious sections of the military can be restrained.

This is not an impossibly ambitious agenda. The 1992–98 presidency of Mr Ramos delivered on much of it, and the country prospered as a result. Ms Arroyo still has almost five years remaining in office and how she addresses these, and other pressing issues, will determine how future historians judge her.

February/March 2006

The Diplomat

KIT COLLIER

The Mindanao solution²

Australian perceptions of the terror threat to our near north are dominated by three interwoven themes: that the problem is essentially an Indonesian one, embodied in a single cohesive organisation known as Jemaah Islamiyah (JI), which acts as an arm of al-Qaeda. All three themes are misleading and they are hampering Australia's response to the threat.

Reporting by the International Crisis Group over the past several years has shown that what we loosely call JI is actually a constellation of rival networks, riven by infighting, but with shared roots in the old Darul Islam struggle for an Islamic state in Indonesia. Despite this common Indonesian reference point, these networks have always relied on foreign sanctuary to prepare new generations of fighters. If JI as we know it today took shape in Malaysia, and Afghan border camps in the 1980s and 1990s, the next cohort of regional jihadis is already being spawned in the training camps and conflict zones of the southern Philippines.

These lawless islands lie little further from our shores than Bali, yet Australians remain curiously incurious about the lethal cocktail of state failure, chronic separatist insurgency, and proliferating ties between local and foreign terrorists that the Crisis Group warns of there. Ten times as many people have died in Mindanao's wars as in the better-known Aceh conflict, and the number of victims of JI-related bombings in the Philippines now approaches that in Indonesia itself. Such attacks are almost never mentioned in journalistic coverage of JI, or even in the Australian government's own counter-terrorism white paper released in 2004.

A proposal to boost Australia's military role in Philippine counter-terrorism operations, made by recently departed Defence Minister Robert Hill in October, is therefore long overdue. There are three aspects to the proposal. First, the Australian Special Air Service Regiment would train Philippine special forces, focusing on long range reconnaissance patrols. These patrols would seek out jihadi networks finding sanctuary in the southern Philippines, including Darul Islam factions, Mujahidin Kompak and Laskar Jundullah. Bali bombers Dulmatin and Umar Patek, carrying bounties of US\$10 million (\$A13.5 million) and US\$1 million respectively since October, have been targeted by several US-supported air-strikes in Mindanao over the past year. But these have proven inconclusive in the absence of close ground support. Highly mobile intelligence-led teams on the ground could fill this gap.

SAS already trains elite Philippine units under a defence cooperation program memorandum of understanding effective since 1995. But the current Caracha program, underway since 2001, only involves half a dozen Australian personnel, who supplement US training assistance to the newly formed Philippine Army light reaction companies. These crash courses hone abilities in reconnaissance and surveillance, small unit tactics, close quarters battle and night fighting. Still, developing an effective predator capability in the Philippine special forces demands a more significant Australian commitment, as they have been oriented towards a static role since the 1980s, overseeing local paramilitary garrisons in areas of communist insurgency. This model is inappropriate for the new threat.

The second aspect would also enhance Philippine forces' ability to hunt high-value targets, while leaving as small a footprint as possible in the volatile Muslim separatist communities harbouring them. Australian-made rigid-hulled inflatable boats with kevlar armour would be supplied with training support, allowing penetration of inaccessible riverine and marshland terrain, particularly in parts of Maguindanao province where key jihadi figures are known to seek refuge. Australian participation in maritime surveillance and interdiction of jihadi infiltration/exfiltration routes across the Sulu and Celebes Seas is the third aspect of the proposal.

The Australian initiative faces a serious obstacle, however, in the Philippine Senate. The difficulty arises from Article XVIII, Section 25 of the 1987 Philippine Constitution, which specifies that 'foreign military bases, troops or facilities shall not be allowed in the Philippines except under a treaty duly concurred in by the Senate'. Although this is a transitory provision originally aimed at the major American bases of Subic Bay and Clark Field—evicted by the Senate in 1991–92—the Philippine Department of Justice ruled in 1996 that training programs involving more than twenty foreign personnel were subject to the same provision. US-Philippine defence cooperation went into a deep freeze for the next four years.

The Philippine Senate was only persuaded to ratify a visiting forces agreement with the US in May 1999 after aggressive Chinese activity in the disputed Mischief Reef. This has permitted resumed joint exercises

since 2000, but the two years of diplomatic wrangling and further fifteen months taken to gain Senate approval of the agreement are not encouraging signs for Australia. Australia needs a similar treaty-level status of forces agreement to proceed with its full counter-terrorism proposal. A reported gang rape by US Marines at Subic Bay on 1 November 2005, and American refusal to turn the suspects over to Philippine custody (as is the US prerogative under the visiting forces agreement) is heightening nationalist resentment amid calls for a review of the agreement.

Other areas of Philippine-Australian counter-terrorism cooperation are moving forward. Canberra has doubled its assistance package to \$A10 million, increased its in-country Australian Federal Police contingent from a single officer to seven—lending invaluable forensic and intelligence aid—and signed a border control MOU with Manila. But Senator Hill described the barriers to his defence initiative as challenging. The proposal is likely to be identified with President Gloria Arroyo's administration, already weakened by an election-rigging scandal, and opposed by a majority of Philippine Senators who are ill-disposed in principle towards any foreign military presence.

Australia may thus initially pursue less controversial aspects of the plan, possible without a status of forces agreement. Small numbers of Australian troops could operate in tandem with US forces already in place, or alongside other ASEAN partners with a shared interest in southern Philippine security. Offshore patrols would not require Senate concurrence, nor would bringing Filipino trainees to Australia, though this would lose the advantage of familiarisation with the actual operational environment. Australia's continuing advocacy of the full Hill proposal should stress the professionalism and limited numbers of the forces involved, and the benefits for the Mindanao peace process of a surgical approach to excising the cancer of terrorism.

Notes

- 1 First published as 'The Philippine conundrum', *Wall Street Journal Asia*, 28 December 2005.
- 2 First published in *The Diplomat*, February/March 2006, pp.8–10.

Thailand

6 March 2006

The Australian

PETER WARR

Thaksin's electoral gamble¹

Ten days ago, Thailand's populist Prime Minister and former business tycoon, Thaksin Shinawatra, dissolved the House of Assembly and called new elections. The elections were set for 2 April, three years ahead of schedule. Thaksin was of course gambling that his Thai Rak Thai (Thais Love Thais) party would retain sufficient support to re-elect his government, restoring its legitimacy. In this, he was depending on rural areas, where 70 per cent of Thais still reside. Urban support has greatly diminished, especially in Bangkok. When the election was announced, it was predicted that Thaksin's party would be returned with a reduced majority.

The dissolution of Parliament was widely anticipated as Thaksin's best option for defusing the upsurge of public opposition to his government and to him in particular. The response of the opposition parties was a surprise, possibly even to Thaksin. They vowed to boycott the election. Thailand's democracy is now in disarray. If Thaksin's party wins an uncontested election, little will have been resolved and Thai society will remain bitterly divided.

These events were precipitated by the sale last month of Thaksin's family business, Shin Corp, to the Singapore government's investment arm, Temasek Holdings. Shin Corp's main business is telecommunications. It dominates the Thai market for mobile telephone access. Shortly after taking office in 2001, Thaksin's government reduced the maximum share of foreign participation in this industry to 25 per cent. Because of this restriction on foreign competition and special government concessions granted to Shin Corp, giving it sizeable cost advantages over its domestic rivals, Shin Corp has been massively profitable. During Thaksin's period in government Shin's stock market valuation rose far more rapidly than the stock market average.

Last month the government officially raised the legal limit on foreign ownership in telecommunications to 49 per cent. One working day later, Thaksin's son and daughter, the legal owners of 49.6 per cent of Shin Corp, concluded the sale of all their Shin shares to Temasek for 73 billion baht (\$A2.5 billion). The deal had been under negotiation for several weeks. Moreover, because the sale was conducted through the Stock Exchange of Thailand, the enormous capital gain reaped by the Shinawatra family was entirely tax free.

The conflict of interest seemingly demonstrated by these events produced public outrage, at least in Bangkok. Thaksin's critics demanded his resignation. Thaksin replied that his family's actions were entirely 'within the law'. But the critics' point was that the law had been manipulated for their private advantage. The call for fresh elections pre-empted a planned parliamentary debate on the issues involved in the Shin sale.

Thaksin announced the election in a five minute television address on Friday, 24 February, saying, 'If you are sick of me, send me home. But if you want to continue using me, vote for me and I will work for you'. Many Thais have wondered aloud whom Thaksin really has been serving. When he took office, Thailand was already one of the most unequal countries in the world and during his five years in government the gap between rich and poor Thais has widened considerably. And Thailand's overall economic performance has been nothing startling.

Although Thailand has recovered from the financial crisis of 1997–98, its current rate of growth of just under 5 per cent is below both the current average for Southeast Asia and Thailand's own long-term rate of growth. During the three decades preceding 1987 growth averaged 6 per cent. During the decade 1987 to 1996 the Thai economy boomed at almost 10 per cent, making it the fastest growing in the world. The 1997–98 crisis was the collapse of that boom.

Thaksin took office in 2001 promising a return to the heady growth rates of the pre-crisis boom decade. It has not happened. He promised reduced reliance on exports and more reliance on domestic sources of demand. Instead, the share of exports in GDP has risen steadily during his watch, to well over 60 per cent. He also promised to 'eradicate' poverty. His solutions have consisted mainly of temporary handouts which ignore the underlying causes of Thailand's enduring rural poverty.

Most importantly, Thaksin accused his predecessors of 'selling off the country to foreigners' by permitting sales of Thai firms bankrupted by the financial crisis and vowed to end this practice. In view of this, his family's government-assisted sale of the country's largest telecommunications firm to a foreign entity has infuriated his opponents.

If the forthcoming election were to be held solely in Bangkok, Thaksin would seemingly have little chance. But it is not. The paradox is that rural electors have so far been largely unmoved by allegations of conflict of interest, or by the reports of widespread corruption within Thaksin's government. These matters are considered 'normal'. Far more important are measures like the raising of the minimum wage and a promised minimum 200 baht daily income for rural workers announced just before the calling of the election.

Rural voters admire Thaksin's undoubted energy and self-confidence. Rightly or not, they see him as a benefactor. Herein lies Thaksin's greatest political achievement. Drawing on his business background, he used established marketing principles to sell his political party to the rural electorate. The methods included not only overt vote-

buying, for which Thai elections are notorious, but also professional market research used to adjust the leader's message to suit particular segments of the electorate, especially in rural areas.

In these respects, Thaksin's party left his rivals far behind. And the opposition was no better prepared for the present campaign than it was for the last. In boycotting this election, the opposition is rejecting a contest it seemingly could not have won. Thai Rak Thai reportedly began its electioneering some days before the election was announced. Thaksin's domination of Thailand's mass media is a further electoral asset. This domination includes radio and television, where the only non-government owned television station is owned by Shin Corp, inhibiting the opposition's capacity to reach rural electors with their anti-Thaksin message.

In calling the election, Thaksin allowed himself to be the central issue. In this, at least, the opposition agrees. But the real issue for Thailand is not the political future of Thaksin himself, but the absence of effective constitutional checks and balances that might restrain the abuses of which Thaksin is accused. This problem would remain even if Thaksin did resign, as demanded. Assuming the election proceeds and Thaksin's government is re-elected, the current political crisis will not be resolved. The opposition will continue to insist that Thaksin is unfit to govern and that his re-election is illegitimate. But Thaksin will be able to say, with some justification, that the people have decided the matter and not just vociferous Bangkok-based demonstrators.

16 June 2006

New Mandala²

ANDREW WALKER

Some thoughts on the political crisis in Thailand

There is no better place to start than the strange state of Thai politics and the elitist perspectives of the so-called democracy movement in Bangkok. Let me say at the outset that in the current stand-off I am a supporter of the Thai Rak Thai (Thaksin) government. Why? I don't agree with all aspect of Thaksin's economic development policy, though I consider much of the critique of his so-called populist policies to be misplaced. And I certainly do not wish to endorse his government's flagrant abuses of human rights both in the South and in the notorious war on drugs. Nor am I, like many others, comfortable with Thaksin's apparent manipulation of key democratic institutions. But, my support is motivated by the belief that the fundamental democratic institution is the ballot box. I cannot walk away from the fact that Thaksin's government is popularly elected (three times now) and has held some of the most stunning electoral mandates in Thai history. The opposition parties' boycott of the recent election reflects both their recognition that Thaksin would handsomely win a sensibly contested election and, more fundamentally, the shallowness of democratic traditions in Thailand.

I am increasingly surprised, even bewildered, by the failure of Thaksin's Bangkok based critics to accept the legitimacy of his electoral mandates. There are, of course, legitimate concerns about the conduct of the rather bizarre April election. But the issues run much deeper than this. I often get a strong sense in the presentations and writing of these democracy advocates that all democratic institutions are sacred except the ballot box. Many of Thailand's pro-democracy commentators seem to be promoting a form of democracy-lite in which democracy is embodied in bureaucratic institutions based in Bangkok. Popular election by all Thai people is an inconvenient add-on that hampers the potential for benign leadership from Bangkok, whether it be in its bureaucratic, Royal, military or even academic form.

The issue of why democratic election in this pro-democracy discourse is given such little weight is worth considering. The convenient catch phrase is, of course, vote buying. Thaksin's electoral victories are considered to be illegitimate as a result of rampant vote buying. Of course Thai Rak Thai, and other parties, have been involved in the distribution of funds prior to elections. I myself was a beneficiary of Thaksin's munificence before the 2005 election, receiving 100 baht, a Thai Rak Thai jacket and a first aid kit at a meeting I attended with villagers in rural Chiang Mai province. Similar amounts were also distributed at other party meetings in the electorate where I work. Rural people gladly accept these payments—who wouldn't—but they are fully aware that there is no way tracing direct links between payments and votes. The ballot is secret (though there were concerns about the positioning of voting booths in the most recent election), ballot boxes are scrupulously sealed and votes are now counted at electorate level. It is impossible to determine the voting patterns in individual villages. Quite simply rural people accept payments from everyone and vote for whoever they wish. This is a complex sociological issue, but my feeling is that these payments should be seen as a demonstration of the ability of candidates to direct resources to the villages within their electorate. This is what rural people quite properly expect of their parliamentary representatives and distribution of funds prior to an election is a widely accepted way of demonstrating this willingness and capability.

An extension of this sort of argument is that the Thaksin's economic development schemes, in particular the one million baht fund, have contributed to the political corruption of villagers. Well, if the acceptance of credit is equivalent to corruption then I plead guilty. The reality is that the jury is still out on the economic impacts of the million baht scheme and other local economic development initiatives. In my experience the million baht scheme has provided some much sought after locally managed credit (at much lower rates than informal money lenders) and this has contributed to agricultural and other enterprises. Of course, there are negative side effects, in terms of local social conflict about the management of such funds and some increase in overall debt levels (though this increase is relatively

trivial by comparison to debt from other sources). My point is that it is a patronising elite perspective that condemns the provision of rural credit as a form of political corruption while Bangkok itself is awash with credit and debt in diverse forms.

Finally, one of the arguments against the legitimacy of Thaksin's electoral victories seems to be that rural people are not in a position to make appropriate judgments about the alleged corruption of Thaksin and his government. This strikes me as an extraordinary claim given that discussions about the appropriateness or inappropriateness of obtaining personal gain from public office appear to be ubiquitous in rural society. This is a key issue on which chairpersons of village women's groups, headmen, tambon officials, public servants and bankers are judged. I see no reason why similar judgments cannot be made about the prime minister and his government especially given the popularity of the 'corruption' discourse in rural Thailand.

Election boycotts, calls for Royal intervention in the form of a whisper or a shout, sly flirting with the military or even the casting of potent spells by having women place Thaksin's photo beneath their genitals have no role to play in a modern democracy. Elections are not everything, but the tendency of the so-called pro-democracy movement to dismiss rural voters as gullible, easily bought and incapable of rational political decision-making reflects the shallowness of democratic sentiment among many of Thailand's current opinion leaders.

Notes

- 1 First published as 'Why poor rural masses still support rich pledge-breaker', *The Australian*, 6 March 2006.
- 2 New Mandala: New Perspectives on Mainland Southeast Asia Weblog.
(<http://rspas.anu.edu.au/rmap/newmandala/>)

Defence

16 December 2005

The Australian

PAUL DIBB

Radical new defence policy or Hill's smoke and mirrors?¹

As I sat behind the Prime Minister, Minister for Defence and Chief of the Defence Force at yesterday's launch of Defence Update 2005 at Victoria Barracks in Sydney, I couldn't help reflecting on how extraordinarily supportive of defence policy the Howard Government has been. As he spoke, John Howard acknowledged that his Government's updated defence policy was not without costs. But he went on to commit his government to increasing amounts of money to Defence in future.

So, what's new in this latest announcement by Senator Hill? Defence Update 2005 is certainly a great improvement on its predecessor in 2003. This new statement of Australia's defence circumstances is the most comprehensive we've seen since the 2000 Defence White Paper. It provides a detailed description of Australia's strategic environment and our current defence activities around the world. Unlike its predecessor, it has a chapter on military capability and resources.

But it is not so impressive as a strategic policy document: it does not link in any convincing way strategic guidance to force structure

priorities and money. Instead, it reads like a defence information document that has large elements of foreign policy in it. Of course, our military deployments overseas are made in support of foreign policy objectives. But in its focus on impressing upon us how ‘unpredictable and uncertain’ the strategic environment now is, it fails to articulate how we must also build the defence force to be relevant 20 or 30 years from now.

Now, there can be no doubt that we face some urgent and potentially dangerous threats from terrorism, weapons of mass destruction, and the risk of failed states in our neighbourhood. But that isn’t the only picture. To be fair, there is reference to the fact that military capabilities in the Asia-Pacific region are growing and our margin of technological advantage is being eroded. There are also some careful words about the emergence of China, its increasing competition with the US for strategic influence, and an entirely inadequate mention of the current tensions between China and Japan.

There is reference to the role of our military in making an important contribution to Australia’s ‘weight’ in international affairs and to the options it provides for a credible response ‘wherever Australia’s security interests are engaged’. These are nice statements but they provide no real strategic guidance for force structure priorities.

The document does say that providing the capability to defend Australia and Australian interests is the first responsibility of government. And John Howard stated quite clearly in that regard that this latest strategic update is ‘not a major departure from the 2000 White Paper’. He went on to talk about the government’s responsibilities first of all for the defence of Australia, its special responsibilities with regard to the region, and then its role in supporting coalition operations. But it is only at the end of the Strategic Update that Senator Hill acknowledges that Defence remains the primary instrument of the Australian Government ‘in building warfighting capacity to respond to possible future threats’.

There can be no doubt that the role of the Army has grown in importance: Howard said that the new document recognises ‘more sharply’ the need for additional firepower for Army. Of course, Army has been

hard-worked supporting distant coalition operations in recent years. One can readily support the proposal for 1500 additional troop numbers. And training 2800 Army Reserves at high readiness to support the army's front-line deployable units is an excellent idea. The idea of networking the army too is overdue.

