

# Asia 2018-2028

## Development Scenarios

Edited by  
Niklas L.P. Swanström



*Institute for Security  
& Development Policy*

# Asia 2018-2028: Development Scenarios

Niklas L.P. Swanström (Ed.)

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## Editor's Note

Asia has been the focus for scholars and decision-makers for many years and its importance seems to be increasing politically, economically, as well as militarily. The region is not only an important engine for economic growth but also a region where we see a plethora of political changes and developments occurring and, potentially more important, where we see the emergence of new security threats (and solutions). Whereas many regions of the world seem to be stagnant in one or several aspects, Asia is moving both forward and backward in all imaginable aspects: a fact that not only creates problems with predictability, but also creates insecurity about the future, not least for business. Despite this, economic growth is increasingly undergirding the development of the region, and more and more states from outside of the region rely on continued growth in Asia for their own security and prosperity. Increased reliance therefore calls for a greater understanding of the dynamics of the region and preparedness for the future.

This book is designed to give a greater understanding of the future and offers an overview of regional developments in Northeast, Southeast, and Southwest Asia with a more detailed focus on the key actors within each region. It has taken a longer-term focus than most other studies, with projections ranging up to the year 2028. This of course impacts the degree to which anything can be said with certainty, and consequently some leaps of faith are inevitable. In thus doing, the book creates scenarios of development outcomes in key issues that range from the probable to the possible. Any conclusions drawn from this study are therefore tentative and are aimed at facilitating long-term thinking rather than providing cast-iron forecasts.

The studies were ordered by the Swedish Armed Forces HQ, Supreme Commanders Staff (Plans & Policy) to be used within the framework for the Armed Forces Long Term Strategic Trends Analysis. No views in this study can be attributed to the Swedish Armed Forces HQ or staff associated with it, as the authors are solely responsible for the analysis and content. On the contrary, ISDP was given full freedom in writing this book and the HQ was at no stage involved beyond that of being a generous and innovative sponsor.

Though this study is a collective effort, each individual chapter bears significant marks of individual contributions. Sangsoo Lee has been the coordinating scholar for Northeast Asia, Nicklas Norling has acted as such for Southwest Asia, and Klas Marklund has taken responsibility for Southeast Asia.

In the Northeast Asian chapter, Sangsoo Lee has written the Introduction and the chapters on Demographic Developments, Economic Developments, Energy Demand and Supply, Domestic Political Developments, Ethnic Relations, Development of Extremist Political Groups, Geopolitical Development, Unresolved Conflicts, and the Conclusion. Ingolf Kiesow has contributed to many chapters of report, particularly the chapters on Economic Developments, Domestic Political Developments, Energy Demand, Development of Extremist Political Groups, and Geopolitical Developments while Karlis Neretnieks authored the chapter on Military Developments. Niklas Swanström has provided most valuable and detailed commentaries on the entire report.

In the Southeast Asian chapter, Klas Marklund has written all sections with exception of the chapters on Geopolitical Developments (Christopher Len) and Military Developments (Karlis Neretnieks). Martina Klimesova and Xiaolin Guo provided added insights into ethnic and religious issues and passages on Myanmar, respectively. Alec Forss, Christopher Len, Nicklas Norling, and Niklas Swanström made valuable contributions and points in all chapters of the paper.

In the Southwest Asian chapter, Nicklas Norling has written the Introduction and the chapters on Demographic Developments, Economic Developments, Energy Production, Ethnic Relations, Domestic Political Developments, and the Conclusion. Ingolf Kiesow wrote the chapter on Geopolitical Developments while Karlis Neretnieks authored the chapter on Military Developments. Svante Cornell has contributed valuable insights into the entire report and particularly the chapters on ethnic relations and geopolitical developments.

# Executive Summary

## Northeast Asia

### Demographic Outlook

- The Northeast Asian countries (China, Russia, and the two Koreas) are facing a significant slowing of their population growth rates, beginning in the 2020s, that will lead to a decrease of the total population.
- The rate of growth in the working-age population in China, Russia, and South Korea will eventually decline as the proportion of elderly increases in the next two decades. Those countries will face a period in which they have to put greater effort into social welfare, such as provision of medical care and pension systems in response to rapidly aging societies.
- Demographic challenges in the region will put the economy of each nation in the region under pressure with a decline in labor-force, savings, and consumption.

### Economic Developments

- China's economy will continue to grow at a relatively rapid pace, albeit there are a number of risks that could disrupt it, such as social instability, economic structural problems, and international high energy prices. Russia's economy will continue to rely on the export of energy resources. South Korea's economy is unlikely to grow at a higher rate, but neither will it experience a serious slowdown as its economy matures. Meanwhile, North Korea will face a significant economic crisis if it fails to open up its economy to the outside world.
- China will continue to play an increasing economic role in the region at the same time as generating opportunities for other countries to export to China. Russia's economy is likely to promote growing economic relations with Northeast Asian countries. It can be seen that Northeast Asia will display a certain increase in the level of economic

regionalism, both with bilateral and multilateral cooperation over the next two decades, while political obstacles will still remain among countries.

### **Energy Demand and Supply**

- Most Northeast Asian countries' energy demands will continue to increase in line with their economic high growth in the next two decades. It will become more and more difficult to satisfy demand at an affordable cost. At the same time, China and South Korea will grow more dependent on Middle Eastern oil, but will continue to seek to diversify supply through African energy, as well as from Central Asia and the Far East of Russia.
- Energy cooperation between China and Japan as well as South Korea will be promoted in the field of energy technology for energy efficiency and renewable energy, while competition among these countries to access more overseas energy resources will remain in the next decade. In the long term, however, to sustain growth and ensure effective management of limited resources in the region will mean increased energy cooperation among countries.

### **Domestic Political Developments**

- The Political reforms will be limited in China and Russia in the next decade. Nonetheless, economic developments in China and Russia will increase people's demands for political rights and greater political liberalization in the long term. South Korea will slowly move toward increased liberalism with a decreased role of the president in state affairs, while North Korea will conduct limited political reform to avoid undermining regime security.
- Social unrests including riots, strikes, demonstrations, and protests against the government are likely to increase in China, Russia, and North Korea due to social inequality and a possible economic downturn.

## **Military Development**

- Most countries of Northeast Asia will strengthen their military capabilities and continue to promote the military reforms to meet the new geopolitical environment of the region.
- China will continue to grow economically and as a result also become a major military power as the second largest defense spender in the world, after the U.S., over the next two decades. The U.S. will make an effort to counter the increased military and political power of China by forming closer ties with mainly Japan, South Korea, and possibly also Taiwan. Although there will be frictions, due to the rebalancing of regional and global power, the risk for a military conflict should remain low.

## **Ethnic Relations**

- Growing pressure from a rise in ethnic identities could increasingly play a role in the national security of China and Russia. Ethnic, religious, and political tensions in Tibet and the Xinjiang region of China are likely to continue, and the governments will maintain control with a forceful policy. Unrest in the northern Caucasus, including the difficulties in Chechnya, Dagestan, and Ingushetia in Russia, will remain insoluble.

## **The Development of Extremist Political Groups**

- The penetration of foreign extremist forces and groups as well as domestic extremist forces will continue to pose a threat to political and social stability in China and Russia over the next two decades. Governments in China and Russia will use the military to deal with terrorist activities by separatist groups in Tibet, Xinjiang, and Chechnya.

## **Geopolitical Developments**

- The U.S. will continue to play the most important role economically, politically, culturally, and militarily in Northeast Asia over the next two decades. However, the implications of the rise of China as an economic and increasingly capable regional military power pose currently the greatest influence on the region. In terms of relationships

with the countries of Northeast Asia, the U.S. will continue to maintain a strategic relationship with China; at the same time, the U.S. with Japan will come closer together as a bloc of influence in the next two decades.

- The EU, India, ASEAN, and Australia will pursue a policy of positive engagement with China and, at the same time, maintain constructive relationships with the U.S..

### **Unresolved Conflicts**

- The North Korean nuclear issue will not be fully resolved, even if the participating states of the Six-Party Talks make some progress on dismantling the North Korean nuclear program. As far as Taiwan is concerned, military intervention is highly unlikely and China-Taiwan relations will become closer economically. The possibility of conflict in issues of history and territory will remain moderately low so as not to impede increased economic cooperation in the region.

### **Conclusion**

Although the region has tremendous potential to utilize the positive trends it is currently experiencing, and to overcome the lingering effects of the calamities sustained within its borders during the Cold War, this chapter suggests many negative possibilities in the issues under study, since this region still holds a number of uncertainties related to the future.

The overall assessment of this chapter is that every nation in this region faces daunting domestic challenges in a revolutionary age. China, Russia, and South Korea will experience continued economic growth with extensive economic reform in spite of some likely growing pains. At the same time, regimes in Northeast Asia could potentially come to be governed by more progressive and democratic forces albeit with strong state institutions. Consequently, it would seem overall that future economic and political reforms are to be expected. Still, an analysis of topics in areas such as demographics, energy, ethnicities, and military, and security issues are ripe for immediate attention and consideration regarding their impact on the future development of the region. Further, the Northeast Asian region should be prudent in finding a way for unsolved problems among countries, such as territorial, historical, and energy disputes, as well as the North Korean

nuclear and Taiwan Strait issues (which have fundamentally altered the course of Northeast Asia). This chapter suggests that in issues of demographics, energy, ethnicities, military, and geopolitical security, the situation could become worse or remain at the status-quo rather than better as time goes on.

Whether or not emergent events in North Korea and Taiwan will occur, however, most security issues in Northeast Asia will stand to be significantly affected by factors brought about by China's rise in the region during the period of 2018-2028, as this chapter strongly illustrates. The obvious concern that China's neighbors have about China's rise is that it will continue to increase its military power. However, China will be unlikely to escalate serious regional tensions or military confrontation, at least *before* it becomes a dominant regional superpower. The reasons are:

- China will need regional stability and positive relationships with others that support its domestic economic development plans.
- China's power will not continue to grow at anything resembling the pace of the past two decades. In this calculation, China's power is unlikely to equal that of the United States in Northeast Asia by 2028.

Accordingly, China will not engage in any direct confrontation with the U.S. as long as it has inferior capability. Thus, conflicts in this region could be limited or ameliorated by economic interconnectedness and the maintenance—despite China's challenge—of the existing regional power order during the period 2018-2028.

## Southeast Asia

### Demographic Development

- There is a degree of demographic stability in Southeast Asia with projections of population growth ranging from 0.8 percent in Thailand to 2.2 percent in Lao PDR. While ageing societies and employment creation may emerge as increasing problems in some countries of the region, the outlook is fairly stable with growing economies taking advantage of a young workforce.

- Increasing urbanization is a striking trend with predictions that it could reach a level of 59 percent by 2025. This will likely not only raise prospects of growing rural-urban wealth divides but also potentially serve as a larger base for political mobilization.

### **Economic Development**

- In spite of high economic growth rates, environmental issues, corruption, and ethnic and religious conflict will all continue to undermine economic development in the region.
- Disparate levels of economic development among countries and Indonesia's failure to play a lead role weaken regional economic integration. ASEAN fulfilling its key objective of creating a regional market and increased economic cooperation by 2015 point to a more favorable trend.

### **Environmental Issues**

- All Southeast Asian countries face severe challenges of sustainable development and environmental degradation of land and water resources – that also displays a transnational character – with deforestation reaching a critical minimum by 2025, which is expected to provoke increased social unrest.
- Climate change raises serious prospects for the region leading to increases in severe weather occurrences, and rising sea-levels inundating valuable agricultural land. Indicators are still plagued by uncertainty, but trends will likely become more directly observable by 2020.

### **Energy Production and SLOC security issues**

- Energy consumption is expected to rise steeply as a consequence of growing populations and development needs. The growing energy import demands in Asia will also necessitate uninterrupted transit through the sea lanes of communication (SLOC) used by oil and LNG (Liquefied Natural Gas) tankers. Thus, Southeast Asia will remain of substantial importance to China even if it manages to diversify energy supplies—primarily in terms of energy transit but also production.

- The productive capacity of the Southeast Asian oil sector remains minimal compared to the Middle East, Africa, and Latin America. On the other hand, the Southeast Asian region has become the fourth largest LNG producer and significant gas reserves are also found in the region which, in turn, will make it an important spot on the world energy map.

### **Domestic Political Developments and Governance**

- The military plays a key role in many countries of Southeast Asia and interference in democratic development despite some attempts to curtail it is expected to continue.
- Generational changes in leadership, increased political consciousness, and global integration will likely spur a degree of political liberalization among authoritarian regimes. Serious threats to regime instability would seem unlikely but could occur in conjunction with the worsening of other indicators relating to economy and the environment.

### **Development in Religious and Ethnic Conflicts**

- Religious and ethnic conflicts are expected to display variable levels of amenability to resolution. Much depends on the ability of governments to redress socioeconomic grievances.

### **Military Development**

- Present-day military organizations in Southeast Asia are more geared toward internal security threats and counter-insurgency and would experience great problems in taking on other state actors, such as in a conflict over disputed islands in the South China Sea.
- While military suspicions exist among many of the Southeast Asian countries and other regional actors such as China, these are highly unlikely in the future to develop into large-scale conflicts.
- A future main challenge for the countries of the region is how to meet challenges arising from China's growing economic and military power and question marks over how the U.S. will react.

### **Geopolitical Developments**

- Southeast Asian countries recognize the need to further consolidate as a region so as to be able to better manage its relations with the external actors but will struggle to do so because of internal disagreement over the pace and manner in which this is done.
- Northeast Asia will become the economic engine for East Asia and its economic gravitas will pull the Southeast Asian countries increasingly northwards.
- The Indian and Australian markets will also become increasingly intertwined with East Asia's. By then a "greater East Asia" (consisting of ASEAN, China, Japan, South Korea, India, Australia, and the U.S.) may be in formation bounded by complex interdependence.
- Security cooperation will develop at a slower pace, in part because so many actors are involved; and add to that, because of the consensus based decision-making style that ASEAN has operated on would hamper many decisions.
- The U.S. will continue to remain the de facto security provider in Southeast Asia but the region may see a growing number of multilateral security cooperation arrangements involving external actors as a burden sharing arrangement is developed.

## **Conclusion**

In a region as dynamic and diverse as Southeast Asia accurate projections of future developments are difficult to arrive at with any great certainty. Indeed, the region finds itself on the cusp of portentous change, and in facing manifold challenges, a complex set of variables and the interaction among them will determine how Southeast Asia will look like in 2018-2028. This notwithstanding, a historical perspective might also provide some clues on future trajectories.

Is it possible to conceive looking to ten to twenty years in the future, that Myanmar will continue to be ruled by a repressive military government; that Vietnam and Lao PDR will cling steadfastly to their communist ideologies; that ASEAN will still fail to display much needed regional mechanisms; and that one will still be talking for example of insurgency in Southern Thailand in twenty years time? At the same time as striking continuities have pervaded

the region over the last twenty years, important shifts, as this study has explored, are also underway indicative of changes to come.

Authoritarian regimes have introduced tentative political reforms that may be further driven by generational changes of leadership, increasing political consciousness, and global integration; even in Myanmar a roadmap to democracy is at least recognized by its leaders as the only long-term path for the country. Furthermore, after the disaster of the Asian Financial Crisis, many countries are witnessing strong economic growth rates. Bordered by the rapidly growing power economies of India and China, this will also have implications for the entire political economy of the region. As far as ASEAN is concerned (outlined in further detail in the introduction), there are increasing signs of a willingness to deepen integration of member states with a regional market and increased economic cooperation a key objective by 2015. Other positive factors demonstrate that there is no looming demographic crisis, such as will increasingly afflict countries such as Russia, Japan, or in Europe, and that there are seemingly few indicators pointing toward large-scale military conflict between the states of Southeast Asia despite that a few border disputes have not been settled.

While this all portends positive scenarios for the region in 2018-2028, it is inescapable to conclude that key vestiges and continuities from the past, the interrelationship between the various issues outlined in this study, but also unexpected events and reactions to trends will all in combination determine the region's future, and thus complicate predictions of a linear development.

It is clear that Southeast Asia faces enormous challenges over the next decade in terms of promoting and sustaining economic growth, combating ever-increasing environmental issues at the same time as implementing necessary political reforms. The fact that many of the countries of the region face so many of these development challenges at the same time is indicative of both a dynamism but also fears that should changes be halted or mismanaged, negative developments and instability could result. Furthermore, as many of these issues are interrelated, governments will have to juggle and deal with these in an even-handed manner. The ability to adapt or not will be a key determinant of future development and here ASEAN will play a pivotal role.

## **Southwest Asia**

### **Demographic Developments**

- The southwest Asian countries (Iran, Pakistan, and Afghanistan) are all facing a demographic burden which will be particularly pronounced from 2030 and onwards. However, the growing working-age population will also put unprecedented pressure on employment creation within the next two decades.