I welcome the fact that the additional costs involved will not be at the expense of Navy or Air Force. Hill acknowledged that acquiring the Joint Strike Fighter would put us ahead of anything else in the region in terms of air combat capability. That is crucial for our long-term defence planning.

That is the good news. The bad news is that a careful reading of the document suggests that increasingly the role of our Navy is merely seen as protecting the Army when it deploys in its new amphibious ships. Indeed, there is a complete lack of strategic articulation as to just why we want to acquire the largest amphibious ships in the region. As Defence itself acknowledges, the rest of the Australian Defence Force will need to provide a protective bubble of air warfare destroyers, Collins submarines, airborne early warning aircraft and Joint Strike Fighters to protect an amphibious force of scarcely 2000 troops.

If we are not careful this will produce a one-shot ADF that will leave nothing left over once we have protected such a small and vulnerable force. Where are we going to use this capability? Army admits that it will not be able to mount an opposed landing against a capable enemy. So, just what is its purpose?

As the Strategic Update document itself acknowledges, the decisions that underpin the development of the ADF's force structure 'will always be tempered by the realities of Australia's size and resource constraints and will take into account Australia's responsibilities in its immediate region'.

Until we see the revised Defence Capability Plan sometime early next year it will not be possible to ascertain what gaps have been mended, or left out, as a result of the Defence Update's preoccupation with the current strategic environment. In my view, we have been unwise to run

down anti-submarine warfare capabilities and mine sweeping readiness. And the Army needs to fix up serious gaps in its ground-based air defence capability. As our margin of technological advantage in the region is eroded, we should examine the need for additional strike capability—including Tomahawk land-attack missiles for the new air warfare destroyers and the Collins class submarines.

One final thing, the update acknowledges there are growing cost pressures on the Defence budget. Sustained operations are depreciating military equipment more quickly than planned reducing its life and increasing maintenance costs. Concurrency of operations is putting strains on logistics. And the rising cost of ‘state-of-the-art’ military equipment, as well as rising personnel and operating costs, are putting extra pressure on the budget. And on top of all that there is a serious question as to how Army is going to recruit extra numbers in the current tight labour market in Australia.

24 January 2006

The Age

HUGH WHITE

New Defence Minister²

Ambitious ministers should stay away from the phone over the next couple of days, just in case John Howard calls to offer them the Defence portfolio. If history is any guide, Minister of Defence is not a job you would want, if you have eyes on a bright future in politics. The precedents are very discouraging.

There have been 14 defence ministers over the past thirty five years. For all but one of them, it was the last ministerial job they ever held.

From Gorton, Fairbairn and Barnard in the early 1970s to each of Howard's four Defence Ministers—McLachlan, Moore, Reith and now Robert Hill—the Defence portfolio has been a dead end from which ministerial careers have never recovered.

The sole exception, of course, is Kim Beazley. But he came to the portfolio with something more than ambition: for Beazley, Australia's defence is a lifelong vocation. Such people are rare in Australian politics, and John Howard has no one like that to choose from.

But someone has to do the job. So Howard, and whoever it is that finally gets that call, might spend a little time thinking about what the new Defence Minister should do to avoid the fate of Robert Hill and 12 of his 13 predecessors.

The problem with Defence is that very few Ministers have looked to be in control of the sprawling, profligate, complex and highly tribal defence organisation. Compare it with other portfolios. There is no doubt that the Treasurer runs the Treasury, and the Foreign Minister runs Foreign Affairs. But who runs Defence? No one really knows—but certainly not the Minister.

Of course Defence is not like other portfolios. It is too big for the Minister to take detailed control. Instead he—or she—must do what so many others before have failed to do, and find a way to take control of the strategic direction of Defence—in both senses of the word.

That means, first, working out what really requires the Minister's attention and what does not. The new Minister might expect that their most important and demanding role will be to manage the current deployments of troops on operations in Iraq and Afghanistan. Well, not really. Once the decision to deploy is made—and that's made by Cabinet, not by the Minister—there is not much for him to do in the day-to-day management of operations, in which Australia is after all only a junior partner. He can and should leave that to the experts on the ground.

Instead he should focus on the really big, serious issues for which he is primarily responsible: the long-term development of Australia's armed forces. That means focusing on two big questions: are we building the right

kinds of forces? And are we getting as much capability as possible for each dollar we spend?

These are the questions on which the new Minister of Defence will need to exercise real leadership of his new organisation. They are questions which have not been given due ministerial attention in recent years. Nor does the Defence Headquarters on Russell Hill have easy answers for him to sign off. These are issues on which he will need personally to drive his new portfolio.

He can do that in two simple, but not easy, steps. First, he needs to write a new Defence White Paper. It is five years since the last one, and over that time our strategic needs have drifted out of line with our capability plans and funding projections. Frankly, Senator Hill has left the basis of our strategic policy and the rationale for our force planning rather confused. We are in danger of buying things we do not need and cannot afford like aircraft-carrier size ships, and of not spending enough on vital future capabilities like new fighter aircraft and extra infantry battalions. So there are now some tough choices to be made, and the new Minister will have to make them.

Second, the new Minister needs to revive the efforts of his Liberal predecessors, John Moore and Ian McLachlan, to drive Defence to do business more efficiently. Since Defence was promised a decade of swelling budgets in 2000, the momentum for efficiency reforms has drained away. It needs to be brought back, not just as a matter of fiscal prudence, but of strategic necessity. To provide Australia with the security it needs over coming decades, we need to squeeze the absolute maximum of effective capability from every dollar we spend. And we need a Minister who will drive his Department to do that. If he succeeds, he—or she—might even have a future.

26 January 2006

The Australian

PAUL DIBB

What the new Defence Minister should do, and not do³

History will not be kind to Robert Hill. His one attempt at legacy was the silly notion of pre-emptive strikes, which has sunk without a trace. What are the pitfalls for his successor, Brendan Nelson?

Let's compare Hill with his Liberal predecessors. Ian McLachlan imposed a far-reaching efficiency review on Defence in 1996. John Moore steered the seminal Defence White Paper through Cabinet in 2000. And Peter Reith introduced important changes in personnel, reserves and defence industry policy.

What has Robert Hill done? From the outset he gave the impression of not owning Howard's Defence White Paper, perhaps because he was not involved in the lengthy Cabinet deliberations at the time. Instead, he sought on a number of occasions to reverse the White Paper's priorities, which are: the defence of Australia, our regional commitments, and coalition operations with the US. John Howard repeated these priorities at the launch of Hill's Defence Update 2005 last month. But the defence of Australia never really seemed to matter much to Hill, unlike Howard.

Hill often acted like a frustrated Foreign Minister, and he treated the Defence portfolio accordingly. His priorities were not force structure but what he saw as the immediate priorities of terrorism, weapons of mass destruction and failed states. These are all undoubtedly important national security threats. But Defence does not play the leading, as distinct from a supporting, role in any of them.

Hill's Defence Update 2005 is replete with foreign policy roles for the Australian Defence Force but is largely silent about the details of building our conventional war fighting capabilities. It makes curious assertions like Australia has 'vital interests' in the Middle East. The fact is

that we do not have the military weight to make a serious contribution in that part of the world. Even so, Hill apparently wanted Cabinet to accept that the Middle East is Australia's most important strategic priority, but that—sensibly—was rejected.

Hill's decision to let Army have Abrams tanks opened the way for unrealistic ideas about having a heavier expeditionary force.

Hill was correct to press for a slightly larger Army but he allowed them to inveigle him into the so-called hardened army, when our priority should be more light infantry.

Now, Army demands that Navy acquire the largest amphibious ships in the entire Asian region (bigger than anything China, India or Japan has), and which will require that Navy and Air Force give priority to protecting them. To proceed down this path will leave our naval and air combat forces with little other independent strategic role.

While building up Army, Hill has gambled with cutting out our F-111 strike force 10 years early, paying off two of only six FFG-7 frigates, mothballing two brand new mine countermeasures ships, and running down our antisubmarine warfare capabilities. Those are highly risky decisions.

In his management of Defence, Robert Hill sidelined the role of the Secretary in policy formulation by in effect making him the chief accountant. As he reportedly said when Ric Smith was appointed Secretary, 'You look after the accounts and I'll look after the strategy'.

The Australian National Audit Office has qualified Defence's financial accounts for each year that Hill has been Defence Minister. That is unprecedented. There is now over \$4 billion in discrepancies that cannot be verified, including \$1.2 billion of ADF leave entitlements. Defence's logistics and warehousing are a shambles. The fact is Hill did not demand any major review of defence financial accountability in his four years in office.

So, what should be the priorities of Brendan Nelson, our new Defence Minister? First, he needs to reassert firm ministerial control over military bids for new equipment and not have the wool pulled over his eyes. Second, he needs to reconnect in a rigorous way strategic policy with

force structure priorities and available dollars. He must not let us become a one-shot ADF that can defend just two amphibious ships.

Third, he must insist on something that Senator Hill did not deliver—a fully costed defence capability plan that is agreed by each of the three Services. And there should be no free rides, such as the tanks.

Fourth, he needs to institute an independent inquiry into Defence's financial accountability and poor performance. That should include the scope for major efficiency and cost savings in the \$18 billion defence budget. The logistics bureaucracy and the Defence Materiel Organisation should be included. There are huge savings to be made by outsourcing logistics and introducing automated systems that actually work. And the DMO needs to demonstrate why it still employs almost 2000 military personnel, enough for a couple of new light infantry battalions.

Brendan Nelson's experience in combating an entrenched tertiary education sector and making it more accountable should serve him well in Defence. But he should not get bogged down in the detail. Defence's problems are primarily lack of strategic direction. He could do worse than to start with a systematic review of defence policy, as he did with his higher education review.

9 June 2006

Sydney Morning Herald

ROBERT AYSON

Four dilemmas solved might avoid a defence apocalypse⁴

Australia's forces weren't given much time before questions were asked about their ability to restore order in Dili. Bringing calm to East Timor has

been harder than some expected. But a much bigger challenge lies ahead: the transition to a stable political environment supported by a prosperous economy.

The Australian Government has confirmed its status as East Timor's number one protector. Canberra should wear this crown uneasily. It was easy for Australians and their leaders to feel that something had to be done about events in Dili. But the Government has limited ability to shape the political and social dynamics associated with the violence. This is not the only place whose domestic challenges are difficult to address by external powers such as Australia. Think Solomon Islands, think Papua New Guinea, and think Afghanistan and Iraq.

Life for Australia's policymakers might be bearable if this was their only problem. But in recent years we have seen a widening mismatch between policy aims and the shape of the Australian Defence Force, *ad hoc* force structure decisions, limited political interest in fundamental defence policy questions and a bureaucracy with limited capacity to manage these problems. And standing in the way of clear strategy and priorities are four defence dilemmas.

The first is financial. This seems an unusual point to make in an era of record surpluses and extra money promised for defence until 2016. But today's easy funding discourages priority setting. An expanding equipment wish list alongside increasing operational and personnel costs may not seem insurmountable today. But defence is heading for a financial train-wreck if hard choices are avoided.

Defence resembles an overweight child whose parents can buy today's PlayStation and fast food, but who'll be unable to pay for tomorrow's Ferrari and penthouse apartment. Defence spending is too much for the present and too little for the future.

Generous funding rests on a consensus that Australia needs a strong defence force. This sentiment is underpinned by Australia's proximity to regional hotspots, its history of experiencing direct attack, and its medium power aspirations. Australian planners are protected from

the awkward first-order question their New Zealand counterparts have had to face: do we need a defence force at all? But this luxury is a double-edged sword. Asking such a question focuses the mind on truly essential defence priorities. The second dilemma is that Australian planners should be asking such questions but they don't really have to.

The third dilemma is about Australia's relationships. For now Canberra seems able to walk and chew gum. It has strong security relations with its US alliance partner. And it has a burgeoning economic relationship with a re-emerging China. Australia's alliance commitments in Afghanistan and Iraq fall outside of the Asia-Pacific where the main competition between the US and China occurs.

But this conjunction generates its own problems. The Howard Government's loyalty, especially in Iraq, may encourage Washington to believe its Australian ally will always be there in any future crisis. This makes it harder for Australia to communicate qualifications to that support should that crisis occur in North Asia. And the worsening of China-Japan relations increases the chance that Canberra may have to make that awful choice between Washington and Beijing.

Australia's Middle East commitments may also be encouraging defence purchases less than optimal for our immediate region. The Abrams tanks, large amphibious landing craft and C-17 heavy lift aircraft may come to resemble non-essential equipment for non-essential wars. Not that Australia needs to choose between global and regional commitments. But the order of the logic matters. Capabilities identified with regional contingencies in mind can then be made available for chosen missions further afield. The reverse does not necessarily apply.

This mismatch between interests and capabilities reflects a fourth dilemma. Australia has a vested interest in the war on terrorism. Its major ally (the US) and its largest neighbour (Indonesia) have crucial roles. What the Pentagon now calls the 'long war' has been good for defence funding. While the Australian Defence Force has some role in this game, we should not overstate its suitability for the overall campaign. Any strategy which ties

defence investment strongly to the war on terrorism is likely to become an empty one. This long war's nasty aftertaste is just one of the major defence dilemmas which demand the attention of Australia's strategic policymakers.

29 August 2006

The Age

HUGH WHITE

Two new battalions⁵

John Howard loves the Army, and it shows. When he became Prime Minister the Army had four infantry battalions. It got two more in 1999, and now Howard is giving it another two over the next few years. But in the process he has done much more than restore the battalions the Army lost in the years after Vietnam. He has also restored a clear sense of the Army's mission, after thirty years of confusion and uncertainty.

Howard has transformed the Army into an instrument of his policy of active engagement in Australia's immediate neighbourhood. Last week's announcements that the Army will grow by two light infantry battalions, and that the Australian Federal Police's overseas deployment group will also grow significantly, consolidate a process that he began years ago.

As they responded to a series of neighbourhood crises in the later 1990s, culminating in the deployment of INTERFET to East Timor in 1999, Howard and his colleagues redefined the role of the Army. They moved away from the idea of a force designed primarily to counter small raids on Australian territory, and instead started focusing on building a force to operate independently in Australia's immediate region, to help stabilise our small, weak neighbours.

This new approach was enshrined in the 2000 Defence White Paper, which said the Army's main task was to operate in our immediate neighbourhood, and set demanding benchmarks for what they should be able to do there.

But before Army could properly absorb this clear new direction, September 11 intervened. Many in Army, supported by the previous Defence Minister, Robert Hill, saw 9/11 as changing everything, and they began to argue that helping the US in the Middle East was now the Army's main task for coming decades. To prepare for more operations like the invasion of Iraq, Army focused on building heavier forces, and buying the Abrams tanks.

That was wrong in two ways. First, it assumed that there would be more invasions like Iraq. Second, it missed the fact that despite 9/11 Australia still faced major security issues closer to home, in places like Solomon Islands, East Timor and PNG. For them we needed not bigger tanks but more troops.

This misreading of Australia's post-9/11 priorities deepened the confusion about Army's real job. This confusion went back to the 1970s and 1980s, when Australia abandoned Army's forward defence role and focused instead on the defence of the continent. But with the Navy and Air Force guarding our maritime approaches from major threats, there seemed little serious left for Army to do—which Army, understandably, resented.

For a while, supporting America in the War on Terror looked like a way for Army to get back to Forward Defence, but this never made strategic sense. Of course Australia has important interests in the Middle East, and we will need to keep forces there for a long time to come. But our biggest responsibilities—the ones we have no choice about, and the ones we must take the lead in—are in our own backyard.

Howard, though willing to indulge his favourite service on things like tanks, has always understood the priority that Australian policy must give to our own backyard. The crises of the last few months in Solomon Islands and East Timor will have reminded him of how big our local

commitments and liabilities are. And in this, as in so many things, his instincts align with the voters'. I would not be at all surprised if the Government's private polling shows significant voter concern that the Army is overstretched, and that we need more troops to deal with issues on our doorstep. That would have helped drive last week's decisions.

Now, with those decisions, the Government has affirmed the direction of the 2000 White Paper, and given Army a clear, strategically coherent, publicly supportable role. Its main job is to undertake independent operations designed to uphold Australia's interest in the stability of our immediate neighbourhood. That is a huge step forward.

But it is not the end of the problems. Army obviously expects to face big challenges building the new battalions, because it has given itself four years to raise the first one. It cannot blame demographics. Australia has 2 million young men between the ages of 18 and 25, and it only needs to find another 2600. Better recruiting is needed to get more of them to sign up, but so are much deeper reforms to the way the ADF manages and treats its people. The government will have to push hard on this.

Money might also be a problem: the government's bulging coffers have made generous defence funding easy in recent years, but if, or when, the budget tightens some tough choices will need to be made. There is a real risk that we won't be able to afford all the things the Government has signed up to over the past few years. Sadly, Army will be in the front line for any cuts, because it is usually easier to cut the Army numbers back than to break big contracts for ships or aircraft—or tanks. So it will take real commitment from Government to stick by the new battalions if times get tough.

Lastly, we need to remember that whatever happens, neither the Army nor the police will provide an answer to our neighbours' problems. Regular regional security crises are only symptoms of much deeper problems—political, institutional economic and social—and we need to find ways to address these problems at the same time as we build our forces to help deal with their symptoms. That remains a real challenge for John Howard.

Notes

- 1 An edited version was first published in *The Australian*, 16 December 2005.
- 2 First published as 'Defence: a tough mission in the graveyard of political ambition', *The Age*, 24 January 2006.
- 3 First published as 'Nelson, avoid the Hill road,' *The Australian*, 26 January 2006.
- 4 First published in *Sydney Morning Herald*, 9 June 2006.
- 5 First published as 'At last the army's getting what it needs most: more troops', in *The Age*, 29 August 2006.

Economics

February 2006

APEC Economies Newsletter

ARIEF RAMAYANDI

Strategies for East Asia growth and openness

Outward-oriented growth strategies have been widely deemed to be one of the important factors behind the remarkable economic performance in East Asia. As barriers to trade are removed, openness enhances economic efficiency by bringing competition, creating employment, and facilitating the flow of technical knowledge. Moving towards greater openness has enabled the East Asian group of countries to achieve rapid acceleration in economic growth. The Asian financial crisis that hindered the process of rapid economic growth in the region during 1997–98 now appears as only a temporary deviation, as the levels of per capita income in most of the crisis-stricken countries have returned to their pre-crisis levels relatively quickly. This article summarises the outcome of the conference Strategies for East Asia Growth and Openness, Bogor held in August 2005 as part of the ongoing Australian National University research project on East Asian economic integration.

The importance of the role of outward-oriented strategies in promoting sound economic performance has long been recognised in

economic theory. According to conventional wisdom, the multilateral approach to trade liberalisation is considered the 'first best' solution for attaining the greatest potential benefits for global economic growth in a more open world economy. In practice, however, the road to multilateral trade liberalisation appears to be a difficult one. Instead, what is often observed is the pursuit of regional integration through the creation of preferential trade agreements (PTAs) and economic partnership agreements. Although it is often seen as a potential stepping stone for moving toward the first best solution by promoting trade, a regional integration process can also create trade diversion. Therefore, in order to make regional integration an effective vehicle toward achieving a more open world economy, it should ideally be directed to advancing more trade creation while at the same time minimising trade diversion.

In theory, two propositions underlie the revealed preference for PTAs. Economic integration is perceived to be good for promoting growth, and PTAs are seen as an effective way to promote economic integration. In the case of East Asian economic integration, empirical examination shows that the likely welfare gain from the currently followed scheme would be miniscule compared to the gains if the region pursues a comprehensive unilateral regulatory reform program. PTAs tend to be selective in two important ways that tend to constrain their capacity to remove main impediments to growth. They tend to be preferential and target only the provisions that explicitly discriminate against foreigners, and they don't normally target provisions that prevent more efficient market operations that apply to the entire market structure. Hence they can only add trivially to the welfare gains of the countries involved.

The above finding raises questions on the effectiveness of PTAs to usefully supplement domestic regulatory reform programs in order to gain heavily in welfare. There are also issues on the potential of PTAs to be used as a means for penetrating developing markets. The problem is also made more complicated by the rules of origin that tend to be scattered and inconsistent with one another. To this end, East Asia needs to think about where exactly

they want to go with their process of integration. It will be necessary to rework the vehicles through which regionalism is implemented, such as APEC, ASEAN etc. to focus more on the above-mentioned concerns. Further, greater harmonisation in regulatory reforms in East Asia is needed.

Together with foreign trade activities, foreign direct investment (FDI) has been contributing significantly to the economic growth in the region. As evidence suggests that the two are closely related, FDI is also viewed as delivering additional benefits for the recipient economy by enhancing productivity. Therefore, the need to remove obstacles to foreign trade and FDI in order to promote growth in the economies of the region remains important.

To get the most out of FDI, it has to be coupled with the right environment within the recipient economy. A stable and favourable macroeconomic environment, supporting institutions for private sector activities, labour and infrastructure availability are among the key enabling factors. Particularly on infrastructure provision, massive physical and financial challenges continue to require effective planning and vision, especially given the changing trend of a more urbanised, decentralised and privatised environment commonly faced by the region. Macroeconomic stability that is conducive to creating a supportive regulatory regime for infrastructure development is a key factor to guaranteeing sustainability in infrastructure development. It should also be accompanied by sustainability in terms of financing. Given that urgency, a model of optimal balance between government and private financing for infrastructure needs to be developed.

Under a more open economic environment, the current global imbalances pose another potential threat for ongoing development in the region. This situation is mainly of concern due to the high level of current account deficit in the United States. Whether or not this deficit is sustainable is a puzzle. In the search for answers on this question, the Australian experience of maintaining sizeable current account deficits for many years without obvious harmful effects can be used as a comparison. It suggests that the US current account deficit may also be sustained in the years ahead. Although the two economies differ in size, the argument carries

weight because the asset composition of the wealth portfolio that the average non-US citizen holds in the US asset position would not need to change by too much even with big US current account deficits over the next decade. Furthermore, the risk premium on US assets might also remain quite stable.

The most serious risk with the US economy, however, comes from continued large fiscal deficits rather than the current account deficits on their own. These can force a rise in the risk premium and may further endanger the sustainability of US current account deficits. To reduce the risk of this global imbalance, the United States needs to change its attitude towards fiscal deficits, and trans-national cooperation may be necessary to avoid the worst outcome.

Lastly, as the Asian financial crisis has highlighted, it is urgent for regional economies to have a sound macroeconomic policy framework for ensuring growth sustainability. Responsible fiscal management should be one of the priorities. Proper institutional reforms that reduce debt to prudent levels and precautionary management of fiscal risks will help in delivering a strong fiscal position. The mechanisms behind those processes also need to be refreshed continually to retain their effectiveness.

12 April 2006

The Australian

RICHARD MULGAN

Asking the wrong questions¹

With the appearances of Ministers Downer and Vaile before the Cole Commission, the core issues surrounding government policy over AWB are

gradually coming to the surface. Until now, parliamentary and media questions put to ministers about the AWB affair have focused on the personal responsibility of ministers and officials. Did they know about the kick-backs, and if so, when? The Opposition has been desperate to claim a ministerial scalp by discovering a smoking gun. On the government side, ministers have assumed that, if they can plausibly deny personal knowledge and avoid any charge of deliberate dishonesty, they will be safely off the hook. Confident that the paper trail contains no personally incriminating evidence, they have appeared invulnerable.

But what about the failure of overall government policy, regardless of who personally carried it out? In our system of government, the conventions of ministerial responsibility are concerned much more with collective or corporate responsibility than with personal responsibility. Ministers, as the elected politicians placed in charge of large government departments, are obliged to answer for the actions of their departments as a whole, not just for their own personal actions. This obligation requires them to provide information about departmental decisions, to explain and justify government policy in their area and, where mistakes occur, to make sure that adequate remedies are imposed. Only in the exceptional cases where they are found to have been personally culpable for a major impropriety, such as deliberately misleading Parliament, does the question of resignation properly arise. For the most part, the day-to-day exercise of ministerial responsibility involves ministers in explaining decisions in their portfolios and taking remedial action.

In the AWB affair, the fundamental question, largely ignored, is what was government policy towards the UN oil-for-food program? Two possibilities suggest themselves. One is that the Australian government, as a good international citizen, sceptical of Saddam Hussein's intentions, wished to maintain the integrity of the UN program. Australian companies were to be prevented from breaching the program's provisions. In this case, government policy failed spectacularly. Government officials failed to pursue the many hints of AWB's involvement in kickbacks. DFAT and the

intelligence agencies did not connect the dots. We would expect ministers to admit that government policy towards the UN oil-for-food program had failed, to explain why this policy had gone wrong, to reprimand those officials found to have been at fault, and to remedy bureaucratic systems for the future.

However, no minister has so far taken this line. The second, and more likely possibility, is therefore that government policy was to encourage AWB sales of wheat to Iraq, to overlook any hints of wrongdoing by AWB, while going through the motions of checking compliance with UN requirements. If AWB were caught in any breach, government records would show that the UN's procedures had been followed and that there was no written evidence of any government knowledge of the breach. If that were the policy, it succeeded over many years, with much profit to AWB and to Australian wheat farmers. DFAT officials, far from being incompetent, carried out government policy with consummate professionalism. That AWB and the government were eventually unmasked was due to unexpected factors: the tenacity of the Volcker inquiry in the United States and the limitations of the Australian government's credit in Washington, especially in agricultural trade matters.

A policy of deliberate negligence was a high risk strategy that dare not speak its name. But, so far, no minister has been forced to articulate what government policy actually was or to admit where it went wrong and why. All interest has switched to the smoking gun. The assumption seems to be that, if no smoking gun is discovered, and therefore no individual is found to have been personally at fault, nothing has gone wrong. But even if it is unclear who pulled the trigger, the murder itself is undeniable. Ministers must admit that the policy (whichever version they choose to own up to) failed. The collective failure, and the consequent damage to Australia's international reputation, is the elephant being overlooked in the AWB affair. Why are the relevant ministers, including the Prime Minister, not being pressed on what the government as a whole was trying to achieve in its 'supervision' of AWB contracts? Concentrating on personal fault

provides a diversion from the core function of ministerial responsibility: making ministers take collective responsibility for government policy.

9 August 2006

Fiji Times

SATISH CHAND

RBF formula will worsen poverty²

A panic-stricken Reserve Bank of Fiji could be slamming on the brakes too hard to slow down the drain on foreign reserves, catapulting many more into poverty in the process. The Bank has raised interest rates by 2 full-percentage points in the first six months of 2006; first by 100 basis points (that is 1 percentage point) in February and then again by a similar amount in June. While the official rate at 4.25 per cent (as of July 2006) was still lower than the 6 per cent in Australia, the cost of funds to business and mortgage rates in Fiji are a good two percentage points higher than those in Australia. Inflationary expectations and those for the rate of growth of income in Australia, moreover, are also higher than in Fiji.

The above raises questions on the motivations for the monetary and fiscal tightening championed by the RBF. Such tightening will create pains in terms of lower investments; and, raise the possibility of more bankruptcies and the likelihood of repossession of highly-leveraged family homes. Those at the margins of poverty are likely to suffer most, thus the actions of the RBF will increase poverty. There is a less painful way out of the current predicament, however.

The RBF is retracting rapidly from its expansionary monetary policy stance of 2001 when official interest rates dipped to a record low of 1.25

per cent in March 2002. The cranking up of interest rates began in May 2004 with a 50 basis points rise, followed by another 50 basis point rise in October 2005, with two more rises of a 100 basis points each in 2006. These increases in official interest rates, as intended, translated into similar increases in the cost of funds to the retail sector.

Increases of the magnitude experienced in Fiji would have led to massive collapses of business and repossessions of homes in Australia; I, for one, would have had a tough time servicing my own mortgage had interest rates jumped by a full two percentage points over the past six months.

RBF must be aware of the pains of rising interest rates but then why has it stuck to its guns and is now pressing the Government to reduce fiscal deficits and cut pay for public servants? The RBF prescription of a simultaneous tightening of monetary and fiscal policies runs the real risk of grinding the economy to a halt with those at the margins of poverty likely to be worst affected; some would struggle to put food on the table, for example.

The reason for the hasty increases in the official interest rates by the RBF has been to protect foreign reserves. Easy credit of the past led to what economists know as the problem of twin deficits; that is, fiscal and current account deficits go hand-in-hand. This is particularly pertinent in contemporary Fiji where private savings are at record lows while the public sector has been dis-saving given the budget deficits of past years.

The cumulative effect of the above is reflected in a current account deficit. Without capital inflows to offset the deficit on the current account, foreign reserves fall. Remittances have helped cushion the fall but were not enough to reverse the decline.

The RBF is raising the cost of credit in the hope of dampening import demand to improve the current account balance. The higher interest rates will reduce imports, but indiscriminately (despite RBF's direction on 'priority lending') between outlays on consumption and investment.

The higher cost of credit will also dampen exports. There is, however, a simpler means of protecting foreign reserves without penalising investments and exports. Devaluing the dollar will raise the price of imports

and exports; this will improve the current account provided that net exports are price-elastic. There have been some media speculation of an impending devaluation; a widespread belief of an imminent devaluation will precipitate one regardless of the intentions (and pronouncements) of the RBF. This makes it all the more urgent for the Bank to pre-empt such an eventuality. Given the pegged exchange rate regime, the RBF could devalue the dollar (say by 20 per cent) and pay the price in the form of a one-off inflation spike (say of 10 per cent).

The 'devaluation trick' has been used thrice since 1987; repeated use of this strategy will be at a cost to the confidence in the currency, an issue which the RBF no doubt is aware of. To have the desired supply-response, the devaluation would have to be undertaken in conjunction with supply-side reforms targeted at raising the growth of production.

On the last, the immediate resolution of the problems of secure and long-term access to land and concerted efforts at improving law and order in the country would be the minimum necessary.

Policymakers must wake up to the fact that no amount of tweaking with aggregate demand will bring about a rise in the rate of growth of income. That is, fiscal and monetary policies work for stabilising output but growth requires policies targeted at raising supply. House prices, for example, may be brought down by dampening demand through an interest rate hike but the same could be done by expanding the supply of land for construction of homes. Furthermore, effective policies require good diagnostics of the impediments to growth.

Good quality and timely data is a prerequisite for the above, but we remain deficient on each of the above. As an example, the RBF reported in its March 2004 Quarterly Review that Gross Domestic Product (GDP) grew by 5 per cent in 2003 but two years later revised this figure down to 1.2 per cent. Policies put in place in 2004, including the interest rate hikes then, were based on growth estimates that were wrong by a factor of 417 per cent!

Similarly, the March 2006 RBF Quarterly Review reports GDP-growth estimates for 2004 of 5.6 per cent. If the growth-revisions for 2003

are any guide, then the ratcheting up of interest rates in 2005 may have been based on another set of grossly inflated growth estimates. Wrong data is sufficient for wrong diagnosis and thus wrong policies; something that has to be rectified urgently.

The RBF has to date done an excellent job of protecting foreign reserves and maintaining low and stable inflation, but at what cost? The Bank, with the support of the Government, must rethink its monetary stance with the view to raising growth of income for poverty reduction.

30 September/1 October 2006

Weekend Australian

ROSS GARNAUT

Renew efforts on reform or regret lost chances later³

It is the last Saturday in September and Australian minds turn to things eternal like football. But while man cannot live by bread alone, there is no life without bread. Everyday life goes on.

The longest period of continuous economic growth in Australia began 15 years and three months ago. Our country's capacity to meet the material needs and wants of its people has expanded abundantly. The proportion of our people in employment has risen to new heights. Our households have been able to enjoy rapidly expanding payments from and services provided by government. Expenditure has increased on defence, on the stabilisation of communities in our neighbourhood and, for the elderly rich, there have been large reductions in taxation.

We have done so well partly because a long period of painful economic reform from the mid-1980s enabled us to produce more from

each unit of labour and capital that we put to work. Solid growth in incomes and employment encouraged support for high levels of immigration and expanded the amount of money that foreigners were willing to invest in or lend to Australia.

We have done so well because the authorities responsible for managing our national economic policy improved their skills in maintaining a steady expansion and our political leaders left them alone to do it.

The art of maintaining economic stability involves keeping total expenditure within the economy's productive capacity, so that there is no need to engineer the large corrections in expenditure that restore balance but precipitate recession. Inflation targeting through the timely adjustment of interest rates by an independent Reserve Bank of Australia—mostly, although not recently, supported by cautious fiscal policies in Canberra and in the states—have provided the basis for stability for a long period.

Since macro-economic policy is the art of holding expenditure within the limits of the economy's income-generating capacity, it is helped by anything that makes it easier to constrain expenditure, expand production or increase the value of that production. The 1990s lift in productivity that resulted from reform raised the value of production more rapidly than it raised our expectations for increasing expenditure. In the past two years or so, extraordinarily high commodity prices as a result of the China boom have lifted the incomes associated with given levels of production. There were several years between the productivity boom of the 1990s and the recent China resources boom where expenditure ran well ahead of increases in the value of production. Growth was maintained by taking on foreign debt to fund a housing and consumption boom. If the economy had continued to depend on these processes, the long Australian expansion would have ended abruptly as our credit limits came within sight. The huge increases in minerals, and energy prices and investment in the mining industries have maintained prosperity since then.

Earlier resources booms have ended with sharp falls in the terms of trade and investment and with recession. There are reasons to expect this

China-led resources boom to be more durable: China's population is much larger than that of all the developed countries together and it will take several decades of strong growth yet for China to reach the frontiers of global productivity and average incomes. Other populous developing economies have established sound bases for sustained strong growth. China's sustained strength is likely to keep average resource prices and investment levels in the first quarter of the 21st century well above those of the last quarter of the 20th. China's growth will hit bumps in the road from time to time, and we will learn then whether we have put enough of our new wealth aside in the good times to cushion the shocks.

But the China resources boom won't keep on getting bigger. Average minerals and energy prices are likely to remain high but to ease somewhat from recent levels. Investment in the resources sector is likely to remain high but not to continue increasing at the rates of recent times. Maintaining strong growth in the economy's capacity to support expenditure is going to require expenditure restraint. This will not come easily now that we have become accustomed to having our expenditure cake and eating our tax cuts as well.

Continued strong growth is also going to require new efforts to raise productivity. We have become unaccustomed to making choices about expenditure. Guns or butter? Guns now or economic growth now and more guns later? We will have to get used to hard expenditure choices again.

The good news is that there is still considerable potential for raising Australia's productive capacity through reform. A more flexible labour market would help, but we must wait to see whether recent changes in industrial relations law are closely enough in tune with Australian values to be the vehicle for its delivery. Certainly, Australia's genius for legislative and administrative complexity is manifested in the IR laws. It will compound the transaction costs associated with mindlessly complex taxation, social security, immigration, commonwealth-state fiscal relations and now, in the era of free trade agreements and rules of origin, trade arrangements.

There is considerable scope yet for increasing labour force participation through integrated reform of taxation and social security to reduce marginal effective tax rates.

The reform that I outlined again to last year's Melbourne Institute-*The Australian* conference, to limit effective marginal tax rates towards 30 per cent for the overwhelming majority of Australians, to be introduced during a number of years, has become less costly with the general expansion of social security payments and cuts in some taxation rates.

The reform of effective tax rates for the young and productive is one of many steps that would help to staunch the drift of Australian talent to employment abroad. Restoration of strong productivity growth will require increases in the quantum and especially the quality of private and public investment in education. Reform is required to reduce the myriad barriers to efficiency and expansion that ended 15 years of strong export growth from the services sector a half-dozen years ago. Action is needed to remove the damaging effects of privatising telecommunications and civil aviation monopolies in the absence of proper mechanisms for regulating them. Efforts to understand the inhibitions on tourist and student travel to Australia from Indonesia, Malaysia and other Muslim countries could be important. For many parts of the services industries, the GST increased costs without providing export rebates, and we could be asking whether there are cost-effective remedies for this distortion.

A large, skilled immigration program remains an essential underpinning of sustained strong growth. Greater community confidence in the traditional Australian insistence that workers newly from abroad have all the rights of established Australians would strengthen support for higher rates of immigration.

All these things will fill daily life in Australia in the years ahead. But for today's embrace of the eternal, may the Eagles fly high.

Editors' note: West Coast Eagles won the 2006 Australian Football League Grand Final.

Notes

- 1 First published as 'Focus on smoking gun obscures collective fault', *The Australian*, 12 April 2006.
- 2 First published in *Fiji Times*, 9 August 2006.
- 3 First published in *Weekend Australian*, 30 September/1 October 2006.

International Relations

18 October 2005

Canberra Times

CLIVE WILLIAMS

Australia slow off the mark on terrorism¹

Security seems to dominate our news these days, with the two most recent issues being the announced expansion of Australian Security Intelligence Organisation (ASIO), following a review by the former Director-General of Australian Secret Intelligence Service (ASIS), Allan Taylor, and the government's new counter-terrorism legislation.

First the ASIO issue. In my view ASIO has been under-resourced for some time and the increase in numbers and budget are a good outcome. There was some public criticism of ASIO in 2000 for not following up on Jemaah Islamiyah terrorist Jack Roche's attempts to talk to its Perth officers. The reality was that at that time the Perth office was down to only three staff, and was having to handle demanding issues like US ship visits and a range of other security matters. So it was really a failure of ASIO's

central management—or of the federal government in 2000—in failing to appreciate what resources were needed by ASIO's regional offices.

That situation changed after the wake-up call of 9/11, and ASIO is to be given the green light to triple its staff from what it had in 2001, to 1860 by 2010/11. However, it is not just a matter of increasing ASIO's staff numbers. The reality is that few of the senior echelon of ASIO's leadership have had significant operational intelligence experience, so the additional recruiting will make little impact unless the new recruits can be trained and mentored by people with operational experience against hard intelligence targets.