### **Economic Developments**

- Iran, Pakistan, and Afghanistan are recovering from an adverse economic development during the 1990s and have recorded high growth rates during the first years of this century. We expect growth rates to remain high in the next decade after which they will be more uncertain. These positive developments could, however, quickly be offset in the near term by an adverse domestic political development in the regional countries.
- Both Iran and Pakistan have undergone notable structural reforms of their economies in the past few years which have laid the foundation for a positive economic development during the next decade.
- The burgeoning trading ties in the region may recreate the vast and open economic space that once was the hallmark of this region. There are, however, many impediments which could derail this project within the next two decades.

### **Energy Production and Transit Developments**

- Cross-regional energy integration in the next two decades will most likely occur, particularly between Iran and Pakistan, since this remains far below potential and demand in Pakistan is rising rapidly. The main question today is whether the actors involved will continue to “muddle through” or if interconnections of energy grids will develop on a faster basis. Further instability in Afghanistan and Baluchistan could, however, be the branching points impeding this.

## **Ethnic Relations**

- We see few convincing arguments supporting the dark scenarios of a regional “balkanization” which frequently are voiced. The centripetal forces causing such a scenario have been far stronger in previous periods than they are today.
- The region will likely be defined by a growing rift between moderate Islam and Islamic radicalism. Even if the divide between orthodox and moderate forces always has existed – from the days of Muhammad, through Ottoman Turkey, and up to the modern Islamic world – the rift has increased in pace with modernization to reach its apex today.

## **Domestic Political Developments**

- A succession struggle unavoidably will occur in Iran during the next decade when the current Supreme Leader Ayatollah Khamene’i exits the scene which also could have potentially far-reaching implications. The forces that will come out strongest from such a power-struggle are today uncertain and dependent on whether it will occur through peaceful (constitutional) means or violence.
- It is questionable whether the newly elected Pakistani government and parliament can outlive another military coup in the next decade; history speaks against such a turn of events. On the other hand, the factor speaking against this scenario is the new Army Chief’s apparent pragmatism.

## **Military Development**

- Both Iran and Pakistan strives to improve their conventional capacities for potential regional power projections.

## **Geopolitical developments**

- The present slow-down in the global economy will likely not result in a world-wide recession while interdependence continues to increase, both between India and China as well as between the U.S. and China. This also facilitates better relations between the countries in southwest Asia in the next decade.

- A new American administration will likely intensify negotiations with Iran about the nuclear issue which, in turn, will create a climate more conducive to a settlement between Shiites and Sunnis in Iraq
- In a longer perspective, new threats to harmonious relations are posed by scarcity of oil, gas, water and food, but globalization and economic interdependence facilitates the international cooperation needed to confront these problems.

## **Conclusions**

Southwest Asia faces tremendous challenges but its current problems (and prospects) needs to be seen in perspective of its past. Indeed, although a snapshot of Southwest Asia in 2008 would portray a grimly negative portrait a longer term evolutionary perspective suggests that the region is experiencing unprecedented prospects. Population growth has slowed down considerably in both Pakistan and Iran compared to the 1980s, while economic structural reform also has been initiated in both countries. At the same time, inter-state relations have improved markedly between southwest Asia and its neighbors – much due to burgeoning trading ties and increased interdependence both within and across southwest Asia. While there are significant ethnic tensions remaining within the regional countries this study sees no reason of joining the chorus of reports predicting that these states will dissolve. Although it would be wrong to one-sidedly refute such a scenario it would be equally wrong to assume that the region is destined to failure. As this study has argued, both Pakistan and Afghanistan have faced far greater challenges to its territorial sovereignty in the past three decades than what it is experiencing today.

As regards extremism, Islamic militant forces are today being targeted rather than supported by the regional governments. Moreover, the reconstruction effort in Afghanistan has made significant progress to date – especially in terms of connecting this previously isolated and pivotal country to its neighbors.

The integration that is occurring between the southwest Asian countries and their neighbors is also indicative of a new thinking where a zero-sum politics of influence takes the backseat to potential economic gains. This study also identifies this particular aspect to be the main regional driver of political

reforms, more responsible demographic planning, energy integration, and attempts to mitigate ethnic tensions. Economic liberalization and integration with neighbors is required to temper discontent and create economic growth. Though this is scarcely a guarantee for regional prosperity alone it is the sine qua non for such prosperity. Watching the state of entrepreneurial activity and economic development will thus be the key to understand southwest Asia's prospects. This should not be a contentious conclusion considering its proven success throughout the past two millennia.

But even if the southwest Asian region is harboring far more prospects than at any time during the past three decades there are still many variables involved that could derail this. Virtually all sectors reviewed in this study contain potential branching points which could seriously setback the gains achieved thus far.

# Chapter 1: Northeast Asia

Sangsoo Lee

Niklas Swanström

Ingolf Kiesow

Karlis Neretnieks

## Introduction

The 21st century is often said to be the era of Northeast Asia: it is and will perhaps in the future be the most dynamic region in the world, not only in economic but also political-security terms. However, this dynamic character displays many uncertainties regarding the future.

This chapter aspires to inform long-term strategic planning regarding future scenarios in the Northeast Asian region by focusing on four countries—China, Russia, and the two Koreas. In this chapter, Japan is not supposed to be included as an actor, but since it is an important partner in the power game in Northeast Asia, it is necessary to make some room for a description of its geostrategic role. For this chapter, China, Russia, and North and South Korea have been selected as the most dynamic nations in the region—and which display a great deal of uncertainty. In short, while China is in the midst of a global powerful surge forward, its numerous complexities necessitate greater international attention; Russia is in the process of remaking itself after the collapse of the old order, undergoing a painful transition that is far from complete. South Korea is another success story, albeit, with elements of fragility. North Korea, on the other hand, exemplifies the failure of economic and political systems, as yet, to accept major changes.

The time frame of projection covered by this chapter is ten to twenty years in the future, which necessarily implies that the chapter's conclusions are tentative in predicting the long-term future of Northeast Asia. Nevertheless, this chapter aims to assist decision-makers understand a set of basic assumptions about the region so that a broader range of possibilities can be considered—including the possible challenges and opportunities for the future of Northeast Asia.

It is fashionable to claim that the contemporary era in Northeast Asia is the most threatening, unstable, and complex the region has hitherto faced and this will continue in the future. However, the current situation and future of Northeast Asia should not just be characterized by pessimism. As a matter of fact, if going back twenty years to reflect on what Northeast Asia looked like in the year 1988, we would witness a region threatened by strong lingering military tensions under the situation of hostile relations between China, Russia, North Korea *and* South Korea, Japan, the U.S. during the Cold War. During the last two decades, however, with the dismantlement of the former Soviet Union, the increasing openness of China, the establishment of diplomatic relations between South Korea and China as well as South Korea and Russia, and two inter-Korean summit meetings, ideological threats to the region have been reduced. And now an almost unimaginable change in Northeast Asia has emerged: the economies of Northeast Asia have become increasingly interconnected, albeit, a new set of power relations and remaining Cold War legacies in the region serve to increase instability. Thus, the current environment of the region poses both great opportunities for peaceful co-existence as well as challenges caused by evolving new power relations. These changes and uncertainties for the future of Northeast Asia, therefore, enhance the necessity to study and forecast the growth and behavior of this region.

Many observers have two sharply contrasting views of Northeast Asia's outlook over the next twenty years. On the one hand, the region's rising peacefulness is predicted to give rise to the largest economy in the world. On the other hand, the region will remain a grave threat to geopolitical stability and the global economy. The main factors which will drive the future of Northeast Asia are as follows: firstly, success or failure in resolving the issues of the Korean Peninsula and Taiwan Strait; secondly, China's rise in terms of military, economy and politics, and whether it will be success or failure, and at the same time peaceful or belligerent; thirdly, the evolvement of relations between China and Japan, *and* China and the U.S.; fourthly, the possibility of unification or military conflict on the Korean Peninsula should be considered. Nonetheless, the future of Northeast Asia is unlikely to be predicted by employing black and white scenarios. As the push and pull of positive and negative factors will be closely intermeshed, it would consequently most likely be over simplistic to project a polarization of Northeast Asia's future. Furthermore, any future changes in this region will derive not only from within the region, but will also

be profoundly impacted on by the dynamics of international politics. In addition, the future direction of Northeast Asia will largely depend on the actions of global players such as the U.S., the EU, and Japan, as well as neighboring countries such as India, the ASEAN countries, and Australia.

The following sections conduct an informed analysis of the prospects for the region's future in several sectors, approaching the issue by considering more or less likely scenarios for developments in the key issues; this will offer a more dynamic view of possible futures and focus attention on the underlying interactions that may have particular policy significance. This is informed by an analysis of domestic factors, which allow for a greater measure of predictability; namely, outlooks of demographic, economic, and domestic political developments, energy demand, ethnic relations, as well as the issue of military development. Informed by an assessment of these factors, the study will move to an analysis of more externally contingent factors, and therefore, of a less predictable nature: the regional geopolitical environment, and the variety of unresolved conflicts between states. In addition to the latter, and while not considered to be independent categories in this chapter, it is clear that globalization and regionalization are in themselves two important dynamics that are set to shape affairs in areas ranging from economic cooperation and regional security in Northeast Asia. In each category, an assessment of probable, plausible, and possible developments will be made, though this assessment does not aspire to be exhaustive.

## **Demographic Outlook**

The current demonstration of demographic and population changes in the countries of Northeast Asia indicate a negative trend on each society in the region.

**Table 1.** Population Growth Rate

	1995	2000	2005	2010	2015	2020	2025	2030
China	1.1	0.9	0.7	0.6	0.5	0.5	0.3	0.2
North Korea	1.5	1.1	0.6	0.3	0.3	0.3	0.3	0.2
South Korea	1.0	0.8	0.5	0.3	0.2	0.0	- 0.1	- 0.3
Russia	0.1	- 0.2	- 0.5	- 0.5	- 0.6	- 0.6	- 0.6	- 0.7

Source: UN Population Division's quinquennial estimates and projections, 1995-2030<sup>1</sup>

As the above figures demonstrate, and broadly in line with the trend in the developed world, China, Russia, and the two Koreas have, since 1995, begun to experience a significant slowdown in their respective population growth rates. The population growth rate in China is projected to remain at about 0.6 per cent until 2010. From 2010 to 2020, the growth rate will decrease to 0.5 per cent. After the year 2035, the Chinese population is expected to start decreasing gradually.<sup>2</sup> Starting in the mid-1970s, China began to implement an aggressive birth control policy—the so-called “one-child policy.” As a result of this policy, the percentage of children in the overall population declined. Meanwhile, the working-age population ratio is projected to continue increasing until around 2010, reaching a high point of about 72 per cent of the total population. However, after 2015, the size of the labor force will likely decrease gradually due to the continued small proportion of children in relation to the total population.<sup>3</sup> On the other hand, China's population will age substantially over the next two decades, with the percentage of those over the age of 60 predicted to more than double by 2030.<sup>4</sup> The Chinese government has exhibited growing concern about the demographic implications of its strict and enforced population control rules, with the consequence that around 30 to 40 per cent of Chinese are currently permitted to have two or more children.<sup>5</sup> Russia is clearly facing a serious demographic crisis resulting from low birth rates, poor medical care, and a

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<sup>1</sup> Population annual growth rate (UN Population Division's quinquennial estimates and projections) [code 13670]. Data Availability: 229 countries 1955-2050, <[http://unstats.un.org/unsd/cdb/cdb\\_series\\_xrxx.asp?series\\_code=13670](http://unstats.un.org/unsd/cdb/cdb_series_xrxx.asp?series_code=13670)> (accessed on May 30 2008).

<sup>2</sup> Wang Dewen [王德文], “人口低生育率阶段的劳动力供求变化与中国经济增长” [Changes in labor supply and demand in the period of low fertility in relation to China's economic growth], 中国社会科学院人口与劳动研究所 [Institute of Population and Labor Economics, Chinese Academy of Social Sciences (CASS)], November 2006, p. 3.

<sup>3</sup> *Ibid.*

<sup>4</sup> Rod Tyers and Jane Golley, “China's Growth to 2030: The Roles of Demographic Change and Investment Premia,” College of Business and Economics Australian National University, May 2006, <[http://www.hsph.harvard.edu/pgda/Old%20PDFs/Tyers\\_Golley.pdf](http://www.hsph.harvard.edu/pgda/Old%20PDFs/Tyers_Golley.pdf)> (accessed on April 30 2008).

<sup>5</sup> Mure Dickie, “China mulls ‘one-child’ policy shift,” *Financial Times*, February 28 2008, <[http://www.ft.com/cms/s/0/4dbeca68-e62e-11dc-8398-0000779fd2ac.html?nclick\\_check=1](http://www.ft.com/cms/s/0/4dbeca68-e62e-11dc-8398-0000779fd2ac.html?nclick_check=1)> (accessed on February 29, 2008).

potentially explosive AIDS situation. Since 1992 the demographic situation in Russia has been characterized by reduction of population and low life expectancy (on average – 66.7 years, for men– 60.9, and for women – 73.1).<sup>6</sup> If it continues at its current rate, -0.5 per cent, Russia will lose approximately one million people a year through 2020, leaving it with a population of around 130 million people.<sup>7</sup> In Russia there are 28.96 million people who are over the age of 60 (24.4 percent of total population). The number of older people exceeds the number of children and teenagers in the country.<sup>8</sup> On the other hand, along with the negative nationwide trend, the population of Far East Russia has dropped by 14 percent in the last fifteen years,<sup>9</sup> which is closely connected to the low quality of life, including very difficult climatic conditions and a high cost of living.<sup>10</sup> Additionally, the long term trend that has seen a migration to the European part of Russia has also contributed to the negative demography. The Russian government has discussed a range of re-population programs to avoid the forecast drop to 4.5 million people by 2015 (in the Far East of Russia), hoping to attract in particular the remaining Russian population of the near abroad.<sup>11</sup> South Korea's population started to decline rapidly in the mid 1980s, and if it continues to decline at a rate comparable to fertility levels for the year 2000, this would lead to a population reduction of 30 percent in 30 years.<sup>12</sup> In spite of this, as of 2005, the working age population (15 to 64) accounts for 71.8 percent out of the total population and South Korea will still enjoy the benefits of a working

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<sup>6</sup> “Country Report *Russia*,” United Nations (ESCAP), High-level Meeting on the Regional Review of the Madrid International Plan of Action on Ageing (MIPAA), Macao, October 9-11, 2007, <<http://www.unescap.org/esid/psis/meetings/AgeingMipaa2007/Russia.pdf>> (accessed on June 28, 2008).

<sup>7</sup> U.S. National Intelligence Council, “Global Trends 2020 Regional Report: Eurasia 2020,” National Intelligence Council 2020 Project, April, 2004, p. 6.

<sup>8</sup> “Country Report *Russia*”.

<sup>9</sup> *Ibid.*

<sup>10</sup> Sergey Sevastyanov, “The Russian Far East’s Security Perspective: Interplay of Internal and External Challenges and Opportunities,” paper presented at the conference Siberia and the Russian Far East in the 21st Century: Partners in the “Community of Asia,” Sapporo, July 14-16, 2007, <[http://src-h.slav.hokudai.ac.jp/coe21/publish/no6\\_1\\_ses/chapter2\\_sevastianov.pdf](http://src-h.slav.hokudai.ac.jp/coe21/publish/no6_1_ses/chapter2_sevastianov.pdf)> (accessed on June 12, 2008).

<sup>11</sup> *Ibid.*

<sup>12</sup> Kim Kimun [김기문], “한국의 인구변동과 발전” [Population change and development in South Korea], 세문연구, 서론[*Semoon Research*], p. 124.

age population in the next 15 years.<sup>13</sup> But the working age population will continue to decrease after reaching its peak (73.2 percent) in 2016 and record 53.7 percent in 2050.<sup>14</sup> Indeed, South Korea has one of the world's fastest aging societies. The South Korean government has expressed serious concerns over the decline of population and the country's aging problem. Meanwhile, the demographics of North Korea are difficult to assess due to the limited amount of data available from the country. During the 1970s-1980s, North Korea experienced a rapid growth of population. However, since the 1990s, the population growth rate has declined steeply. The major reason for low fertility levels can be traced to poor family living conditions in the face of the collapse of the national economy. The North Korean government has banned the distribution of contraceptives and has encouraged births, but evidence would tend to suggest that fertility has plunged far below the level of replacement.<sup>15</sup>

#### *Implications of Long-Term Demographic Change*

Currently, the demographic outlooks for most countries in Northeast Asia display similar patterns. As the demographic transition proceeds in Northeast Asia, the rate of growth in the working-age population will eventually decline as the proportion of elderly increases in the next decades. This demographic change will affect the countries' economic performance significantly, because it sets the boundaries for the supply of labor and influences consumption, savings, and public expenditure. Furthermore, the aging populations of South Korea, Russia, and some parts of China will, in the future, increasingly mean a lack of workers to deal with pressing economic and social issues. An even more serious case is expected in North Korea, which will possibly face a demographic crisis due to the serious economic situation in the next 10 to 20 years. On the other hand, China, Russia, and South Korea will face a period in which they have to put greater effort into the social welfare system given the circumstances of

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<sup>13</sup> Korea National Statistical Office [통계청], "인구예측 결과" [Results of Population Projections," Board View, January 28, 2005, <[http://www.nso.go.kr/eboard\\_faq/BoardAction.do?method=view&board\\_id=106&seq=83&num=83&parent\\_num=0&page=11&sdate=&edate=&search\\_mode=&keyword=&position=](http://www.nso.go.kr/eboard_faq/BoardAction.do?method=view&board_id=106&seq=83&num=83&parent_num=0&page=11&sdate=&edate=&search_mode=&keyword=&position=)> (accessed on June 13 2008).