ASIO's increase in numbers over the next five years will come at a time when a number of other federal agencies will be expanding their intelligence and security areas, particularly the Australian Federal Police (AFP) and other national security agencies. In this regard, the AFP also needs to be able to expand its overall personnel numbers, rather than being confined by tied funding arrangements. Like intelligence officers, it takes several years to train good police officers, particularly in the complex tasks the AFP is now called upon to perform. Potential providers of recruits for both agencies are the universities and possibly the private security industry.

Remarkably, with few exceptions, Australian universities have been very slow off the mark in providing relevant undergraduate courses—exceptions being Edith Cowan (WA), Murdoch (WA), Macquarie (NSW), University of Queensland, and Monash (Victoria). A cynical view is that there is not much money for universities in new undergraduate courses.

Students need to study the traditional subjects like politics, economics, psychology, sociology, Asian studies, international relations and strategic studies. But the additional kinds of subjects that students need to study are intelligence, espionage, security, crime in the Asia Pacific region, 'non-traditional' security issues (like arms trafficking, pandemics, corruption etc), terrorism, counter-terrorism, homeland security, protective security, counter-terrorism policy and law, emergency management, corporate governance, and other national security-related topics.

These subjects are also needed at postgraduate level, which is where the University of Sydney, the Australian Defence Force Academy and The Australian National University have focused some effort.

The people needed to teach these relatively new (to academia) topics are the academically-qualified baby-boomers now leaving government employment. The latter can provide students with the practical knowledge that they need to start their new jobs in government intelligence and security areas with some degree of confidence that they have the right skill sets. I should add that the new employees should come from all sectors of the Australian population. We should, in particular, be recruiting bilingual Muslims. It's an unfortunate truism that few Muslims are terrorists, but most terrorists are Muslims.

The private security industry is a possible feeder area, but it is a mess. Although there are an estimated 300,000 workers in the private security industry in Australia, they have largely been ignored as a security resource by the federal, state and territory governments. Private security workers greatly outnumber the police (by about four to one), but their industry is inconsistently regulated and there are few common professional standards around Australia. There is also no Australian equivalent of the respected US Certified Protection Professional (CPP) qualification.

The States and Territories all have security legislation of varying quality, but to be more effective—and to create a valuable national security resource—there needs to be much more federal activity, and a federal Private Security Industry Act to set standards throughout Australia.

Turning to the new counter-terrorism legislation, the federal government seems to have been caught with its pants down following ACT Chief Minister Jon Stanhope's interneting of the draft, which seems to have gone somewhat further than expected by the premiers after the Council of Australian Governments (COAG) meeting.

There are reasonable grounds for concern about safeguards for vulnerable members of the community, particularly since, unlike UK citizens, we do not have the human rights protections afforded by the UK

Human Rights Act 1998 and the European Convention on Human Rights. Australians can hardly be expected to take the government on trust after its preparedness to ignore David Hicks' rights, its acceptance for a long time of the excesses of some Department of Immigration and Multicultural and Indigenous Affairs officers, and its lack of transparency over the recent deportation of American activist Scott Parkin.

Interestingly, the most vocal critics of the proposed legislation have not been left wing ratbags or Hizb ut-Tahrir leaders, but respected members of the legal profession. The ACT's Chief Justice Terence Higgins has gone so far as to comment: 'The question that we must ask is this: can we still claim to live in a democratic state if we do not have the most basic democratic rights?'

It should be remembered that the last time there was a fatal terrorist incident on Australian soil was back in 1986, and that was an 'own goal' when an alleged Armenian terrorist blew himself up accidentally at the Turkish Consulate-General in Melbourne. It is difficult to see why sufficient time could not be allowed to examine the proposed security legislation in depth to determine the real need for the more extreme measures now proposed.

Western governments are understandably nervous about terrorism because the terrorists' aim is to get target governments to change their policies against their will, and to drive a wedge between them and the US and Israel.

Everyone accepts that the London bombings demonstrate that a similar terrorist attack could occur here, but it is by no means certain that the proposed legislation would be able to stop it. It might even make an act of terrorism by disaffected Australians more likely.

It is conceivable that an act of terrorism in Australia could kill as many as 200 people—as it did in Bali in 2002. The question for us to ask ourselves is whether we are prepared to give up some of our long-fought-for democratic and civil rights so that we might be able to prevent an act of terrorism. Australians might just prefer to retain their present freedoms and

take their chances against domestic terrorism—and forgo more intrusive or protective government.

Perhaps it is the kind of fundamental issue that should be determined by a national referendum. As Benjamin Franklin said: ‘They that can give up essential liberty to obtain a little temporary safety deserve neither liberty nor safety’.

9 February 2006

Canberra Times

WILLIAM MALEY

History repeating with AWB²

On 9 July 1975, a special sitting of the House of Representatives was summoned to discuss the so-called ‘Loans Affair’, the clumsy attempt by Minister for Minerals and Energy Connor to raise a huge Arab petrodollar loan, which was increasingly dominating the life of the Whitlam Government. It was a fairly anodyne occasion, but one speech stood out, delivered by Robert Ellicott QC, formerly the Commonwealth Solicitor-General but from May 1974 Liberal MP for Wentworth. The key question thrown up by Connor’s activities, said Ellicott, was whether the end justified the means. Ellicott’s question cut through to the heart of the matter, the Government had no real answer to it, and it contributed significantly to Whitlam’s landslide electoral defeat on 13 December that year.

The bizarre saga of AWB’s activities in Iraq may not have as lethal an impact on the Howard Government, but for those who lived through the Loans Affair, the points of similarity are haunting, and the most

striking is that AWB officials seem once again to have been gripped by the belief that the end—in this case, selling Australian wheat to an eager purchaser—justified any means required to bring it about. Add to this a cast of clumsy characters from AWB, a crusading American Senator, and forensic legal minds in the Oil-for-Food Inquiry headed by Commissioner Terence Cole, and one has a recipe for the kind of nightmare which every government might wish to avoid.

For AWB is not just any company. Essentially a recently-privatised version of what was a Commonwealth statutory agency, it retains a privileged monopoly in the sale of Australian wheat abroad by virtue of a licensing scheme established under federal law. It lives in the foggy zone between entities that are clearly governmental, and those which are plainly not. It owes its special position to the predilection of the Country Party (later the Nationals) over many decades to support ‘orderly marketing’ of agricultural products, a system to which Trade Minister and Nationals leader Mark Vaile, somewhat amazingly, remains wedded even as far as the discredited AWB is concerned. And here may lie a clue to explaining the astounding recklessness of AWB staff which has been fully on display before the Cole Inquiry: they may have been convinced that the support for them from their patrons was so strong that they could do anything they liked as long as it kept the wheat growers happy.

Where government grants such a monopoly, it arguably has a special duty of close supervision, since market competition is not available to oust an inadequate performer. From the evidence to Commissioner Cole, it appears that the Government did just the opposite. Despite queries from the UN which should have set warning bells jangling, the Government’s efforts to investigate what AWB was doing were perfunctory at best. A determined minister, even without formal investigative powers, would have been well placed through political contacts to dig up the details of what was happening. But nothing suggests that any minister ever made such an attempt. If ministers did not know what AWB was doing, they certainly should have, and it is here that their culpability lies. Sadly, ministerial

responsibility has long since ceased to be a concept with much meaning in Mr Howard's Australia. No one ever gets told anything, and it is always someone else's fault. Anyone in AWB who remembered the Children Overboard affair would have known exactly what to do and how to do it: sell wheat for dear life, but at all costs leave ministers safely in what Albert Speer once called the grey area between knowing and not knowing.

There is one other sense in which signals coming out of the Government could have fostered AWB's recklessness. Its own hands where 'good governance' is concerned are anything but clean. In 2001, in order to stitch together the 'Pacific Solution', Australia paid over \$1 million 'towards outstanding hospital accounts for treatment in Australia' of Nauruan citizens (*House of Representatives Hansard*, 12 March 2002, p.1015). Since the bill for hospital treatment in Australia of a foreign national is in the first instance a private charge, the Australian Government might just as well have handed over brown paper bags full of cash to the lucky Nauruans whom it had moved to relieve of their debts. This exercise was dwarfed in scale by AWB's Iraq operation, but as a matter of principle it hardly differed in character, and the message it sent to observers in the AWB and elsewhere was just about the worst imaginable. For Howard, as for Whitlam and Connor, the end justified the means.

Are ministers directly at risk in all this? Ministers are much more commonly brought down by inattention to detail than they are by broad policy failures, but Prime Minister Howard has a profound aversion to sacrificing ministers in the face of external pressure, no matter how feeble their performances. After all, ministerial heads remained intact even when a department with a transparently dysfunctional culture locked up a legal Australian resident and deported an Australian citizen. But in certain circumstances, even the most determined Prime Minister has little room to manoeuvre, and one is when ministers are damned in the reports of inquiries which the Prime Minister has set up. Much therefore depends upon whether Commissioner Cole is prepared to follow earlier analysts such as Palmer and Comrie and investigate who was responsible in the broadest sense for the culture which AWB's behaviour has reflected. Mr

Cole may ultimately shrink from sheeting home the blame to ministers who heard, saw and understood nothing of what was going on around their feet, but it is reasonable to suspect that some ministers will await his findings with more than a little apprehension.

April 2006

Far Eastern Economic Review

HAL HILL AND PETER WARR

What's wrong with Southeast Asia's democratic revolution?²³

Fact one: Having been elected in 2001, Prime Minister Thaksin Shinawatra of Thailand was re-elected by a record majority in the country's general election of February 2005, securing 377 of the 500 seats. While there were allegations of vote-buying, irregularities and misleading advertising, even his staunchest opponents concede that he won decisively. Since his re-election, he has more or less adhered to his campaign promises, and the Thai economy has continued to perform moderately well, at about the ex-China East Asian average.

Yet vigorous demonstrations, mainly Bangkok-based, gathered pace in early 2006. Faced with increasing public discontent, Mr Thaksin called another general election, for 2 April. But the protests continue, and the opposition refuses to participate unless the Prime Minister steps down. The prospect of serious street disorders and violence cannot be discounted.

Fact two: Just over a month ago, Filipinos celebrated the 20th anniversary of the internationally applauded people's power movement

known as the ‘peaceful EDSA revolution’. This refers to the rainbow coalition of forces, from the Catholic Church to the military, which forced from office the once seemingly impregnable Ferdinand Marcos without a drop of blood being spilled.

Subsequently, a People’s Power Constitution was promulgated in 1987, while presidential, congressional and local government elections have been conducted on schedule. One of the developing world’s most vibrant civil societies has emerged, featuring a free and open press, vocal NGOs, and some high-quality think tanks.

Yet there is gloom on the streets of Manila. People’s Power (‘EDSA’) I and II have come and gone. To forestall popular protest just before the planned 20th anniversary celebrations (and ironically the day Mr Thaksin called his snap general election), President Macapagal Arroyo issued a state of emergency, one step short of Marcos’s infamous martial law. Moreover, the Philippine economy continues to perform indifferently, and record numbers of the country’s best and brightest are seeking employment opportunities abroad.

What’s wrong with East Asia’s democratic revolution? Weren’t Thailand and the Philippines held up as models for other countries of how home-grown movements achieve democracy—one gradually, the other ‘big-bang’—without a hint of foreign intervention, much less pressure?

Isn’t democracy the most fundamental civil liberty, and the *sine qua non* of successful development, *in extremis* even worth going to war for? Along with open economies, isn’t democracy part of the much-vaunted Washington consensus, an aspirational beacon for all countries since the fall of the Berlin Wall?

Or perhaps democratic freedoms—including the right to remove unpopular governments—are just one part of the complex process of development in countries like Thailand and the Philippines. Just as social science researchers have struggled to find a systematic relationship, across countries and over time, between democracy and economic growth, perhaps democracy is no guarantee of economic success after all? Or, as

Singapore's Lew Kuan Yew is once reported to have observed, perhaps countries like the Philippines 'need discipline more than democracy'.

Though there are important differences, a common feature of the Thai and Philippine experiences is disillusionment with the outcome of democratic processes in a cultural environment that includes a high level of corruption. 'People power' is today essentially a response to that disillusionment. President Arroyo came to office on a wave of middle-class resentment at the abuses attributed to the democratically elected but corrupt Joseph Estrada. A similar wave of protest now engulfs Ms Arroyo herself, for reasons discussed below.

Mr Thaksin faces the same middle-class, urban-based revulsion at the corruption of democracy in Thailand. He came to power only four years after the enactment of the 1997 constitution (Thailand's 16th), which was intended to prevent the very abuses of power of which he is now accused.

Thaksin's critics are especially incensed that a law was introduced in early 2006 permitting 49 per cent foreign ownership in the telecommunications industry, previously capped at 25 per cent. One working day after the law was enacted, Thaksin's children completed the sale of their 49 per cent of the family's huge telecom firm, Shin Corp. The buyer was Temasek, the Singapore government's investment arm. Moreover, because the sale was conducted through the Stock Exchange of Thailand, the 73 billion baht (US\$1.9 billion) of proceeds were entirely tax free.

The legitimacy of seemingly democratic elections is being questioned because the very institutions intended to provide the checks and balances preventing abuse of power are themselves thought to have been corrupted. This is the basis of demands that Ms Arroyo and Mr Thaksin resign despite their democratic credentials, which are clearly unchallenged in the latter's case.

A range of constitutional changes and institutional reforms are being proposed in both countries. In the Philippines there is the 'chacha' movement centred around charter change. Such a reform would shift the country towards a Westminster-style, parliamentary system. Ironically, Prime Minister Thaksin wants to move in the opposite direction. He sees himself as his country's 'CEO' and aspires to powers more like those of

a US-style president, though under a constitutional monarchy, than those of a Westminster style prime minister.

There are already 'presidential commissions on good government', 'election commissions', 'national counter-corruption commissions', 'constitutional courts', ombudsmen, and commitments to judicial reform and independence. Strengthening these institutions might help, but the more basic problem is that any constitution or set of laws must ultimately be administered by human beings—judges, bureaucrats and politicians. If they can be bought, legal checks and balances will always be tenuous. Moreover, rich politicians can buy votes, dominate media coverage, and absorb smaller parties, as Thaksin has done very effectively. All this eats away at the supposed legitimacy of elected governments. Starting from such an environment, the road to democracy will necessarily be long and rocky. The resignations of Mr Thaksin and Ms Arroyo might help in the short run, but neither would resolve the basic problem.

The fundamental problem is that democracy has failed to deliver the goods in both cases. Much of the citizenry feel disenfranchised and excluded from the development process, while those close to the centres of political power are alleged to have benefited egregiously. The urban-rural divide continues to grow even as, in Thailand at least, the rural population votes mainly for the party which has presided over this trend since 2001.

Indeed, Prime Minister Thaksin's Thai Rak Thai (Thais Love Thais) party has introduced slick campaign marketing to rural areas, along with some highly popular pledges. In the past, these have included the one-million-baht-per-village grants, debt relief for farmers, and highly subsidised health clinics. These promises have largely been met. In the current campaign, he has promised a minimum daily rural wage of 200 baht.

In the absence of some major unforeseen event, the 70 per cent rural vote seems certain to assure Mr Thaksin of electoral success while further exacerbating the sense of alienation among better-educated, middle-class voters in Bangkok.

In the Philippines, the gap between the rich and poor has always been vast, with no improvement evident since the 1960s. An estimated

two-thirds of congressmen and congresswomen come from the 'family dynasties'. Thus, for example, it is not surprising that the country's long-running land reform program is shot through with exemptions and has failed to have much impact on rural poverty. There have been some fortunate recipients of transferred titles. But the costs have been very large: effectively functioning rural land markets have been virtually destroyed, while agricultural productivity growth has been depressed still further owing to the decline in rural investment caused by insecure property rights.

Another manifestation of policy failure concerns the inability to come to grips with deep-seated Muslim grievances in the distant south of each country. These insurgencies have complex, country-specific, historical roots. But a common element is the glaring socioeconomic disparities between these countries' Muslim communities and the rest of the society. In Thailand, it appeared for a period that effective central government policy had largely addressed grievances in the south. But the spate of bombings since 2003 has shown this to be false, and the government's heavy-handed response to the insurrection has further heightened tensions.

The insurgency in the southern Philippines is worse still, with no current prospect of resolution. The Sulu region has become an incubator for terrorism in the region and beyond.

Despite these common features, important differences remain. For all the criticisms levelled at Mr Thaksin, there can be no denying that he is the most electorally successful leader the country has had. Ms Arroyo, however, has constantly been on the back foot in terms of moral legitimacy. There was her controversial accession to power in January 2001, her still-disputed victory in the 2004 presidential election, and the revelation in June 2005 of the 'Hello Garci' tapes, airing her conversations with an Election Commissioner during the course of the vote counting.

Moreover, in spite of the countries' geographic and demographic similarities, Thailand's long-term rate of economic growth is about double that of the Philippines. Its economy has always been more open, its macroeconomic management better, and its fiscal position less prone to

crises. The Philippines has also experienced great difficulty growing out of the severe economic crisis of 1985–86—far more so than Thailand's recovery from its equally serious crisis of 1997–98—with the result that its current per capita income is little improved in real terms on that of 20 years ago. These factors are central to an understanding of why the Philippines has steadily slid down the East Asian income rankings, after being one of the region's more prosperous countries in the 1950s and 1960s.

Ironically, while Mr Thaksin has preached populism, his trade policies have remained broadly open and his macroeconomic management quite conservative. By contrast, Ms Arroyo came to power as a well-credentialed technocrat with a PhD in economics and extensive bureaucratic experience. But until recently she had made little headway on the country's precarious fiscal position.

Thailand has also seemingly been more successful at insulating its economy from political disturbances. In the quarter century leading up to the economic crisis of 1997–98, it was one of the world's fastest-growing economies, while regularly experiencing sudden changes in government and a number of coup attempts.

This is in part at least because key macroeconomic policy institutions remained intact as governments came and went. By contrast, the 1987 Philippine Constitution, with its one-term presidency and US-style presidential authority, resulted in a far-reaching turnover of civil servants at the top three echelons. Thus, a change of executive portends possibly destabilising policy changes, a phenomenon shown in the transition from the competent Ramos administration to the Estrada administration, which quickly became engulfed in controversy. In such an environment, businesses adopt short time horizons, owing to high institutional uncertainty.

In sum, two key messages emerge from Thailand's and the Philippine's recent experiences. Democracy and elections are no panacea. They are part of the process of economic and political development. But, in the absence of accompanying reforms, they do not guarantee it. Secondly, popular grievances need to be solved through substantive policy changes

that deliver broad-based development, address the fundamental causes of socioeconomic exclusion, and introduce genuine institutional change, including a clean, responsive and adequately functioning bureaucracy.

The danger for these two countries, and others like them—especially those with a military always on the lookout for a pretext to intervene and ‘restore order’—is that a potentially dangerous and unstable stalemate will persist, interrupted by cycles of political turbulence and window-dressing reforms.