<sup>14</sup> *Ibid.*

<sup>15</sup> Kwon Tai-Hwan, "Population Change and Development in Korea," *Asia Society Presents*, 2001, <<http://www.askasia.org/teachers/essays/essay.php?no=124>> (accessed on June 1 2008).

rapidly aging societies. With a significant rise in the age of citizens, provision of medical care and pensions are likely to be particularly acute problems that these states will face after 2020. Furthermore, the population change in Northeast Asia could occur in the willingness of populations to migrate legally or illegally in the future. This will create important economic, migration, and political dynamics within Northeast Asia as population pressures lead to people movements, and also political reactions to those movements. For example, North Korean refugees flowing to China, Chinese migrant laborers and traders moving to the Russian Far East and Korean ethnic minorities (Chosunjok) in China moving to South Korea, illustrate the nexus that is emerging between regional labor market needs in Northeast Asia and regional and national security concerns.

#### *Scenarios 2018-2028*

**Probable:** China, Russia, and the two Koreas are faced with a significant slowing of their population growth rates and, beginning in the 2020s, a rapidly aging society that will lead to a decrease of total population. Furthermore, especially in South Korea and Russia, the growth in the working-age population will eventually decrease. Demographic challenges in the region will put the economy of each nation in the region under pressure with a decline in labor-force, savings, and consumption.

**Plausible:** The trend among family in Northeast Asia is to have a smaller number of children: this will gradually replace an extended family pattern of the Asian tradition and increase male babies, in consideration of the deep-rooted social preference for male babies. On the other hand, fast-growing individual societies resulting in a growing number of elderly people in South Korea, China, and Japan will be unable to depend on a small number of children for continuous support, and the capacity of governments to develop national pension systems will become crucial.

**Possible:** The Chinese government will offer a “two child policy” or “no limited child policy” in the circumstances of a serious decline in fertility. China’s urban population, concentrated in coastal areas, will be comparable in terms of age to that in South Korea and Japan, while the rural population in China will not reach this level of ageing until the mid-twenty-first century. On the other hand, South Korea and Russia will consider a greater opening of their labor markets to overseas migrants due to the labor-force shortage.

*Key Issues to Watch*

Slowing of population growth rate; Aging society; Demographic challenges produce pressure on economic development in the region.

**Economic Development**

Over the past decade, Northeast Asia has maintained its position as the fastest-growing region in Asia, as well as in the world.

**Table 2.** Economic Growth Rates

Country /Year	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
China	8.8	7.8	7.1	8.0	7.5	8.3	9.1	9.0	7.5	10.7	11.4
Russia	1.4	-5.3	6.3	10.0	5.1	4.7	7.3	7.3	6.6	6.7	7.5
South Korea	4.7	-6.9	9.5	8.5	3.8	7.0	3.1	4.6	4.0	5.0	4.9
North Korea	-6.3	-1.1	6.2	1.3	3.7	1.2	1.8	0.0	0.9	-1.1	NA

Source: IMF Projections, UN Statistic Division and CIA World Factbook<sup>16</sup>

As the above table suggests, China has been the primary driver behind economic growth in the region, and added impetus has come from Russia's strong economic growth, which in recent years can largely be attributed to the high price of oil. During the past decade, China's economic growth has averaged 8-9 per cent a year and has witnessed extensive economic expansion with massive foreign investment. Russia saw its GDP growth increase significantly to 7.5 per cent in 2007 compared to the -5.3 per cent growth figure recorded in 1998. In contrast to the robust performance of China and Russia, North Korea's

<sup>16</sup> China, Russia and South Korea (1997-2005) on the IMF Report for Selected Countries and Subjects, <<http://www.imf.org/external/pubs/ft/weo/2004/02/data/dbginim.cfm>> (accessed on May 30 2008); China, Russia and South Korea (2006-2007) on the National Source in each countries; North Korea (1997-2005) on the UN Statistic Division: Common Database-Country Profile, <[http://unstats.un.org/unsd/cdb/cdb\\_advanced\\_data\\_extract\\_yr.asp?HSrID=19440&HCrID=408](http://unstats.un.org/unsd/cdb/cdb_advanced_data_extract_yr.asp?HSrID=19440&HCrID=408)> (accessed on June 30, 2008); North Korea (2006) on CIA World Factbook: Country Information, <<https://www.cia.gov/library/publications/the-world-factbook/geos/kn.html#Econ>> (accessed on June 30, 2008).

economy has declined sharply since 1990. North Korea's economic growth recorded rates of -6.3 and -1.1 per cent during 1997-98, and it has stalled since 2002. North Korean industry is operating at only a small fraction of capacity due to a lack of fuel, spare parts, and other inputs.<sup>17</sup> Meanwhile, in the Asian Financial Crisis of 1997-98, South Korea was one of the most seriously affected countries in the whole of East Asia. In spite of this, South Korea was able to obtain speedy assistance from the International Monetary Fund (IMF), based largely on extensive financial reforms that restored stability to markets with growth rates of 9.5 percent in 1999 and 8.5 percent in 2000. In recent years, South Korea's economic growth has stabilized to a growth rate of around 4-5 percent.

China has set itself the target of—according to its long-term social and economic development plan—achieving by 2020 a fourfold growth in GDP compared to that in 2000. Despite this goal, there are several reasons for concern stemming from a domestic context, the reason being that there are a number of risks and uncertainties that threaten to undermine the sustainability of China's economic development, such as an increasing rate of inflation, the fragility of the financial system and state-owned enterprises, a rapidly ageing population, the economic effects of corruption, the problems afflicting social and medical care systems and education, as well as increased pollution, rise in energy demands and the rapidly increasing prices for food and oil. What is more, rebalancing growth between urban and rural areas, between rich and poor people and between the ethnic majority and minorities will depress domestic demand and could feed social instability. A similar problem is expected in Russia even if the social problems could follow a more negative trend. In the short term, considering the current high energy prices, high growth is likely to continue in Russia, as it is driven by oil and gas exports. However, this means that Russia's growth is more vulnerable to external influences, being tied closely to the price of energy. If Russia fails to diversify its economy, it could lead to the petro-state phenomenon of underdevelopment, huge income inequality, capital flight, corruption, and social tensions.<sup>18</sup> For South Korea, its high economic growth, which was largely sustained for more than four decades, seems to be coming to an end. In fact, it would be difficult to expect the continuation of high economic

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<sup>17</sup> U.S. Department of State, "Background Note: North Korea, February 2008" <<http://www.state.gov/r/pa/ei/bgn/2792.htm>> (accessed on June 30, 2008).

<sup>18</sup> U.S. National Intelligence Council, "Global Trends 2020 Regional Report: Eurasia 2020", National Intelligence Council 2020 Project, April, 2004, p. 2.

growth for a country which has already reached an advanced level of economic development—South Korea achieved the GNI US\$20,000 in 2007. On the other hand, South Korea's rapidly ageing population and structural economic problems will undermine future economic growth. Foremost among these structural concerns is relations between management and workers marked by strife, under-developed financial institutions, inflexible labor markets and the rigidity of labor regulations. North Korea's economy, on the other hand, constitutes a different picture to the other countries of the region. Because North Korea still remains steadfastly isolated from the outside world since the regime has denied the economic openness and reforms that socialist nations such as China and Vietnam have willingly pursued. The other problem is that, the majority of the budget in North Korea is allocated to the army in line with the Military-First ideology. This limits its overall infrastructure to only the most heavy industries, and light industries and agriculture have little chance of developing.

On the other hand, performance of global factors will also have a huge impact on the economic development of the region in the future. At the international level, there are risks such as a sharp shift in exchange rates, a rise in protectionism and rising international prices for food and oil—which were main reasons for constraining high growth rates in the 1970s of Japan and the 1980s of South Korea—that could impact negatively on China's economy in the future. Furthermore, if a global downturn would occur, the Northeast Asian economy (especially that of China) would face looming problems such as direct negative effects on exports, foreign investments, and the country's delicate banking sector would come under increasing pressure.