15 June 2006

Canberra Times

CLIVE WILLIAMS

If you forget the own goal, it's not been a bad month for counter-terrorists⁴

This month demonstrates that counter-terrorism progress will mostly be at the tactical level, with the ongoing arrest or elimination of groups and individuals, rather than as a result of any strategic breakthrough on terrorism-motivating factors such as the Palestinian situation or the occupation of Iraq.

Developments include the police ‘chemical weapon’ raid at London’s Forest Gate, the arrests of 17 alleged terrorists in Toronto, the London Assembly report on the 7 July 2005 bombings in London, the Lodhi trial in Sydney, and of course the killing of al-Qaeda leader Zarqawi in Iraq.

The Metropolitan police raided a flat in Forest Gate on 2 June based on MI5 information that there was a chemical weapon on the premises. MI5

was convinced that a group of men in London were plotting to use a chemical device in the capital. It now seems to have been a security service own-goal. Two Muslim men were arrested, one after he was shot and wounded by police. Nothing was found and the two men have since been released.

In an interesting twist, Iain Duncan Smith, the former Tory leader, suggested that intelligence agencies were being fed false information by extremist groups to get them to target moderate Muslims.

In Canada, also on 2 June, police arrested 12 men and five youths on terrorism-related charges. Two of the men charged were already imprisoned after being caught trying to smuggle guns across the US border into Canada.

Despite the media hype, Canada is not new to terrorism.

In the past it has faced Quebec independence-related terrorism, Sikh terrorism, Tamil Tiger fund raising, and been a convenient transit point for Muslim terrorists entering the US. But so far it had not suffered from home-grown Islamist extremism from within its 750,000 Muslim population.

Police allege that the 'Toronto 17' were involved in a plot to make improvised explosive devices (IEDs) out of three tonnes of ammonium nitrate fertiliser—three times the quantity used in the 1995 Oklahoma City bombing that killed 168 people. The explosives were to be used in unspecified attacks against Canadian targets. The men also conducted military style training at sites north of Toronto.

The arrests followed an extensive two year investigation by the combined forces of the Canadian Security Intelligence Service (CSIS), the Royal Canadian Mounted Police (RCMP) and various police services in the Toronto area. It seems that the motivation for the plot was Canadian involvement in the war on terror in Afghanistan.

The London Assembly published a 157-page document on 5 June with its findings on the 7/7 rescue operation, but there was nothing new for those who have been following other 7/7 lessons-learned reports.

This report noted that poor communication between emergency services and inadequate medical supplies hampered the rescue. Other key findings in the report were that rescuers underground could not use radios

to communicate with people above ground and that mobile telephone networks became so congested that it was difficult to make or receive calls.

The report has been criticized for underplaying the part played by volunteers, but a problem posed by untrained volunteers is they can complicate the rescue effort and, if utilised, they pose a potential future litigation risk.

The Supreme Court jury in the trial of the Sydney terrorism suspect, Faheem Khalid Lodhi, has retired to begin deliberating its verdict. For the past six weeks Lodhi has been standing trial charged with four counts of planning for a terrorist attack. The jury has heard allegations that, in October 2003, Lodhi was planning an attack on Defence sites or the electricity grid in Sydney.

Prosecutors alleged that Lodhi downloaded aerial photographs, bought maps of the electricity grid, made inquiries about the cost of chemicals, and had instructions on how to make poisons and explosives.

The news with the greatest international impact was the US killing on 7 June of al-Qaeda leader in Iraq, Abu Musab al-Zarqawi. The Bush Administration was understandably elated about the death of Zarqawi because of the pivotal role that he has played in the past in the insurgency in Iraq, and because of his direct involvement in the killing of American hostages.

Zarqawi is credited with escalating the insurgency in 2003 with his attacks on the UN Headquarters in Baghdad and on the Shiite mosque at Najaf killing 85 people, including Ayatollah Mohammad Baqr al-Hakim, leader of the Supreme Council of the Islamic Revolution in Iraq. He has also played an important part in suicide attacks since then.

In the past 12 months Zarqawi had become increasingly unpopular with the nationalist Sunni insurgents, as well as something of a liability for al-Qaeda with his indiscriminate suicide attacks in Jordan in November 2005 and unendorsed attacks in Iraq on Shiites. The resultant backlash from Shiite security force deaths squads targeting Sunnis has been the main cause of the escalation in civilian deaths during 2006.

Contrary to the way he was portrayed in the US media, Zarqawi was not the charismatic mastermind orchestrating the anti-US attacks in Iraq, although the reality, a leader struggling to retain power and a popular Sunni insurgency against US occupation, is understandably less attractive to the Bush Administration.

Taken as a whole, this has been a month with some significant counter-terrorism progress and some reinforcement of likely indicators of terrorist planning—information collection on targets, cell group activities, military style training, acquisition of explosive precursors etc.

5 August 2006

Canberra Times

CLIVE WILLIAMS

War crimes, waffle and ‘the war on terror’⁵

Since the commencement on 12 July of hostilities in southern Lebanon, there has been finger-pointing by both sides and their backers about Hezbollah’s and Israel’s alleged war crimes.

Laws governing conflict are complicated and subject to broad interpretation. They are only likely to be applied by nation states when political pressure makes it unavoidable, or to punish vanquished leaders and their minions who have killed prisoners.

International humanitarian law is the legal corpus comprised of the Hague and Geneva Conventions, as well as subsequent treaties, customary international law, and case law building on legal precedents, such as those established by the Nuremberg War trials. It defines the conduct and

responsibilities of belligerent nations and individuals engaged in warfare, and their treatment of civilians.

The main effect of the Hague Convention of 1899 was to ban the use of certain types of modern technology, notably bombing from the air, chemical warfare, and hollow point bullets. The Hague Convention of 1907 modified the 1899 convention and focused more on naval warfare. It also created the doctrine of command responsibility for war crimes.

Because of the number of chemical warfare casualties in the First World War, there was a 1925 Geneva Protocol to the Hague Convention, banning all forms of biological and chemical warfare. This was augmented by the Biological Weapons Convention (1972) and the Chemical Weapons Convention (1993).

There are actually four Geneva Conventions: the First dating from 1864, Second (1949), Third (1929), and Fourth (1949). Their main focus is on the humane treatment of wounded and sick combatants and prisoners of war, and the protection of civilians. The four conventions were last revised and ratified in 1949. Nearly all 200 or so world nation states are signatories to the Geneva Conventions. All signatory states are required to enact domestic legislation to make grave violations of the conventions a punishable criminal offence. In addition there are three Geneva protocols: Protocol I (1977), II (1977), and III (2005), generally relating to victims and distinctive emblems. There are two parts to the laws of war; law concerning acceptable practice like the Geneva and Hague Conventions, is called *jus in bello*, while law concerning allowable justification for the use of armed force is called *jus ad bellum*.

The United Nations charter binds consenting nations in terms of what is legal and what is acceptable. As a reaction to 9/11, the Bush Administration adopted several controversial extra-legal recourses including introducing 'illegal combatant' status and 'extraordinary rendition', allowing torture under prescribed rules and, in 2003, unlawfully (as we now know) invading Iraq. Attorney-General Gonzales' advice to President Bush was that using the term 'unlawful combatants' substantially

reduced the risk of domestic criminal prosecution under the US War Crimes Act. In practice too, post-9/11 war crime trials related to Abu Ghraib and elsewhere have stopped well short of indicting high-ranking Bush administration officials that had command responsibility.

This protection from the outcomes of questionable actions related to ‘the war on terror’ has also extended to Israel, with the US either watering down UN censure of Israel or vetoing UN resolutions critical of Israel.

Hezbollah, while proscribed by some as a terrorist group, appears, at least in south Lebanon, to meet the criteria of being a guerilla force. Such a force has a commander, a distinctive emblem, carries arms openly, and generally conducts operations in accordance with the laws of war. Under the Third Geneva Convention Hezbollah should be regarded as a lawful combatant but that also means its commanders could possibly be tried for war crimes. Hezbollah is culpable for war crimes because of its indiscriminate rocket attacks on civilian targets in Israel, and its taking of military hostages.

Protocol I of the Geneva Conventions seeks to extend legal combatant status to combatants not meeting the four criteria mentioned above, including terrorists. But Protocol I provisions are being effectively blocked from coming into meaningful force by the US, Israel, India, Indonesia, Iran and Iraq. Australia has indicated limited acceptance.

In my view, Israel is culpable for the same war crimes as Hezbollah, and additionally for what appears to be its disproportionate collective punishment of the Lebanese population—irrespective of whether or not Hezbollah uses it for cover. Israel should also not be attacking civilian targets such as Palestinian and Lebanese power stations and other civilian infrastructure.

Israel normally carries out ‘investigations’ when there is a strong international media reaction to its killing of Palestinian and Lebanese civilians or Western foreigners. There is usually a quickly-produced spin-doctored finding that Israel was not to blame.

Israel is doing itself a disservice. Many of its tactical ‘mistakes’, such as the shelling of the Gaza beach family, strikes on ambulances, and

bombings of the UN bunker and Qana shelter, seem to be the actions of rogue individuals or poorly disciplined elements within the Israeli Defence Force. Israel would clearly have a more sympathetic international press if it had more transparent investigative and legal processes.

When major states like the US, Israel, and China are reluctant to try their own war criminals, the chances of those individuals facing the International Criminal Court are low. The US, Israel, and China have refused to participate in the court or permit the court to have jurisdiction over their citizens. This hardly suggests a high level of confidence in the legality of their actions against those that oppose them.

12 August 2006

Canberra Times

CLIVE WILLIAMS

Airline terror plotters resort to old but proven methods⁶

According to US officials, the plot uncovered in the UK was to take liquid explosives on up to 10 passenger planes, with detonators hidden in electronic devices. It was most likely intended to demonstrate Islamist extremist anger at the common front of the UK and US in 'the war on Islam'. What the plot demonstrates is that terrorists will continue to look for symbolic targets and vulnerabilities that could hurt adversary governments and cause them to change their foreign policies. While Australia does not have as high a profile in this regard, it is seen by many extremists as a fellow traveller of the US against Muslim interests, particularly since March 2003 and our involvement in Iraq.

The reported intent to exploit security vulnerabilities and use dangerous liquids is not a revolutionary new development, but rather the resurrection of previously tried techniques. In November 1987, North Korean agents downed a South Korean passenger aircraft over the Andaman Sea using an improvised explosive device (IED) in a radio and accelerant liquid in a duty-free liquor bottle; 115 people died.

Ramzi Yousef, an al-Qaeda associate, used liquid explosive in contact lens bottles to 'test bomb' a flight between the Philippines and Japan in December 1994. The IED killed one passenger, but did not destroy the aircraft. Had the IED been combined with an accelerant, it could well have done so. Yousef's aim was to down 11 American passenger aircraft crossing the Pacific in January 1995, but instead he had to flee from the Philippines to avoid arrest.

It seems that most of the 24 arrested in the UK at the time of writing are British-born Pakistanis, some with connections to Pakistan. Arrests have also take place in Pakistan.

Pakistan, predictably, is promoting its 'important' role in the investigation. It is more likely though, given past British experience with Pakistan security force unreliability, that contact from the UK seeking arrests in Pakistan was made after the roundup started in the UK.

The main Pakistan terrorism connection will probably prove to be the training at Pakistani extremist camps and/or madrassas of at least some of those arrested in the UK. The usual suspect contact groups in Pakistan will be Lashkar-e-Tayyiba (LeT), Jaish-e-Mohammed (JeM) and Harakat ul-Jihad-i-Islami (HUJI). (HUJI also has a Bangladesh affiliate, HUJI-B (B for Bangladesh) that runs terrorist training camps in Bangladesh.)

The Pakistan government tolerates the activities of these groups because of their role in keeping pressure on India over its 'occupation' of Kashmir. All of these groups are affiliated with al-Qaeda, but al-Qaeda does not direct their activities.

So far the Metropolitan Police's Anti-Terrorist Branch (SO13) and MI5 (the Security Service), and their overall department, the Home

Office, have not provided public information other than that needed to justify enhanced security measures at airports.

Most of the information on the UK operation is currently leaking from the US. (We are told from the US that the police in the UK are still looking for five people and that is why there continues to be a heightened level of security. The Metropolitan Police is remaining non-committal.) The Met has learned from past experience not to brief US security officials about the detail of current operations until the last possible moment. US officials tend to compromise ongoing overseas operations in their desire to curry favour with the media.

The heightened level of security concern is proving a good test for the UK's new five-level alert system, introduced in late July. The level is currently set at 'Critical', the highest level, presumably because of concerns that remaining members of the group could still mount a terrorist attack.

The current roundup is the culmination of a protracted security operation. It will be a morale booster for the security services after their much publicised 'failures' of the past two years i.e., in 2005 to prevent the 7/7 and 21/7 bombings, the unfortunate killing of de Menezes, and in 2006 the mistaken arrests of two 'chemical agent terrorists' at Forest Gate.

We will inevitably see boosted security measures at Australian airports in the future, probably focusing more on liquids and gels in carry-on baggage. There is always a silver lining for somebody however—enhanced security measures should boost sales at point-of-arrival duty-free shops at Sydney and Melbourne airports, and the airlines will no doubt benefit from increased sales of in-flight duty-free liquor!

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Sydney Morning Herald

PAUL DIBB

As one nuclear flashpoint reaches a lull, another simmers away⁷

The crisis involving Israel and Hezbollah in the Lebanon in recent weeks and North Korea's missile tests last month reveal just how potentially dangerous our current strategic era is. These flashpoints have the potential to escalate out of control if they are not managed carefully. But neither region of the world is noted for the success of its diplomacy and both the Middle East and Northeast Asia are heavily armed parts of the world characterised by deep-seated hatreds and long-standing territorial disputes. Historically, such situations have been a recipe for disaster.

How has it come to this remove, when not so long ago we were being told that we were living in a peaceful, interdependent world? The fact is that the constraints and understandings of the bipolar Cold War world have been removed to be replaced by a more uncertain world, where there is much more jockeying for position and influence.

In the Middle East, the destruction of Saddam Hussein's regime and its replacement—at least for the foreseeable future—by a weakened Iraq has allowed Iran to become the dominant regional power. The regime in Tehran is hell-bent on exporting terrorism and acquiring nuclear weapons. There could be nothing more dangerous than such a combination in the contemporary era. Iran's president proclaims that he wants to see Israel wiped out.

The outcry about Israel's continuing punitive attacks into Lebanon and the resulting loss of civilian lives is understandable. But so is Israel's need to try to destroy Hezbollah. No doubt, the short-term solution will see an eventual Israeli withdrawal and some sort of international peacekeeping force in southern Lebanon. But the longer-term real strategic threat facing

Israel will not go away. This involves the spectre of a nuclear-armed Iran equipped with ballistic missiles of sufficient range and accuracy to target Israel without taking out Palestinian or neighbouring Arab territories.

Israel will not tolerate this. The United States needs to make it clear to Tehran that any such attack on Israel will bring about Iran's complete destruction. That was a good enough understanding with the USSR at the height of the Cold War. At that dangerous time, both the US and the Soviet Union avoided military confrontation over the wars between Israel and Egypt and Israel and Syria. Sometimes this meant going on to higher states of military alert (including nuclear alert) to signal the seriousness of the situation before making the warring parties in the Middle East settle their differences. That discipline no longer applies because now there is only one superpower.

In North Korea a similar situation applies. Having seen the destruction of Saddam Hussein's regime, Kim Jong-il is intent on acquiring nuclear weapons as the ultimate guarantor of his regime's preservation. But the end of the Cold War has eroded the influence of North Korea's allies over its military ambitions and fundamental sense of security. China in particular lost a lot of face last month over its inability to restrain North Korea from not testing nuclear-capable ballistic missiles, despite the efforts of Beijing's top leadership. And Russia no longer has the influence in Pyongyang it had in the Cold War.

The situation potentially in Northeast Asia is even direr than that currently prevailing in the Middle East. North Korea's recalcitrance with regard to dismantling its nuclear weapons program comes at a time of almost unprecedented tensions between China and Japan and South Korea and Japan. If something should seriously go wrong in a part of the world that is so heavily armed, and which directly involves vital major power interests, such as those of China, Japan, Russia and the US, it would certainly eclipse our other worries—even the current crisis in the Middle East.

North Korea is playing a dangerous game of bellicose brinkmanship. Although it is now over 50 years since the North attacked South Korea, it

continues to keep over one million troops on high alert status—including heavy artillery concentrations only 50 kms from Seoul, a city of some 10 million people. The North's acquisition of nuclear weapons threatens to seriously destabilise Northeast Asia and result in a nuclear arms race developing there. As it is, the North's belligerence is encouraging Japan to build up its military capabilities.

China's poor relations with Japan are very worrying. The Chinese communist leadership drums up anti-Japanese nationalism whenever it suits them. China's military build-up greatly worries Japan. The pace of Beijing's defence spending is puzzling, particularly as China faces no military threat for the first time in many decades.

Japan's relations with South Korea are also at a low point. Like Beijing, this also stems from Seoul's views about Japan's view of the history of the Second World War. There are also territorial disputes, which Seoul has elevated to the level of national pride and is threatening the use of military force. This is occurring at a time when, from Tokyo's perspective, South Korea is drifting from the orbit of the US alliance and getting uncomfortably close to China—as well as appeasing North Korea.

All this is an unhealthy mix of great power tensions and deep-seated historical distrusting and growing military capabilities. The North Korean missile crisis is only one worrying aspect of a much more profound sense of strategic unease in Northeast Asia. The bigger worry is that Pyongyang's adventurism will incinerate any efforts to stabilise a region full of dangerous rivalries—as will the inevitable collision between Iran and Israel in the Middle East.

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The Diplomat

CORAL BELL

Powers and proxies⁸

The turbulence currently gripping the world is not the product solely of the crises in the Middle East. Two major redistributions of global power are underway at the moment, and the outcomes of their convergence are not yet determined, but they bring back a shadow from the past.

The more visible of the two, as far as outsiders are concerned, is the process of demographic and economic change which lies behind the rise and rise of China and India as great powers. That process is what is turning the unipolar world (which has been with us since the collapse of the Soviet Union at the end of 1991) back into a more historically familiar structure, a multipolar world. Though China and India are certainly the stars of that transformation, they are not its only movers and potential shakers.

To my mind it will produce a world of six great powers: US, EU, China, India, Russia and Japan, but also at least six other very substantial and influential powers: Pakistan, Indonesia, Brazil, Mexico, Nigeria and Iran. All twelve together will make up a company of giants, certainly demographically, but economically as well. According to the UN's statistics, there will be eighteen countries of more than 100 million people in the world by mid-century. Most of them will be growing fast, and will have therefore a vast appetite for the world's resources, like oil. That will make for a very competitive, turbulent world, unless diplomatic institutions can be constructed to cope with its frictions.

I will return to the implications of that transformation presently, but first I want to look at a second (complicating) process, the redistribution of power within sovereign states. It also is widespread, but it takes two forms, one benign and the other disastrous. In the benign form, in many Western societies, it just means that authority is being shared with non-

governmental organisations of several sorts, along with regional groupings. That can be viewed as the rise of ‘civil society’, operating as a useful restraint on the powers of government, and particularly welcome in the ex-Communist societies of Eastern Europe.

But unfortunately, in the crises of the moment in the Middle East, we have been seeing the dangers of a different form of the internal redistribution of power, the rise of ‘non-state actors’ to the point at which they are able to usurp the powers of the state, particularly the power to involve their respective societies in war.

The obvious example of this is Lebanon. The ‘non-state actor’, Hezbollah, has commanded more loyalty (especially among the Shia community) and therefore more military effectiveness than the official Lebanese army, and was long ‘dug in’ on the border with Israel. Its cross-border raid, and the capture of two Israeli soldiers, precipitated the Lebanese people into a reluctant war with Israel. More than a thousand of them died in that war, and a lot of their hard-bought infrastructure has been destroyed, not to mention the tourist trade on which many of them live.

As is now almost a tradition, the burden of trying to patch things up for a while has fallen on the Secretary of State, Condoleezza Rice, following in the footsteps of Henry Kissinger and others. Now that the Israeli armed forces have done as much as they readily can to weaken Hezbollah, a measure of quiet has returned to Lebanon, and the world has staggered on to the next crisis, over North Korea. The US is already in the run-up to elections, so a lot of alarming and alarmist rhetoric will probably be coming out of Washington, but not much in the way of military action. But the underlying diplomatic and political problem that Lebanon exemplifies remains to bring future dangers.

One of the ministers in Lebanon’s luckless (and newly democratic) government said that Hezbollah ‘had taken the fate of Lebanon into its own hands’. True, and what we must ask, is whether the conjunction of the two kinds of change that I have been describing will be likely to enable other ‘non-state actors’ to take the fate of the societies in which they are

based into their respective hands. Lashkar-e-Toiba in Pakistan? The 'adversary pair' in that part of the world, India and Pakistan, are both nuclear powers. An encounter between them could blow up the world, if the crisis were handled badly, and the other great powers got into the act.

The world that seems to be emerging over the next few decades bears an eerie and disturbing resemblance to the world before 1914. Then there were five great powers (Britain, France Russia, Austria and Imperial Germany) as against the current prospective six, but also, as at present, a couple of rapidly emerging powers (US and Japan) who went on to overshadow the original five. There was also then a revolutionary cause abroad in the world, a nationalism as perfervid and militant as the current perfervid and militant Islamism. Then as now, that revolutionary cause attracted the loyalty of assorted 'non-state actors'. The epicentre of the demand for change was then in the Balkans, as it is now in the Middle East.

On 28 June 1914, a young zealot of one of those 'non-state actors', (which went by the suitably sinister name of 'the Black Hand') managed to assassinate the Archduke Franz Ferdinand in Sarajevo. Six weeks later, the world was embroiled in a murderous hegemonial war which destroyed that entire society of states, and ushered in most of the troubles of the twentieth century. We must hope that the crisis-management has got better since then.

But the capacity of a 'non-state actor' to act as proxy for a sovereign state remains with us. A few months ago it was Hezbollah for Iran. Almost a century ago, it was 'the Black Hand' for Serbia.

Oddly enough, some factors of reassurance are to be found even in the analogy with that earlier catastrophe. Though the murder of the Archduke triggered the crisis of 1914, the genesis of the war itself is to be found in the relationships between the great powers of the time, and the crisis-management of the following few weeks, which saw the governments involved move further into hostile confrontation. Russia stood behind Serbia; France and Britain behind Russia; and all three were fearful of the rising power of Imperial Germany, which loomed menacingly behind its ally Austria.

That kind of relationship is not true of the current great-power decision-makers. On the contrary, they seem at the moment fully conscious that they have more to fear from 'non-state actors' than their fellow sovereignties. The rise in the capacity of even small cells of jihadists to do great harm has undoubtedly added an extra dimension to the security agenda of the whole world. And though it is not really new, it was seriously underrated until five years ago. Each anniversary of September 2001 should above all prompt a resolution among the world's policymakers that 'non-state actors' should never be allowed to precipitate hostilities between sovereign states.

Any time they manage that is a victory for them, as the destruction in Lebanon and Israel is for Hezbollah. But the reaction of governments must also be judged. When India suffered the attacks in Mumbai a few weeks ago, the Pakistan-based terrorist group Lashkar-e-Toiba was under suspicion, but the Indian government, showed no disposition towards the invasion of Pakistan. Similarly, in the thirty-year long campaign of the IRA in Britain (which at one stage nearly wiped out Margaret Thatcher and most of her Cabinet) no government in London showed any inclination to invade Ireland. They managed to keep a 'disconnect' between the 'non-state actor' and the sovereign nation. That kind of 'disconnect' is going to remain vital if a successful strategy for this problem is ever to be attained.

The most alarming aspect of the present stage of this prospectively long conflict is that most of the strategies being used on most of its battlefields (Iraq, Afghanistan, Lebanon, Sri Lanka) seem dysfunctional or even counterproductive. And that problem gets worse, not better.

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IIAS Newsletter

ANDREW WALKER

Beyond hills and plains: rethinking trade, state and society in the upper Mekong borderlands⁹

Borderlands are often described as ‘frontier zones’ characterised by ‘rebelliousness, lawlessness and/or an absence of laws’.¹⁰ Anecdotes resonate with popular images of a remote underworld (or perhaps ‘outerworld’) where state authority is weak and lawlessness prevails. In the upper Mekong borderlands of Thailand, Laos and Burma, the imagery of borderland illegality persists both as spectre and lure, but the substance of what happens there reveals a state and society in league.

Fragments of borderlands trade

In late 1994 a golden Buddha image appeared in the doorway of a main street warehouse in Chiang Khong, a busy Mekong River border town in northern Thailand and key trading point with northern Laos and beyond. Its long main street sprawls with shops, banks, restaurants and warehouses. The large Buddha image added colour to one of the more nondescript parts of town. A large banner above it invited participation in a major merit-making festival in a Luang Namtha temple 200 kilometres away in northern Laos. The Buddha image, and a major cash donation, would be presented to the temple following a long procession that would set off from Chiang Khong’s major river port at nine in the morning on 9 November. Merit-makers were advised to present three photographs and their identity cards so the official paperwork for travel to Laos could be prepared.

This auspicious display of trans-border merit was the initiative of the Butsapha Sawmilling Company run by a larger-than-life Thai businessman with a long history of timber export operations in northern Laos. Visit Wongprasert’s most recent venture was a Luang Namtha sawmill originally

built by Lao provincial authorities who, desperately short of capital, entered into a partnership with Visit. His investment transformed the mill into the most technologically advanced in the far northern provinces. On the information sheet distributed to merit-maker Visit was listed as fundraising committee 'chairman'. Given his investment arrangement with the provincial authorities, it comes as no surprise that the governor and vice-governor of Luang Namtha province served as committee deputies.

Sourcing timber is a complex business in Laos. Government quotas place limits on how much can be harvested. In Luang Namtha the quota lay well below the production capacity of Visit's sawmill. In other words, the mill's economic viability depended on relationships with provincial regulators to facilitate the extraction of logs well in excess of the quota (including logs from the fringes of the nearby biodiversity conservation area). The strategy appeared to work: in 1994 Thai customs (renowned for their underreporting, given collaborative evasion of import duties) recorded that Visit exported sawn timber amounting to 4000 cubic metres when that year's quota was only 1000 cubic metres. Elaborate merit-making with senior members of the provincial government was a small price to pay for this convenient oversight.

Somjit was a Lao petty trader and cross-river boat operator. She was the only woman I met who regularly operated a boat between Chiang Khong and Houayxai on the far side of the Mekong border. Most mornings her long blue boat was a regular sight, cutting across the Mekong to Chiang Khong's muddy port, where she casually wandered the main street's wholesale shops, filling orders placed by customers in Houayxai. Having made her purchases, she usually waited among the riverside sheds and restaurants directly opposite the Thai customs house. Eventually, her tuk-tuk arrived and headed down the concrete ramp to the port below where her goods would be loaded into her boat. Nonchalantly, she finished her conversations or bowl of noodles, paid the tuk-tuk driver, poled her boat out into deeper water, started the engine and rounded one of the islands that marked the beginning of Lao territory.

The profitability of Somjit's petty trading depended heavily on the non-payment of border duties and fees. On the Thai side Somjit rarely paid the 50 baht immigration charge, the 'processing charges' or export taxes. She often avoided port fees collected by Thai boat-operators who controlled cross-border passage. When relations with customs officers were strained or the cross-river boat association was being particularly diligent in collecting fees, she moored her boat at the port's far end (only 50 metres downstream) and loaded her goods via a muddy lane that avoided the customs house but ran past a restaurant where customs officers often chatted and planned their evening badminton games. On the far side of the river, where Lao import duties on many items were prohibitively high, Somjit rarely had to resort to the wads of Thai baht and Lao kip tucked in her fake leather handbag. She was friends with the customs officers, had known them for years and sometimes brought them treats, like pornographic videos. More often they invited her to share a beer.

The state of illegality

Both accounts illustrate aspects of borderlands illegality: above-quota logging, smuggling, bribery, peddling pornography. Most interesting is that both accounts involve close collaboration with the state.¹¹ Somjit's success was not based on cross-border smuggling stereotypes: she did not slip across the Mekong at night to collect goods hidden in riverbank overgrowth. Her passage through official ports was highly visible and often noticed by border officials. Somjit was much admired amongst the male port fraternity. The petty officials and cargo-port notables seemed keen to engage her in the flirtatious and sexualised banter in which she excelled. Some may have entertained forlorn hopes of sexual access but for most her pale-skinned presence was an end in itself. One group of Thai immigration police seemed so captivated that they gave her small gifts, even asking her what brand of beer she preferred. No doubt the relationships Somjit cultivated on both sides of the border varied in their nature and intensity, but it is clear that her 'smuggling' was based on a personalised engagement with—rather than avoidance of—state border officials. Visit's case is

similar: he did not seek to operate in a 'non-state' illegal timber economy but rather to forge new, more secure and profitable forms of regulatory collaboration.

It's tempting to suggest that these remote local officials are simply out of control, subverting central government regulations and in urgent need of what international development agencies call 'capacity building' or that the actions of Visit and Somjit typify the undermining of central state power as traditional boundaries are subverted by a proliferation of transnational flows. But both of these common responses are informed by an overly formal model of state authority that lays down a formal regulatory grid (such as the national border) and polices it for illegality (such as smuggling). By contrast, what these fragments of borderland trade suggest is that state power may be examined in terms of its genesis in local social relationships. State regulation is one aspect of sociality, constituted by the numerous cross-cutting allegiances in which state policymakers and officials find themselves. From this perspective definitions of illegality become problematic—not just because transnationalism introduces non-state frames of reference, but because diverse and hybrid forms of governmentality become apparent. The national border itself emerges as a site where various forms of power, agency and constraint creatively (and often unequally) interact, rather than as a place where state power stands opposed to local aspiration.

Beyond hills and plains

These local insights prompt some rethinking of conventional models of social space in mainland Southeast Asia. These models often posit that frontiers are formed, and state power established, through a process of diffusion from powerful centres in the lowland plains to the less powerful peripheries that lie in the hills. The so-called periphery is too commonly interpreted in terms of a two-dimensional confrontation between the 'penetration' of a pre-existing state and the 'resistance' of pre-existing local communities. An alternative approach may be to explore the processes of

collaborative state and community *formation* that take place in frontier regions. The reality of power inequality cannot be denied but neither can ways in which unequal relationships are creatively and unpredictably generated in frontier regions. No doubt, the symbolic division between hills and plains is culturally persistent but it is important to be aware of the extent to which the 'lived essentialism'¹² of this simplifying narrative overly constrains scholarly analysis. The subtle interplay between the illegal and the licit provides one useful point of entry into the multifaceted governmentality of the Southeast Asia's seemingly peripheral regions.

To explore diverse forms of borderlands governmentality in other contexts, scholars at the Australian National University, The National University of Singapore and Yunnan University are developing a new project called 'Beyond Hills and Plains: Rethinking Economy, State and Society in the Southeast Asian Massif'. For further information contact the author.

NYP

The Diplomat

CORAL BELL

Coping with the jihadists (or rather failing to do so)¹³

More than five years on from September 2001, the world is even more turbulent and violence-ridden than it was in the days immediately after that intensely traumatic event. Why have the strategies which were intended to make us feel safer, and actually be safer, failed on both counts?

Largely, to my mind because of a wrong choice (essentially by Washington) of battlefields, and a really staggering failure to analyse the

nature, dynamics and impact of asymmetric war, or the sociological structures of the communities which are affected by our policies.

It is easy enough to understand the reasons why Washington's politicians decided to call the conflict with the jihadists 'the Global War On Terror' (GWOT). It endowed our efforts to combat the enemy (who is indeed very dangerous) with a sort of halo of righteousness. Being on God's side is always a comforting thought. Unfortunately, the jihadists likewise believe they are on Allah's side, and in a more activist way, more clearly endorsed by many (not all) of their clerics. It is much easier to find compromises in a conflict defined as being over worldly issues, like territory or economic and political interests, than one which is held to be over rival interpretations of the will of God. Taking the ninety years since World War I as a whole, Islam's grievances against the West have gone steadily from rather secular political or economic issues, (like sovereignty and control over oil resources), to the issue of Islam's place in the world. So now in Iran we deal with Ayatollahs, instead of nationalist politicians. (Problem Number One).

The initial US reaction to 9/11, the invasion of Afghanistan, was probably inevitable, and might have gone more effectively, and met with a better measure of success, if it had remained the Pentagon's top priority. But, unfortunately, by early 2002 US priorities were switching to Iraq. That catastrophic strategic error is what I think history will find it hardest to forgive. (Problem Number Two).

One should not, however, assume that it was only the neo-conservatives in Rumsfeld's Pentagon (the 'suits' not the 'uniforms'), who wanted so urgently to overthrow Saddam. As early as January 1998, in Clinton's time as President, a group of prominent Americans, not all of them Republicans, were urging action to remove him. The alleged reason for its military necessity was his possession of weapons of mass destruction, but (as now has been established by many enquiries) he had actually made no progress towards their acquisition after 1991, his overall military strength was lower than it had been at the time of the Gulf War, and al-Qaeda would have regarded him as a target rather than a friend.

Even allowing for errors in intelligence, one has to ask what political anxieties were behind the US decision to invade Iraq, made in 2002, a time when both the war in Afghanistan, and the overall global effort to deal with the jihadist network clearly needed Washington's full attention. On the old principal of '*cui bono?*' (who benefits?), one would have to say that the chief beneficiary of Saddam's overthrow has clearly been Iran. But since I would be reluctant to believe that the Ayatollahs had an 'agent of influence' in Washington, it seems more plausible to assume that the anxieties on the minds of those in a position to influence the President's decision were centred on the security of either US oil supplies or Israel. But that question is now for the historians.

What appears clear at the moment is that the decision has been for the US the most damaging of self-inflicted wounds since the similar 1964 decision to put combat troops into Vietnam. The mistake was essentially the same in the two cases: the wrong choice of a battlefield. Of course Saddam's regime was an abominable tyranny, but the world is full of regimes that can be so defined and could justifiably be removed if moral judgments were the only guide. But the choice of war involves so many inevitable human tragedies that it needs more than that to justify it. It requires an immediate and otherwise unstoppable threat, like Hitler in 1939. It is difficult to see that in 2003 Saddam's capacity for threat extended even to Kuwait or the Kurds, much less beyond. His power could be, and was being, contained. With time it might have yielded to internal forces, such as had overthrown his predecessors. The spread of democracy is a noble aspiration, but it cannot be exported on Abrams tanks. It needs to grow from within, with the kind of social structure that usually only comes with economic development.

If Seymour Hersh is right (and his capacity for uncovering Washington's secrets has been impressive), something similar recently happened in Lebanon. According to his article in the 21 August issue of the *New Yorker*, the Israeli decision to invade Lebanon in July was not simply a spontaneous reaction to the kidnapping of two Israeli soldiers by

Hezbollah. That was merely a useful *casus belli*. The battlefield, like that in Iraq, was chosen in the interest of a strategic plan concerted with Washington. Assuming that interpretation is true, it indicates a failure to understand the potentialities of asymmetric war, and an overestimate of the capacity of conventional armed forces (especially air power) to subdue it. And that might be the most pervasive problem of all. Rather like assuming that a sledgehammer is the right weapon against a swarm of killer wasps.

That error is also one of the most puzzling aspects of the recent disasters. Even just looking at the last fifty years or so, the difficulties of combating insurgency had been demonstrated many times earlier. There was the thirty-year campaign of the IRA against the British government, and (for American students of insurgency) the thirty-years war (1946–75) in Vietnam, not to mention the successful 10 year campaign by the jihadists against the Russians in Afghanistan in the 1980s, which (it is mournful to recall) was so much welcomed, here and in the US, at the time.

In all three of those instances the outcomes essentially came down to a political change of sorts, though not the sort Washington seems possibly to still be dreaming of. Victory in Vietnam eventually went to the forces which looked to Ho Chi Minh. The Russians in time just shrugged their shoulders and walked away. In Ireland, a good deal of what the IRA were on about has been conceded to their political heirs. In other words, it was not the side armed with conventional military power which won. It was the other side. If the military, after all that experience, have not found a *military* answer to asymmetric war, it may be because there really is no such answer. Only political ones.

The most alarming implication of the Hersh story is that the Pentagon was (and may still be) contemplating a campaign against Iran, or at least against its nuclear installations, before the end of the Bush term, and saw the Israeli efforts in Lebanon as a sort of ‘test run’ for air operations against dug-in ‘assets’, and insurgents.

If so, assessments of the outcome in Lebanon might usefully discourage any such project. After more than a thousand Lebanese dead (mostly civilians), the destruction of much of Lebanon’s infrastructure, and

more Israeli deaths than usual, Hezbollah were still firing rockets into Israel in the last few hours before the ceasefire. Moreover, that Shia group has become regarded as the true victor of the war, not only in Lebanon but through the Arab world, not to mention Iran and even the wider Muslim world. So, as in Iraq, their campaign has been not only a training ground for new jihadists, but an inspiration and a source of their further recruitment. Not just the Shia, but also the Sunni, the Druze, the Maronites and even the Catholics in Lebanon's unique political structure may have come to regard them as the true defenders of Lebanon. Talk of 'disarming Hezbollah' is an exercise in unreality. Its military assets are its members, and though a few hundred may have been killed by the Israelis, ten new recruits are probably waiting to replace each of them. Arms may be handed in, but they also will have a ready flow of replacements, upgraded.

Moreover the episode has been a further boost to Iranian and Shia power in the whole region. Until 2003, the influence of both Iran and Iraq had been restrained by the system of 'dual containment', balancing each against the other. Now Iraq is in ruins, and close to civil war, and Iran in the hands of its most fundamentalist decision-makers ever. The history of US-Iranian relations since the 1953 CIA coup brought down a rather moderate Iranian nationalist leader, Dr Mossadegh, is enough to make the angels weep. To be suitably Biblical about it, the West has sown the wind, and is now reaping the whirlwind, there and in the Arab world.