Nonetheless, in the near future, China will be showing more openness in its economy and develop much closer ties with other economic powers such as the U.S., Japan, the EU and India, and will play an important role not only in the regional but in the global economy. As China plays the leadership role in the economic development of the region, the Chinese Renminbi (Currency) may become a more important currency, providing that further liberalization is carried out in the financial sector. On the other hand, China's huge market will

continue to represent a great opportunity for many countries of Northeast Asia, and North Korea's economic dependency on China will continue to increase.<sup>19</sup>

A further driving factor in the economic development of the Northeast Asian region is the expected creation of a framework of economic cooperation. That, however, would require a higher degree of acceptance of common regulations than what exists today. China, with a vast potential market of 1.3 billion people, is rapidly growing to become one of the world's largest manufacturers. Japan maintains a competitive edge with its cutting-edge technology and capital holdings. South Korea has risen to the global stage with its vitality, dynamic human resources, and innovative capabilities. Meanwhile, Russia's abundance of natural resources provides an invaluable asset. The above constitutes great potential for economic cooperation and growth in the region. It exhibits rationale for enhancing economic integration in Northeast Asia such as bilateral FTAs, ASEAN+3, and Japan-Korea-China trilateral cooperation. Nonetheless, there are still many obstacles such as different political and economic systems, levels of economic development, and lingering mutual suspicions.

#### *Scenarios 2018-2028*

**Probable:** Northeast Asia will maintain its position as an economically fast-growing region. China's economy will continue to grow at a relatively rapid pace, albeit at a lesser pace than the past two decades due to a number of negative factors domestically and internationally, especially the lack of energy resources and continued high energy prices. Still, China will continue to play an increasingly economic role in the region at the same time as generating opportunities for other countries to export to China. Russia's economy will continue to rely on the export of energy resources. Accordingly, the vagaries of the international oil price and the capacity for new exploration of energy resources will be critical factors determining Russia's economic growth. At the same time, Russia will lean more towards an "Asian" model, with a high degree

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<sup>19</sup> After 2000, the share of trade with China has increased for North Korea, accounting for 23.5 percent in 2000, 25.4 percent in 2002, 32.8 percent in 2003 and 39 percent in 2004, 홍순직, "남북경제공동체 형성을 위한 경제협력증대 시급: 북한 경제의 대중 의존도 심화와 대응 전략," 현대경제연구원, "주요 경제 현안," 2006년 3월. [Hong Sunjik, "The Call for the Growth of Economic Cooperation for the Establishment of North-South Economic Integration," Hyundai Research Institute, March 2006], <<http://www.hri.co.kr>> (accessed on June 30 2008).

of state directives but a market of free competition, but limited by the high concentration of capital to a relatively small number of combines or “Zaibatsus.”<sup>20</sup> South Korea’s economy is unlikely to grow at a higher rate, but neither will it experience a serious slowdown as its economy matures. Meanwhile, North Korea will face a significant economic crisis if it fails to open up its economy to the outside world.

**Plausible:** China and Russia will move closer to a liberal model of capitalism. State dominance in the two countries’ economies will gradually give way to a market economy based on privatization. A gradual process of reforming North Korea’s economy will facilitate increased economic cooperation with South Korea. Russia’s economy will promote growing economic relations with Northeast Asian countries. In this context, Northeast Asia will display a certain increase in the level of economic regionalism, both with bilateral and multilateral cooperation.

**Possible:** The process of economic expansion in the countries of the region, in particular, may well be disrupted by domestic social and political turbulence. Disruption of trade and financial flows could cause major economic distress in the states in question, but also result in trade tensions between countries that will lead to less effective economic cooperation in the region.

#### *Key Issues to Watch*

China’s economic growth; Problems of economic structure and social instability in China and Russia; Economic growth by exporting energy resources in Russia; Regional economic cooperation.

### **Energy Demand and Supply**

While Asia includes three of the world’s major energy importers—China, Japan, and South Korea—, both the U.S. and the EU are each importing nearly twice as much oil as all of Asia with forty percent of the world’s population and the fastest growing economies. This is likely to cause substantial frictions. On the other hand, Russia is one of the world’s biggest energy exporters. Recently, the distinguishing feature of this region is that high economic growth has led to

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<sup>20</sup> Zaibatsu [財閥] refers to industrial and financial business conglomerates, whose capacities, influence, and size allowed them to control significant parts of Japan’s economy.

a rapid increase in energy demand. As Northeast Asian countries become richer, the citizens of those countries are using more energy to run their offices and factories, and buying more electrical appliances and cars. According to the International Energy Agency (IEA), the energy consumption of Northeast Asia will continue to display rapid growth and will exceed that of North America by the 2020s.<sup>21</sup> This, however, is highly debatable and not very likely since it is only possible if the growth in world production of oil can continue at its present rate. The main reason for a rapid growth of energy demand in the region is that China's increase in primary energy and oil consumption is driven by its high economic growth. China's oil consumption exceeded that of Japan's in 2003, and is ranked third worldwide behind the U.S. and the EU.<sup>22</sup> China, with four times as many people, will overtake the U.S. to become the world's largest energy consumer soon after 2010, if it can afford to continue its present consumption pattern.<sup>23</sup> China's primary energy demand is projected to more than double from 1,742 Mtoe in 2005 to 3,819 Mtoe in 2030—an average annual growth rate of 3.2 percent, which on the other hand is only a linear calculation based on historic facts and not a prediction.<sup>24</sup> While China's coal is available in great amounts, it cannot be used for modern forms of transportation and is also harmful for the environment.<sup>25</sup> Similarly, South Korea's energy needs such as oil and natural gas are also almost completely dependent on imports from overseas; it now ranks among the major oil importers in the world and 70 per cent of its imported oil comes from the Middle East.<sup>26</sup> Meanwhile, South Korea's total primary energy demand is predicted to rise by nearly 70 percent between 2001 and 2020; it is expected to rise by 37 percent between 2006 and 2020, equivalent to an average annual rate of 2.3 percent if oil is available in sufficient amounts and at an

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<sup>21</sup> Kensuke Kanekiyo, "Energy Outlook of China and Northeast Asia And Japanese Perception toward Regional Energy Partnership," Institute of Energy Economics, Japan (IEEJ), October 2005, p. 1, <<http://eneken.ieej.or.jp/en/data/pdf/302.pdf>> (accessed on June 30, 2008)

<sup>22</sup> *Ibid*, p. 6.

<sup>23</sup> International Energy Agency, *World Energy Outlook 2007*, "China and India Insights," Executive Summary, 2007.

<sup>24</sup> *Ibid*.

<sup>25</sup> Brigid Gavin and Sangsoo Lee, "Regional energy cooperation in North East Asia: Lessons from the European Experience", *Asia Europe Journal* 5, 3 (September, 2007), p. 406.

<sup>26</sup> The International Energy Agency, *Energy Policies of IEA Countries: The Republic of Korea 2006 Review* (2006), p. 29, <<http://www.iea.org/textbase/nppdf/free/2006/korea2006.pdf>> (accessed on June 30, 2008).

affordable price.<sup>27</sup> The energy situation in North Korea will remain very difficult and will thwart the economic progress of the country. North Korean energy consumption has been planned to double over a period of 30 years, from almost 48 Mtoe of oil equivalent in 1990 to 96 Mtoe in 2020 but this increase is not likely to be possible.<sup>28</sup>

In sum, the growth in energy consumption in China and the two Koreas is not compatible with sustainable economic development and creates major challenges for the future. Growing energy import dependence, or (in the case of North Korea) reliance on energy aids from other nations, is a source of an increasing sense of insecurity and poses a serious risk of disruption to the region's economies. Since China became a net importer of oil in 1993, China's import dependency has risen dramatically and is projected to reach 70 percent by 2020.<sup>29</sup> South Korea will also continue to be highly dependent on imports of oil from the Middle East. A more serious situation can be seen in North Korea, where the country cannot attain energy security. Since 1999, North Korea's total annual consumption of oil has been fulfilled almost completely by supply from China.<sup>30</sup> At the same time, with the February 13 Agreement, North Korea has received energy aid from the other members of the Six Party Talks. On the other hand, considering the current oil price, if the level of 200-dollars per barrel of oil becomes a reality in the near future, the present tendency toward a recession could become much deeper than many predict today.