The sensible strategists in the Pentagon will no doubt be presenting their calculations on the Lebanon outcome to their political masters, and pointing out that if the jihadists based in Lebanon and Iraq and Afghanistan, on populations of about 4 million, 25 million and 26 million respectively, are proving so hard to cope with, what should one expect from a population nearing 70 million, as in Iran? Besides, Iran has other options, like impeding the oil tankers in the Straits of Hormuz, and stepping up the sabotage of oil pipelines in Iraq, so as to slow the delivery of oil from that region to a degree that might see its price rise towards 200 dollars a barrel. Which would devastate the economies of the West.

What Western governments have to face, especially the one in Washington, is that each military operation against a Muslim population, even if its government is an ally, as in Pakistan or Saudi Arabia, increases the recruitment rate of jihadists, not only in the country attacked, but in other places, some with desperately vulnerable regimes, like those two. And also in Muslim communities in Britain and possibly Australia, or in countries close to us.

The leaking in October 2006 of the report of America's 16 intelligence agencies confirms that assumption. If you are in a hole, stop digging, as the old maxim has it. The Western world has been digging itself into a pit of Muslim rage and resentment just about ever since World War I and at an increasing rate since 2003. It may be still digging. And it is now having to face that rage and resentment also in the second-generation of the vast Muslim diaspora into the Western world, and that is a new dimension of threat, only apparent in the last few years, and probably not yet full-grown.

Can anything be done to remedy this policy shambles? A useful start might be to define the conflict more precisely. It should be called the jihadists' war, and not identified solely with Bin Laden or al-Qaeda. The jihadists' first military operations were the 1983 attack in Beirut, during the Reagan presidency, when Bin Laden was still battling the Soviet forces in Afghanistan, and being supplied by the CIA. The jihadists' first effort to blow up the World Trade Center in 1993 seems to mark their change of targeting from local to global, but their strategy remains asymmetric war, and their tactics mostly involve urban guerilla operations.

The most useful 'combat forces' against them at the global level are intelligence operations and police services, but unfortunately we have also the two 'in-country' battlefields, Iraq and Afghanistan. It seems dismayingly clear that 'boots on the ground' (army boots) may be needed for longer in both places than it is politically feasible for the US and its allies to keep them there, much less reinforce them. No obvious exit date is marked for Iraq, but of course there is one for George Bush: January 2009.

After that, the problem falls to his successor, and if US troops are still there, he can say complacently that the decision to quit was the new President's. He is already beginning to say 'not on my watch ...'.

So the parallel with Vietnam may prove embarrassingly close. That war was certainly lost as much (or even more) in the US than it was in Vietnam, on the hapless Gerald Ford's watch in 1975, after Johnson and Nixon had made all the crucial decisions. Yet now, thirty years on, contemporary Vietnam seems to be doing reasonably well for itself, and is even beginning to look like a potential ally against China to some Pentagon 'hawks'. Rumsfeld was visiting there in June. History certainly brings in its reversals as well as its revenges, and not all of them are disastrous. But it makes one wonder what all the deaths were for.

Notes

- 1 First published in *Canberra Times*, 18 October 2005.
- 2 First published in *Canberra Times*, 9 February 2006.
- 3 First published as 'The trouble with Bangkok and Manila', *Far Eastern Economic Review*, April 2006, pp.14–17.
- 4 First published in *Canberra Times*, 15 June 2006.
- 5 First published as 'Hezbollah and Israel both breaking complicated rules of war', *Canberra Times*, 5 August 2006.
- 6 An edited version was first published in *Canberra Times*, 12 August 2006.
- 7 An edited version was first published in *Sydney Morning Herald*, 15 August 2006.
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- 9 First published in *IIAS Newsletter*, 42 (October 2006). *IIAS Newsletter* is published by International Institute for Asian Studies, Leiden.
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- 11 For other accounts see Andrew Walker, *The Legend of the Golden Boat: Regulation, Trade and Traders in the Borderlands of Laos, Thailand, Burma and China* (Richmond: Curzon Press, 1999).
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Nuclear

17 January 2006

Australian Financial Review

ROBERT AYSON

Tehran's five-card nuclear shuffle¹

The international community is huffing and puffing but it has little chance of blowing Iran's nuclear house down. Threats of possible sanctions suggest a halfway house between the dead end of negotiations with Tehran and the dangerous option of military action. But even if the UN Security Council meets and authorises economic punishment, Iran is likely to remain determined to keep its nuclear options open.

Iran has five cards up its sleeve. First Tehran can continue to argue that its nuclear program is designed for peaceful purposes and call on the nuclear non-proliferation treaty in support. The International Atomic Energy Agency has arrangements with Iran to forestall moves towards a nuclear weapons capability, but these are strictly voluntary. The weak enforcement powers of the international machinery are to Iran's advantage.

Second, Iran can play on the international community's preference for a negotiated settlement. The EU3 (Britain, France and Germany) have now said that their own negotiations with Tehran must end. But they have

still shown enormous patience and, as the North Korean experience shows us, negotiations can be like Johnny Farnham's touring career: never really over. US President George Bush has said Washington's clear preference for a diplomatic solution and UN Secretary-General Kofi Annan has suggested more Iran-EU3 talks. Tehran still has the option of negotiating with Moscow nuclear enrichment on Russian territory. Tehran is unlikely to agree—the nuclear program is a symbol of Iran's great power ambitions. But this still leaves open the possibility that negotiations might just prove successful, and thus weaken the case for more aggressive approaches.

Third, the road to the Security Council, let alone to sanctions, is paved with opportunities for fudging. There are at some rather large 'ifs'. One 'if' is whether the IAEA decides to refer Iran to the Security Council. A simple majority is possible but this might not be a resounding chorus for action. Another is what the council would do if and when it meets. Let's assume that all of the five permanent members keep their vetoes in their pockets. It is likely that the council would start by calling on Iran to desist from its program. It would need to give Tehran time in which to cooperate. In the likely event that Iran paid little heed to such finger-waving, the council would then need to reconvene and, dodging the veto one more time, authorise some sanctions. And the sanctions would then need to be applied!

Fourth, Iran's bigger friends are unlikely to fall easily into line with calls to punish it. Two are permanent Security Council members: Russia and China. Of the two, Russia has come along part of the way, but it is not clear whether sanctions would be to Moscow's liking. China will be even harder to persuade, not least because it is a major customer for Iran's hydrocarbons.

Iran's status as the world's fourth largest oil exporter raises the fifth obstacle. Consumers are already noticing the oil price increase that the current 'crisis' has generated. In punishing Iran's economy, the members of the international community may be harming their own. The higher oil prices of the past year have increased Iran's ability to ride out the punishment. Moreover, sanctions do not have a promising record of changing behaviour in the target state.

All of this may, of course, encourage ideas that more drastic measures need to be taken. Attacks on Iran's nuclear facilities by either the US or Israel (which has a proven record with its 1981 strike on Iraq's reactor) cannot be ruled out. Iran's facilities are dispersed and the chances of a completely successful strike are not high. And the diplomatic fallout should not be underestimated. One would have to exaggerate the Iranian nuclear threat even more than is being done now to make a compelling case for military action.

Autumn 2006

Defender

RON HUISKEN

Uranium sales to India: what should Australia's price be?²

In 2005, the United States made the sweeping proposal to assist India to join the ranks of the major powers in the 21st century. To give this proposal concrete form, the two sides agreed to make the most difficult and evocative issue—cooperation in nuclear technology—the centrepiece of their new strategic partnership. President Bush and Prime Minister Singh cemented this development during the former's visit to India in March 2006. To make this deal work, President Bush has to persuade the US Congress to amend US legislation governing trade in nuclear materials and technology, and persuade the Nuclear Suppliers Group—a voluntary group that sets and monitors guidelines for nuclear transactions to minimise the risk that they will contribute to the proliferation of nuclear weapons—to adapt its guidelines to permit trade with India. In short, the US has said not only that it will bring India into the nuclear mainstream but that it will

also take the lead in persuading other key states to do the same. The Indian government wasted no time. When Prime Minister Howard visited India a week after President Bush, he was told of Indian interest in importing uranium from Australia.

The eventual complete elimination of nuclear weapons and, in the meantime, preventing them from spreading to additional countries, has been a global aspiration since the earliest days of the nuclear era. This international norm was eventually codified in the Treaty on the Non-Proliferation of Nuclear Weapons (usually called the NPT), completed in 1968 and entered into force in 1970. The NPT went on to become the most widely supported arms control and disarmament agreement in existence, that is, a treaty that can fairly be described as embodying an international norm or a standard of behaviour that the 'international community' demands of all its members. Given this status, the NPT has become a benchmark in the policies of many states governing nuclear trade. This includes Australia, which requires, in the first instance, that recipients of uranium be parties to the NPT and have the safeguards (or inspections) agreement with the International Atomic Energy Agency (IAEA) that the NPT requires to verify the exclusively peaceful nature of their nuclear activities.

Just as the NPT is not a nuclear disarmament treaty—it recognises that five states already had nuclear weapons when it was concluded but declares that there should be no more than five—adherence to the treaty has never quite been universal. A very small group of states, including India, made clear that they were not prepared to consider joining the treaty, that is, they rejected the international norm on the proliferation of nuclear weapons. While most of these holdouts—Israel, Pakistan and, most recently, the DPRK—have linked their position to their 'unique' security circumstances, it would be fair to say that India's focus has always been the five acknowledged nuclear weapon states and the status they seemed to derive from the possession of these weapons.

This relatively elevated or principled objection to the NPT has been confirmed or reinforced by India's behaviour during its prolonged march to

nuclear weapon status. Relatively speaking, India has not been deceitful about its attitude toward nuclear weapons; it has been rigorous about developing its capabilities indigenously and not accessing clandestine or black market sources of these technologies; and it has never been suspected of assisting other states to act outside international non-proliferation norms.

In the absence of this 'good' record it is doubtful that President Bush could have contemplated the deal with India concluded in March 2006. This record also means that the Bush administration is more likely than not to secure Congressional approval for the deal, and to confirm the dilemma for countries like Australia. India has rejected the norm on non-proliferation and to reward it for doing so is likely to weaken that norm. On the other hand, India is indisputably a significant slice of reality on the contemporary international scene and, in key respects, has been a responsible actor in the nuclear arena (more responsible, in fact, than some of those already 'inside the tent'). In other words, it could plausibly be argued that India will, in practice, be accepted as a legitimate special case and not give rise to unmanageable claims by others for equal treatment.

What is Australia to do? We have a considerable reputation as a champion of the non-proliferation and, indeed, abolition of weapons of mass destruction that we should be loathe to compromise. Do we insist that, on balance, the cause of non-proliferation and eventual nuclear disarmament leads us to maintain the policy of not supplying uranium to countries outside the NPT, bearing in mind that the *only* way India can join the treaty is to unilaterally and verifiably dismantle its nuclear weapon capability and join as non-nuclear weapon state. That is not going to happen and it would be silly of us to present such a position as offering India a realistic path to access Australian uranium. If the deal with the US gets through Congress, we can expect India to be patient but to eventually resent our unwillingness to export uranium, not least if we simultaneously begin exports to China. The policy dilemma for Australia is apparent in the fact that a delegation of senior Australian officials was in New Delhi discussing these issues in May 2006, just two months after the US-India deal was formally made public.

We might, however, be able to transform this dilemma into an opportunity. The nuclear non-proliferation regime is under siege, and showing signs of stress. The cumulative experiences of the past 15 years—Iraq, DPRK, India and Pakistan, Iran, and the nuclear black market orchestrated by Pakistan's Dr A. Q. Khan—have taken their toll. The regime urgently needs a transfusion, a persuasive reaffirmation that the letter and spirit of the NPT is indeed where the community of states desires to go. Australia can aspire to make such a persuasive reaffirmation part of the price of endorsing the US-India deal and of entertaining the prospect of exporting uranium to India. With 40 per cent of the world's proven uranium reserves and three of the world's most influential states—US, China and India—for various reasons eager to see us embrace more realistic (i.e. liberal) policies on the export of uranium, Australia has some leverage.

Experts will differ on the priority components of a persuasive reaffirmation of non-proliferation and nuclear disarmament objectives. Three strong candidates, in my view, are as follows:

To seek of the United States that it take the lead in reaffirming the letter and spirit of article VI of the NPT, the article that enjoins the nuclear weapon states to negotiate effective measures relating to nuclear disarmament. In a burst of what academics label 'offensive realism', the Bush administration has implicitly depicted this obligation as a piece of idealistic if not fundamentally misguided nonsense. It has elevated the importance of nuclear weapons to the advancement of US interests; characterised a strategic nuclear force about as large as the force it possessed in 1969 after more than two decades of intense nuclear arms racing with the Soviet Union as its minimal requirement into the indefinite future; and it has banned any official statement suggesting that it subscribes to the literal intent of article VI. This posture is corrosive of the non-proliferation regime.

The second step concerns the all but forgotten Fissile Material Cut-Off Treaty (FMCT). All five recognised nuclear weapon states have voluntarily suspended the production of new fissile material for nuclear weapons but negotiations to make this a formal treaty obligation have been

paralysed by preconditions and latent concerns that available quantities of fissile material relative to other powers may not be adequate in the future. Australia could signal that it expects to see these preconditions and latent concerns set aside in favour of a renewed determination to conclude the FMCT.

Finally, on the back of this renewed determination to conclude the FMCT, we could seek an orchestrated effort to build a global consensus to make internationally owned and operated facilities for the production of fissile material the sole source of these materials. This, in turn, would provide the platform for a corresponding amendment to the NPT to take away the present right (which Iran is insisting on) to have nationally owned facilities of this kind.

This only looks like blackmail. Actually, it does little more than require of those who want us to export uranium to live up to vows they have made on countless occasions in the past. Power generating nuclear reactors have an effective life measured in decades making security of fuel supplies especially important. Australia should aspire to project the impression that our reliability as a supplier of uranium is contingent on all our customers pulling their full weight in strengthening the integrity of the non-proliferation regime. Punching above our weight in this crucial arena will take courage. But we can be pretty confident that 50 years from now we will regret not having tried.

Notes

- 1 First published in *Australian Financial Review*, 17 January 2006.
- 2 Republished from the Autumn 2006 *Defender*, quarterly national journal of the Australia Defence Association.

People

November 2005

Far Eastern Economic Review

HAL HILL

The power of ideas: how actors and advocacy have made a difference in reshaping post-Soeharto Indonesia¹

Indonesia has been doing it tough over the past eight years, which have arguably been the most challenging in its 60 years as an independent nation state. After three decades of rapid economic development under Soeharto, albeit without much political freedom, the country experienced a deep economic crisis in 1998. The economy contracted by almost 14 per cent. Its crisis was more severe than that of the other East Asian economies. It also differed from them—and Argentina in 2002, where the contraction was similar—in the sense that it experienced ‘twin crises’: economic decline, interacting with political cum institutional paralysis following the fall of Soeharto in May 1998. From ‘boom to gloom’ and ‘from show-case to basket case’ are among the memorable characterisations of this sudden and unexpected decline in fortunes.

Well established rules of the game for business collapsed with the departure of Soeharto, and the existing formal institutions (the judiciary,

the police, the civil service) were too weak to independently chart a course through the vacuum. The country has experienced a series of nasty ethnic conflicts in many parts of the archipelago, which for a time resulted in as many as a million internally displaced refugees. Indonesia was also forced to cede territory in East Timor—admittedly acquired in internationally controversial circumstances—with a humiliating retreat in 1999. It has experienced the most serious terrorist attacks in East Asia, with three major incidents and several on a lesser scale. It was also by far the worst affected in the Tsunami on 26 December 2004. Internationally, it has felt somewhat friendless in the wake of the economic crisis, especially following its bruising encounters with the IMF in 1997 and subsequently.

The country's recovery since 1998 has been slow, shaky and unpredictable, with five presidents in nearly as many years. At times, the country could have degenerated from being the 'messy state' it has been since 1997 to something much closer to a 'failed state', with dreadful implications for its people and the neighbouring region.

But, as the country undergoes an historic transformation, it appears that the worst may be over. There were three nationwide elections conducted in 2004, with almost 150 million voters and no verified allegations of malpractice on any scale. The economy is recovering strongly, though it remains vulnerable. The new rules of the game in business and politics are gradually becoming clearer.

Why and how this recovery has been achieved will be the subject of some budding author's yet to be written opus. But critically important have been the role of informal coalitions of broadly like-minded individuals engaged in major public policy battles in a newly emerging and volatile political arena. These individuals have had particularly important impacts in four key areas:

- the importance of 'economic orthodoxy' in cleaning up the mess left by the crisis and in restarting economic growth;
- quickly regaining macroeconomic stability in the wake of the crisis;

- keeping open the intellectual and policy connections to the global community; and
- reminding a younger generation of academics of the importance of analytical rigour and public policy responsibilities in their research.

In the grand scheme of things, academics typically resort to their favourite theory to explain how countries respond to major crises. Individuals are invariably accorded a minor role in these explanations, since theory has always had difficulty accommodating them. And when they do enter the story, it is typically those who are durable centre stage actors: the Maos, Hitlers, Thatchers, together with presidents, the major corporations and the dominant wealthy families. While understandable, this attention understates the key role of opinion leaders and others with an opportunity to shape policy decisively.

Thus, to understand major transformations, such as Indonesia's recent economic history, one has to look beyond the presidential palace and the major boardrooms to a broader set of actors who have been influential in shaping social and political currents. For Indonesia lurched suddenly from a carefully orchestrated political process to a free-for-all, where anybody and everybody could have their say. Development policy is now no longer about 'low politics' and lobbying the president and senior cabinet members behind closed doors. Rather it has become an open, transparent process featuring sometimes raucous and even vindictive public debates.

In this rapidly evolving and highly dispersed market place for ideas, ranging from the sophisticated to the wacky, the ability to argue and persuade has become critically important. To understand the transition process, one therefore needs to view it both at the macro level and up close. A helpful entrée to the latter is to examine the role of key individuals over this period, and how they operated during this period.

Inevitably the choice is arbitrary, but in this writer's assessment, at least four 'opinion peddlers' stand out. Perhaps inevitably also, all four are highly unusual. Two are past cabinet members. All four have PhDs, and advanced training in the US. The first language for two of them is Dutch. Two also belong to Indonesia's tiny ethnic Chinese community, which

numbers about 2 per cent of the population and has often been excluded from government.

But the common elements are just as important. They are all people of impeccable personal integrity. They are passionate about social justice and poverty alleviation. Philosophically, they are all what may be termed 'liberal internationalists' in their belief in open societies and economies. But they are also deeply nationalist in the sense of caring about their country and its progress. During the crisis, all four could easily have left the country for greener pastures. But they remained at home, to fight on, either in government or as active proselytisers in the public domain.