In contrast to China and the two Koreas, Russia holds the world's largest natural gas reserves, the second largest coal reserves, and the eighth largest oil reserves. This is 32 percent of the world proven natural gas reserves (23 percent of the probable reserves), 12 percent of the proven oil reserves (42 percent of the probable reserves), 10 percent of the explored coal reserves (14 percent of the estimated reserves) and 8 percent of the proven uranium reserves.<sup>31</sup> Russia is

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<sup>27</sup> *Ibid.*

<sup>28</sup> However, if the country can pay in foreign currency for that increase, which is not likely, Alex Kirby, "North Korea's environment crisis," *BBC News*, August 27 2004, <<http://news.bbc.co.uk/2/hi/science/nature/3598966.stm>> (accessed on June 30, 2008).

<sup>29</sup> Gary Dirks, "China's Energy: Challenges and Implications," Speech given at the German Council for Foreign Policy (DGAP) in Berlin, Germany, September 13, 2007, <<http://www.bp.com/genericarticle.do?categoryId=98&contentId=7036566>> (accessed on June 30, 2008)

<sup>30</sup> *Chosun Ilbo*, July 15, 2005.

<sup>31</sup> Energy Information Administration, "Country Analysis Brief Russia," April 2007,

also the world's largest exporter of natural gas, and the second largest oil exporter.<sup>32</sup> It should be stressed, however, that these figures are based on official Russian statistics. There have recently been serious warnings from Russian experts about the reliability of these estimates. They can be highly inflated and must be viewed with caution. But many of these resources in Russia, especially natural gas, are located in East Siberia and the Far East. In this context, Far Eastern and Siberian energy resources could be considered to serve as supply for China and two Koreas, as well as Japan in the future. Indeed, as Far East Russia is in relative close proximity to Northeast Asia, its energy resources represent an opportunity for the latter countries of the region to diversify energy supplies as well as decrease reliance on the Middle East. It should be noted, however, that competition from Europe is also competing for Siberian gas resources. There is opposition in the Duma against selling to Asia. The first step in preparing for the large-scale utilization of East Siberian oil fields has also been to build a pipeline back to Russia to safeguard the supply according to already existing contracts with European and Russian consumers.

In this climate of hardening global competition over energy resources, the last four years have witnessed a growing competition between the countries of Northeast Asia, especially between China and Japan, for access to East Siberian oil and gas. This energy competition began to intensify with the competing pipeline proposals that have emerged in the last years, and threatens to undermine relations between the two countries. However, when Fukuda Yasuo, the Prime Minister of Japan visited China in December, 2007, both leaders agreed on promotion of cooperation in the field of the environment and energy, which will disseminate Japanese technology on a business basis, as well as allow for the provision of training for 10,000 people in Japan over three years. Also, they reached an agreement about how to deal with the difficult issue of the East China Sea, which contains a long-standing dispute over territorial boundaries and resources of gas and oil between China and Japan.<sup>33</sup>

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<http://www.eia.doe.gov/emeu/cabs/Russia/Full.html> (accessed on June 30, 2008).

<sup>32</sup> Energy Information Administration, "Background of Russia," <http://www.eia.doe.gov/cabs/Russia/Background.html> (accessed on June 30, 2008).

<sup>33</sup> The Ministry of Foreign Affairs of Japan, "日本国政府と中華人民共和国政府との環境・エネルギー分野における協力推進に関する共同コミュニケ" [Strengthening mutually-beneficial cooperation on climate change and the environment and energy] December 2007,

Another threat stems from the consequences of climate change, which could pose serious challenges for national and regional security in the near future. Northeast Asia is the biggest SO<sub>2</sub> emission area in the world. The CO<sub>2</sub> emission (carbon-equivalent) is projected to increase from 1,400 million tons in 2000 to 1,880 million tons in 2010 and 2,540 million tons in 2020.<sup>34</sup> This has caused problems of acid rain that cross national borders in Northeast Asia. China is now the world's largest CO<sub>2</sub> emitter. Despite the progress achieved during the past decades, pollution, especially from the use of coal, remains a serious threat to the environment, and pollutant emission levels will have negative long-term effects. It is predicted that China will be responsible for 37 per cent of global emissions by 2030.<sup>35</sup> Although reliance on coal is much less when compared to China, it has nonetheless caused South Korea to be a major producer of CO<sub>2</sub> emissions. South Korea's emissions are forecasted to nearly double between 2000 and 2010. Between 2000 and 2030 emissions from natural gas are predicted to increase by a factor of more than three-and a-half times.<sup>36</sup>

#### *Scenarios 2018-2028*

**Probable:** Most Northeast Asian countries' energy demands will continue to increase in line with their high economic growth. It will become more and more difficult to satisfy that demand at an affordable cost. At the same time, China and South Korea will grow more dependent on Middle Eastern oil, but will continue to seek to diversify supply through African energy, as well as from Central Asia and the Far East of Russia. Energy cooperation between China and Japan as well as South Korea will be promoted in the field of energy technology for energy efficiency and renewable energy, while competition among these countries to access more overseas energy resources will remain.

**Plausible:** Most countries in Northeast Asia will fail to achieve energy efficiency at the same time as compromising the ability of future generations to

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<[http://www.mofa.go.jp/mofaj/kaidan/s\\_fukuda/china\\_07/annex1.html](http://www.mofa.go.jp/mofaj/kaidan/s_fukuda/china_07/annex1.html)> (accessed on June 30, 2008).

<sup>34</sup> Atsushi Fukushima, "Coal and Environmental Issues in Northeast Asia," The Institute of Energy Economics, Japan (IEEJ), March 2004, p. 16.

<sup>35</sup> Peter Williams, "Gas emissions 'will double by 2020'," *News.com.au*, May 1, 2008, <[http://www.news.com.au/perthnow/story/0,21498,236286035005361,00.html?from=public\\_rss](http://www.news.com.au/perthnow/story/0,21498,236286035005361,00.html?from=public_rss)> (accessed on June 30, 2008).

<sup>36</sup> The International Energy Agency, "Energy Policies of IEA Countries: The Republic of Korea 2006 Review," p. 29.

meet their environmental and energy needs. Increased energy demand and levels of pollution will threaten national and regional security. Therefore, competition among countries for resources will lead to direct conflict, and will also allow Russia to exercise resource diplomacy in regional politics and to let Europe and Asia compete over deliveries through outbidding each other.

**Possible:** In the long-term, energy demand will slow in China and South Korea, as their economies mature, the structure of output shifts toward less energy-intensive activities, and more energy-efficient technologies are introduced. To sustain growth and ensure effective management of limited resources in the region will mean increased energy cooperation among countries. In this regard, Far East Russia will become a gas supplier to Northeast Asia.

#### Key Issues to Watch

Lack of energy resources and higher energy prices; Growing demand for energy resources; Dependence on Middle Eastern oil; Energy resources in the Far East of Russia; Competition for energy resources; Increasing CO<sub>2</sub> emissions.

### Domestic Political Developments

The states of Northeast Asia have developed different political systems and characteristics of governance. The models and effectiveness of governance will be important drivers of affairs in Northeast Asian countries over the next 20 years. In short, South Korea is leading the way in applying a western style democracy, having undergone an impressive process of democratization over the past twenty years. China and Russia, the two transition economies, are considerably more open today than ten years ago, but reforms are still needed if they are to meet Western standards. Meanwhile, North Korea is a totalitarian country based on authoritarian governance. In the future, including possibly in North Korea, generational changes of leadership will likely have a significant impact on the nature of governance in each country.

#### *China*

The Chinese third and fourth leaderships view the development of economic processes as necessitating a strong government—this is perceived as being instrumental in laying the foundation for an economic take-off. In other words, China has prioritized a paradigm of economic reforms combined with strong

governmental control, albeit, its control is gradually getting weaker.<sup>37</sup> The 11th congress installed the likely successors to President Hu Jintao and Premier Wen Jiabao, Xi Jinping was appointed Vice President and Li Keqiang is likely to become a Vice Premier.<sup>38</sup> Hu Jintao and Wen Jiabao are expected to remain in power until the 18th party congress in 2012. Notwithstanding impressive economic development, there is a growing discontent with the distribution of economic gains in Chinese society. There are, for example, some 80-160 million unemployed that today move around China in an attempt to find work: the so called floating population. In China's drive to modernize and become competitive, unemployment has resulted when state-owned enterprises have laid off workers or simply gone bankrupt. Increasingly the Chinese government has realized that the balance between economic growth and social stability needs to be maintained, if not for any other reason than for governmental stability.