Moh Sadli, along with Widjojo Nitisastro, the grand old man of the Indonesian economics profession, is emeritus professor at the University of Indonesia. Now well into his eighties, he was a cabinet minister under Soeharto for 10 years and a core member of the gifted so-called 'Berkeley Mafia', led by the redoubtable Widjojo. Sadli has been the tireless public campaigner for sensible economic policy. His bi-weekly (and bi-lingual) opinion pieces in his internet newsletter, in the quality Jakarta press and in his *Business News* outlet have arguably been the single most widely read and influential running economic commentary throughout this period. Three key elements have always been present in these commentaries. First, the importance of sound 'first principles' in economic policy, whether it be macroeconomics, trade and industry policy, or social issues. The second has been keeping a watchful eye on the public policy debates, the complex, fluid political economy equations, and how they are likely to impinge on outcomes. And third, in debates which have often been parochial and sometimes conspiratorial, Sadli has always been quick to remind his readership of the international dimensions, ranging from the lessons of other countries in transition from crises to the latest writings in development economics. Sadli has also straddled business and academe with ease, more effectively than anybody else in Indonesia. As the architect of Indonesia's liberal foreign investment policies in 1967 and from his tenure as Minister for Mining in the 1970s, he retains close

connections with the international business community, and has played a major role in educating them about Indonesian political economy.

Boediono, a professor of economics at Gadjah Mada University who has held several senior government positions, was Minister of Finance for three years, mainly during the Megawati administration. Probably more than any other person, he was responsible for the restoration of macroeconomic stability after the crisis. Public debt began to rise alarmingly following the economic crisis, mainly owing to the liquidity credits issued to stave off bank failures. When he stepped down from the Finance Ministry, the budget deficit was just 1.5 per cent of GDP, an achievement which would have appeared impossibly ambitious in the late 1990s. The record is all the more noteworthy for it was achieved in difficult circumstances. The cabinet possessed limited economics expertise and sympathy for orthodox economic policies. The president rarely went public to argue the case for economic reform. Foreign investors were deserting the country. A newly assertive parliament (Dewan Perwakilan Rakyat) was eager to spend on favourite projects, while the political environment was quite hostile to 'IMF' notions of fiscal prudence. Boediono's contribution to the restoration of macroeconomic stability has sometimes been compared to the early years of Soeharto, when the technocrats quickly brought the Soekarno-era hyper-inflation under control. Yet in some respects his task was perhaps more difficult. The 'Berkeley Mafia' were cohesive and more numerous in Cabinet, they had direct access to and strong support from Soeharto, and they enjoyed a close working relationship with the IMF, the World Bank and other foreign donors. By contrast, Boediono not only had to bring the Cabinet on-side but he also had to persuade the DPR of the merits of his package. Indeed, it was not uncommon for him to spend half his time educating, persuading and cajoling members of the DPR.

Hadi Soesastro has for many years been executive director of Indonesia's most influential internationally-oriented think tank, the Jakarta-based Centre for Strategic and International Studies. Established in the early 1970s, CSIS has arguably functioned as the most important prism through

which foreign intellectuals view Indonesia. The Centre has had a sometimes controversial past, owing especially to the identities and histories of its early founders and leaders. It periodically comes under attack for its political and business ties, with an undercurrent of hostility towards its alleged 'Catholic Chinese' identity. At the peak of the economic crisis in late 1997 it was the object of nasty, politically-inspired demonstrations, and occasionally such sentiments reappear. But this is a sideshow compared to its remarkable achievements in projecting Indonesia to the world. It runs more quality international conferences in Indonesia than anybody else. Foreign scholars and graduate students gravitate to its hospitality, and to its lively, cosmopolitan, intellectual atmosphere. It has an unparalleled network of international contacts, especially but not only in the Asia-Pacific region, where it is arguably the best institution of its kind. For over a quarter of a century, it has also published Indonesia's best English-language current affairs journal, the *Indonesia Quarterly*. CSIS is a team effort, with a number of stars (a former director, Mari Pangestu, is now Indonesia's Trade Minister) and extremely able management. But over these eight years, it is difficult to think of a more inspiring and able leader of a think-tank than Soesastro.

Thee Kian Wie is widely regarded as Indonesia's most eminent and prominent academic in the social sciences, for which he was recognised with the nation's highest award in 2002. From his tiny office in the Indonesian Institute of Sciences, over the past 35 years he has authored or edited almost 20 books and 70 papers on an amazing variety of subjects: economic history, his primary research field, together with industrialisation, foreign investment, small-scale industry and poverty, to name just a few. He too has been a prolific and passionate public commentator on a wide range of issues. In 'retirement', he edits Indonesia's premier economics journal, *Economics and Finance in Indonesia*. Indonesia's research community and its leading universities remain sadly neglected, and are in danger of falling behind their East Asian counterparts, owing to chronic underfunding and an environment which places little value on sustained scholarship. More than anybody else in the country, Thee is the role model to whom the serious younger generation of academics look for inspiration. He has demonstrated

how to maintain academic integrity in a challenging environment, and how to maintain a lifelong enthusiasm for intellectual enquiry. Moreover, with his unparalleled international scholarly network, he has shown how the next generation can build bridges connecting to the global research community.

To sum up, this has been a turbulent and volatile chapter in Indonesia's history, which could have degenerated into a quagmire of sluggish growth and xenophobia. There has not been an 'Olsonian' sweeping away of corrupted structures and vested interests. Rather, Indonesia is work in progress, with impressive incremental achievements during an extremely challenging episode. Inevitably, this is a very partial picture of the transition. Observers view the country through different prisms, each with their own set of special actors. It is therefore easy enough to quibble with this selection of individuals, which after all includes no politicians, no business people, and no women. But it does capture a key dimension of the forces at work in constructing a new, democratic Indonesia, and of how four individuals have worked effectively, in an unconnected fashion but with a broadly similar and coherent reform agenda.

10 May 2006

Canberra Times

GEORGE QUINN

Clear-eyed chronicler of modern Indonesia²

Pramoedya Ananta Toer, Indonesia's prolific master novelist, passed into history last Sunday. His quiet death at the age of 81 reveals a vacuum that 40 years of censorship and high-handed paternalism has created in the heart of

Indonesia's literary and intellectual life. Decades of authoritarian rule, first by left-leaning President Soekarno and later by right-wing President Soeharto, have left many Indonesian writers suspicious of ideas, and worse, afraid of their own history. The country's once rich and cheeky literary life is only slowly recovering. Pramoedya has no successor of remotely comparable stature.

Pramoedya (pronounced 'pra-MOO-ja') spent much of his long life in jail or under house arrest. In the late 1940s the Dutch imprisoned him for his pro-independence activism. Walled up for two years in prisons and camps his imagination flew free. Triggered by the events of the Japanese occupation and Indonesia's war of independence, a series of gripping works poured from his pen: *Guerilla Family*, *Tales from Blora*, *The Chase*, and his sombre early masterpiece *Life's No Fun Fair*.

In the mid 1950s, after visiting Communist China, he swerved sharply to the left. He wrote a sympathetic history of the Chinese in Indonesia. The book was banned by the Indonesian government and Pramoedya himself was imprisoned for a short time. Perhaps it was the shock of this that triggered the composition of another masterpiece, *The Girl from the Coast*, a powerful attack on the impoverishment of spirit that class differences inflict on both the oppressors and the oppressed.

In 1965, Pramoedya was arrested on suspicion of complicity in the attempted Communist coup of that year and sent without trial or charge to the island of Buru in eastern Indonesia. A blanket ban was placed on all his books.

From his early years he had been an obsessive collector of facts, figures and newspaper clippings. Stored in his head where his tormentors couldn't get at it he took this encyclopaedic archive with him into the jungle camps of Buru. When he was released into house arrest 14 years later he had four new novels inscribed and polished in his remarkable memory. The first of them, *This Earth of Mankind*, was published in Indonesian in 1981. After a few months of official indecision, it was banned.

Set at the turn of the 19th and 20th centuries the novel tells the story of Minke, a young Javanese whose character is modelled on that of Tirta Adi Soerjo, a real-life pioneer journalist of the time. It explores Minke's

awakening to the injustice of colonial rule and the outwardly benign institutions—especially the law—that defend and propagate that injustice.

This Earth of Mankind is memorable for its strongly drawn characters. For me Nyai Ontosoroh is the most unforgettable. She is an ‘uneducated’ Javanese villager taken as a concubine by a drunken, incompetent Dutch farmer. She assumes management of her husband’s farm near Surabaya, transforming it into an efficient, successful enterprise. But the fruits of her intelligence and hard work are torn away from her by racism, the judicial system and the exercise of brute class power. The novel is not an allegory or a work of propaganda, yet its parallels with modern Indonesia are unmistakable.

A junior officer in Australia’s embassy in Jakarta, Max Lane, laboured through his weekends to translate the new novel into English. When the Australian ambassador got wind of this, he instantly dismissed Lane. Unbidden by Indonesia’s ruling generals, an Australian official tried to do their censorious dirty work for them. But *This Earth of Mankind* and the other novels in Pramoedya’s *Buru Quartet* became best-sellers around the world, confounding attempts to erase the author from history.

After the fall of President Soeharto in 1998 the ban on Pramoedya’s works was lifted and he was released from house arrest. Yet for a whole generation of Indonesians—now in their young adulthood and middle years—the works of their greatest writer remain less known than they are overseas. Although Pramoedya’s books have been reprinted and are now freely available, his reputation as a communist still dogs him. His writings are not studied at all in schools and are little noticed in universities. Indonesia’s growing community of conservative Muslims still shun him. There remain mixed feelings about him even in the liberal establishment. There is no question that Pramoedya was complicit in the censoring and hounding of his political opponents under the left-leaning rule of Soekarno in the early sixties, and this has not been forgotten.

Some twenty years ago I visited Pramoedya at his home in a scrum of houses in the suburbs of Jakarta. I was greeted by a frail man wearing thick glasses, a singlet and a checked sarong. His hands rustled incessantly

through piles of newspaper clippings. A blow from a prison guard had partially deafened him and he turned his head aside to better follow our conversation with his good ear. He was polite but distant, until, with the innocent obtuseness of a foreign academic I unwittingly asked him a provocative question.

‘You are Javanese. Why don’t you write in Javanese as well as in Indonesian?’

He didn’t disguise his irritation. In a flash his frailty and age dropped away. His voice took on a sudden toughness.

‘Javanese is a feudal language ... the language of the past! I write about Indonesia’s history but I do it for my country’s future. Javanese has no place in that future!’

Suddenly weary, he stretched out on a nearby bed. I was dismissed, but I took away with me a precious glimpse of Pramoedya, the hard man.

For all his credentials as a tough-minded but reliable observer of Indonesia’s emerging modern consciousness, and despite his disavowal to me of loyalty to the Javanese language, Pramoedya’s vision of Indonesia remained essentially Java-centric. His writing does not really deal with the Indonesia outside his home island. His characters are drawn from the groups that have dominated Javanese history: the Javanese, the Dutch, the Eurasians and the Chinese.

In the brutal conflict between the authoritarian left and the equally repressive right in post-independence Indonesia, Pramoedya stood on the left. Exposing the tawdry myths and jingoism of official history was his special mission. Yet his writing defies the glib stamp of ‘communist’, ‘socialist-realist’ or even ‘leftist’. He stood far above narrow ideology and even above Indonesian nationalism. He was, like the title of his novel from the *Buru Quartet*, a ‘child of all nations’.

Notes

- 1 First published as ‘Four men who changed Indonesia’, *Far Eastern Economic Review*, November 2005, pp.41–44.
- 2 First published in *Canberra Times*, 10 May 2006.

Contributors

The constituents of the ANU College of Asia and the Pacific are:

Asia-Pacific College of Diplomacy

Crawford School of Economics and Government

Faculty of Asian Studies

International Centre of Excellence in Asia Pacific Studies (ICEAPS)

Research School of Pacific and Asian Studies (RSPAS)

Edward Aspinall is a Fellow in the Department of Political and Social Change, RSPAS, with research interests in Indonesian democratisation, separatist conflicts and nationalism. He is author of *Opposing Suharto: Compromise, Resistance and Regime Change in Indonesia* (Stanford University Press, 2005).

Robert Ayson is a Senior Fellow in the Strategic and Defence Studies Centre, RSPAS, where he directs the Graduate Studies in Strategy and Defence (Masters) program. He has also held official and academic positions in New Zealand. His main research interests include strategic concepts, Asia-Pacific security, Australian and New Zealand defence policies and nuclear proliferation.

Geremie R. Barmé is an Australian Research Council Federation Fellow and Professor of Chinese History. He has written widely in English and Chinese for both specialist and general audiences. He is also a film-maker and editor. His most recent book, edited with Claire Roberts, is *The Great Wall of China* (Sydney: Powerhouse Publishing in association with The China Heritage Project, ANU).

Coral Bell is a Visiting Fellow in the Strategic and Defence Studies Centre, RSPAS. She was formerly Professor of International Relations at the University of Sussex (UK), and earlier a member of the Australian Diplomatic Service. Her research interests are mainly in crisis management and the interaction of strategic, economic and diplomatic factors in international politics, especially as they affect US and Australian foreign policies.

Satish Chand is Associate Professor in economics and leads the Pacific Policy Project within the Crawford School. He is from Fiji and writes regularly for media and academic journals.

Dr Chunlai Chen (MPA Harvard University, PhD Adelaide University) is a senior lecturer in the Crawford School. His research interests include foreign direct investment, international trade, and agricultural economics.

Kit Collier is a Visiting Fellow in the Department of Political and Social Change, RSPAS, and a consultant to the International Crisis Group, Human Rights Watch, and numerous other government and non-government agencies.

Harold Crouch is an Emeritus Professor in the Department of Political and Social Change, RSPAS. He is the author of *The Army and Politics in Indonesia* and was Director of the International Crisis Group's Indonesia project in 2000–02.

Professor Paul Dobb is Chairman of the Strategic and Defence Studies Centre, RSPAS. He was Head of the Centre from 1991–2003. Previously, he was Deputy Secretary for Strategy and Intelligence in the Australian Department of Defence and Director of the Defence Intelligence Organisation.

Peter Drysdale is Emeritus Professor of Economics and Visiting Fellow in the Crawford School. His main areas of expertise are international trade and economic policy; Australia's economic relations with East Asia and the Pacific; the Japanese economy and economic policy; Chinese trade and economic reform; and the East Asian economy.

Professor James J. Fox was Director of RSPAS until the end of February 2006. He then joined the Resource Management in Asia Pacific Program. He is currently on leave for the academic year at Harvard University.

Ross Garnaut is Professor of Economics, Division of Economics, RSPAS. His research interests are China's economic reforms and internationalisation; Asia-Pacific economies' development and international economic relations; Australia's economic relations with the Asia-Pacific region; and domestic economic adjustment to Asia-Pacific economic development.

Stuart Harris is Emeritus Professor, Department of International Relations, RSPAS. His research interests include China's international relations, especially with the US; regional, notably Northeast Asian, economic, political and strategic developments; and energy issues.

Hal Hill is the H. W. Arndt Professor of Southeast Asian Economies, and Convenor of the Division of Economics, RSPAS. He works primarily on economic development issues in Southeast Asia, especially Indonesia and the Philippines.

Ben Hillman is a postdoctoral fellow in the Contemporary China Center, RSPAS, and director of the Eastern Tibetan Language Institute in Yunnan Province, China. His research interests include rural governance in poor-area China.

Ron Huiskens, a Senior Fellow in the Strategic and Defence Studies Centre, RSPAS, specialises in US security policies, East Asia's security architecture and arms control/non-proliferation.

Andrew MacIntyre is Professor in Political Science and Director of the Crawford School of Economics and Government. His principal research interests are in the areas of comparative political economy with a regional focus on Southeast Asia, and the international relations of the Asia Pacific region. His latest book is *The Power of Institutions: Political Architecture and Governance* (Cornell University Press, 2003).

Professor William Maley is the Foundation Director of the Asia-Pacific College of Diplomacy. He is the author of *Rescuing Afghanistan* (London: Hurst; Sydney: UNSW Press, 2006).

Chris Manning is Head of the Indonesia Project, Division of Economics, RSPAS. His special research interests are labour markets, labour policy and migration in Indonesia and East Asia. He also writes on broader issues of Indonesian economic development.

Dave McRae is currently completing his dissertation in the Faculty of Asian Studies on the conflict in Poso, Central Sulawesi. He worked for the International Crisis Group in Jakarta from 2004–06, and has published works on the Indonesian student movement, separatist movements in Indonesia and maritime piracy.

Tessa Morris-Suzuki is Professor of Japanese History in the College of Asia and the Pacific. Her most recent work includes the book *Exodus to North Korea: Shadows from Japan's Cold War* (forthcoming from Rowman and Littlefield, 2007)

Richard Mulgan is Director of the Policy and Governance Program in the Crawford School. His most recent book is *Holding Power to Account: Accountability in Modern Democracies* (Palgrave Macmillan, 2003).

George Quinn, an Indonesian and Javanese language specialist, is Senior Lecturer and Head of the Southeast Asia Centre, Faculty of Asian Studies. His research interests include the literature and popular culture of contemporary Java; patterns and sites of pilgrimage in Java and Madura; and the Catholic Church in East Timor.

Arief Ramayandi is a PhD candidate in economics at the Crawford School. His main research interest is on macroeconomic policy (particularly monetary policy) issues in ASEAN countries.

Dr Graeme Smith has almost completed his second PhD (the first was in chemistry) at the Contemporary China Centre, RSPAS. The subject of his dissertation is the political economy surrounding the provision of agricultural services, and he spent two years in rural China for fieldwork. Graeme will be the research associate on an ARC Discovery project with Professor Jonathan Unger next year.

Ligang Song is Associate Professor and Director of China Economy and Business Program in the Crawford School. He researches on and teaches courses in international trade, development economics and the Chinese economy.

Nicholas Tapp has worked with the Hmong/Miao people in Thailand and China and formerly taught at the University of Edinburgh. He has also been engaged as consultant on forestry projects in China and Southeast Asia. His books include *Sovereignty and Rebellion: the White Hmong of Northern Thailand* (Oxford University Press, 1989) and *The Hmong of China: Context, Agency, and the Imaginary* (Brill, 2001).

Jonathan Unger, a sociologist, is Professor and Head of the Contemporary China Centre. He has published more than a dozen books about China.

Andrew Walker is an anthropologist with a particular interest in rural development and resource management in Thailand and Laos. He works in the Resource Management in Asia Pacific Program, RSPAS. His blog is at <http://rspas.anu.edu.au/rmap/newmandala/>

Peter Warr is the John Crawford Professor of Agricultural Economics and Director of the Poverty Research Centre in the Division of Economics, RSPAS. His latest book is *Thailand Beyond the Crisis* (RoutledgeCurzon, 2005).

Hugh White is Professor of Strategic Studies and Head of the Strategic and Defence Studies Centre, RSPAS, and Visiting Fellow, Lowy Institute of International Policy. He researches and writes about Australian strategic and defence policy. He is the co-author of *Strengthening Our Neighbour: Australia and the Future of Papua New Guinea* (Australian Strategic Policy Institute, 2004).

Clive Williams MG is a Visiting Fellow at the Strategic and Defence Studies Centre, RSPAS. He is also an Adjunct Professor at Macquarie University and a Visiting Fellow at Australian Defence Force Academy. His career background is in intelligence, specialising in national security issues.