Generational changes by 2013 will likely have a significant impact on the nature of Chinese governance. There is a trend that every new leader in China since Mao Zedong has shown weaker leadership and charisma in comparison with their predecessors, so the fifth generation of leaders will also be in line with this trend and will increasingly have to take public opinion into account. On the other hand, the loyalty of the Chinese people to the party and state cannot be taken for granted. Indeed, in the past years, social unrest including riots, strikes, demonstrations, and protests have risen in China. In 2006, public order disturbances rose by 6.6 percent over 2005, to 87,000 incidents.<sup>39</sup> Most protest activities are related to protests against the local government, which they regard as unfair, inequality, corruption, and charge with official aloofness. However, protests in the future gradually will increase to oppose the decisions of central

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<sup>37</sup> Randall Peerenboom, *China Modernizes: Threat to the West or Model for the Rest?* (Oxford: Oxford University Press, 2007), p. 3.

<sup>38</sup> Information Office of the State Council of the People's Republic of China, "Xi Jinping - Vice President," March 16, 2008, <[http://www.china.org.cn/government/NPC\\_CPPCC\\_sessions2008/2008-03/16/content\\_12772008.htm](http://www.china.org.cn/government/NPC_CPPCC_sessions2008/2008-03/16/content_12772008.htm)> (accessed on June 30, 2008); "Chinese vice premiers elected," March 17, 2008, <[http://www.china.org.cn/2008-03/17/content\\_12860912.htm](http://www.china.org.cn/2008-03/17/content_12860912.htm)> (accessed on June 30, 2008).

<sup>39</sup> 公安部召开新闻发布会通报 2005 年全国社会治安形势暨火灾形势 [Ministry of Public Security Holds Press Conference to Announce Public Security and Fire Situation for 2005], Ministry of Public Security Web site, January 20, 2006, <<http://www.mps.gov.cn/cenweb/brjlCenweb/jsp/common/article.jsp?infoid=ABC0000000000001018>> (accessed on June 30, 2008).

Chinese authorities as people, especially among younger generations, will be able to access more information about domestic politics and the outside world through the Internet. In this sense, the future of Chinese society will become increasingly familiar with general democratic concepts and expectations. But any changes are not likely to follow traditional Western models, since Chinese people are unfamiliar with these concepts. Other forms of creating greater opportunities for popular participation in politics will likely appear; but they may also on the other hand not be allowed due to the fear of political chaos. This will in turn create tension between the political elite and the large masses that are left outside the political power.

### *Russia*

After a period of political liberalization in the 1990s, following the collapse of the Soviet Union, Russia is displaying an increasing tendency toward authoritarianism. It could perhaps be argued that during Yeltsin's tenure too much was attempted in too short a time, politically as well as economically—there was no strong governance to steer national development and manage the manufacturing and service industries.<sup>40</sup> Accordingly, Russia's recent tilt toward authoritarianism under Putin has reflected the influence of China's model of 'markets' with less 'democracy.'<sup>41</sup> Moreover, Putin appeared increasingly self-confident and impressed by the virtues of a strong Russia,<sup>42</sup> with limited political freedom. Dmitry Medvedev was elected Russia's new president in March 2008 for the next five years. The Medvedev administration may evolve into something different from Putin's as time goes on, but at the same time, it will hardly be a demonstration of adherence to democratic principles.<sup>43</sup> Russia's future is uncertain and it is far from clear what the outcome of the struggle

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<sup>40</sup> Alf Brodin, *Russia and North East Asia - in times of globalization* (Sapporo: The Japan Slavic Research Center, 2005), p. 345, <<http://src-h.slav.hokudai.ac.jp/kaken/brodin/contents.html>> (accessed on June 30, 2008).

<sup>41</sup> Peerenboom, *China Modernizes*, p. 3.

<sup>42</sup> Anna Jonsson et al., "Russia after Putin: Implications for Russia's Politics and Neighbors," Institute for Security and Development Policy, Policy Paper (March 2008).

<sup>43</sup> "Russia's new president draws questions, anxiety," *USA Today*, March 3, 2008, <<http://blogs.usatoday.com/oped/2008/03/russias-new-pre.html>> (accessed on June 30, 2008).

between, on the one hand, the forces of modernization and, on the other, rising nationalism will be by the next decade.<sup>44</sup>

### *North Korea*

The North Korean political system most closely approximates totalitarianism.<sup>45</sup> While it is difficult to speculate about the longevity of North Korea as a political entity, it is more feasible to forecast scenarios regarding the future of regime change in North Korea. It should be noted, however, that regime collapse in North Korea is not directly correlated with a collapse of the state. The North Korean people have been so indoctrinated over the course of three generations by the same propaganda that they actually have trust in the system to a degree that seems incredible to a foreign observer; which also guarantees a high degree of system stability, even under pressure. There are many possibilities for regime change, all being highly speculative, but not totally unrealistic. Two possibilities at the more extreme range of scenarios are as follows: one is that Kim Jongil's sudden death or economic and social chaos will lead to domestic riots or civil war, with other powers including China, South Korea, the U.S., and the United Nations intervening in the country;<sup>46</sup> another, and not improbable, possibility is that the regime will "muddle through" without radical changes, but will accept enough economic liberalization measures to enable the state to make improvements in living conditions, but without any important political liberalization measures being adopted.

### *South Korea*

Notwithstanding twenty years of democratization, South Korea has not evolved into a fully-fledged liberal democracy. The country's political system is characterized by a concentration of power in the presidential office. On February 2008, Lee Myung-bak was inaugurated as the new president of South Korea. A potential challenge to Lee Myung-bak's leadership capacity remains

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<sup>44</sup> Masha Lipman, "Talking About Democracy Is Not Enough," *Moscow Times*, March 27, 2008.

<sup>45</sup> Andrew Scobell, *Projecting Pyongyang: The Future of North Korea's Kim Jong Il Regime*, The Strategic Studies Institute of the U.S. War College, March 2008, p. 6, <<http://www.strategicstudiesinstitute.army.mil/pdf/files/pub844.pdf>> (accessed on June 30, 2008).

<sup>46</sup> *Ibid.*

the harnessing of South Korea's economic and political performance to its full potential as South Korea enters a phase of greater liberal democracy.

#### *Scenarios 2018-2028*

**Probable:** Political reforms will be limited in China and Russia. Nonetheless, economic developments in both countries will increase the desire from people for political rights and greater political liberalization in the long term. South Korea will slowly move toward increased liberalism with a decreased role of the president in state affairs, while North Korea will conduct limited political reform to avoid undermining regime security.

**Plausible:** The Chinese and Russian governments will exhibit more transparent and predictable structures of governance, while future leaderships will not opt for full democracy. South Korea will resemble more closely a western style of democracy. In the case of North Korea, if economic changes are combined with increased contact with other nations, real political changes will eventually occur.

**Possible:** China and North Korea will remain outside of processes of democratization. Russian political power will remain highly centralized, and governmental structures will not be transparent and there will be strict control over the media. The regime in North Korea will collapse, which will be accompanied by political and social chaos, and external powers will intervene in the country. South Korea will face an increasing political dilemma due to the dispute over national policies between the ruling and opposition parties.

#### *Key Issues to Watch*

Strong state institutions; Political and social instability in China, Russia and North Korea; Political reforms in China and Russia.

### **Military Development**

For Northeast Asia, the obvious change of geopolitical situation after the Cold War is China's rise. Indeed, China has the lead in managing the insolvency of Russia's Great Power role in Northeast Asia based on its economic strength, its growing military capacity, and increasing confidence and ambitions for the future.

Neighboring countries and regional powers are skeptical about China's real ambitions and intentions. In particular, most countries voice concern over the lack of transparency concerning its military, even though China proclaims its peaceful development policy that is purely defensive in nature. The 19.47 percent rise in military expenditure in 2007 means that China is going to double its defense budgets within 4-5 years, if the increasing rate of defense budget is the same as it has been during the last five year period.<sup>47</sup> China will overtake Russia and others and become the second largest defense spender in the world, after the U.S., over the next two decades. It will strengthen its military through developing and acquiring a broad range of modern weapons, including advanced fighter aircraft, sophisticated submarines, an increasing numbers of ballistic missiles and an advanced space program. According to the 2006 Chinese defense policy, the People's Liberation Army (PLA) has adopted a three-step process to implement its modernization plan. The first step is to lay a solid foundation by 2010; the second is to make major progress around 2020; and, the third is to reach the strategic goal of having informationized armed forces that are capable of winning informationized wars by the mid-21st century.<sup>48</sup> By the outcome of this long-term project, China will have the capability to fight on a global scale against any adversary. China's military modernization is proceeding rapidly, not only driven by the desire to deter U.S. intervention in the Taiwan Strait but also by a number of other contextual drivers: China's desire to become a global power, the regional security environment, and its growing energy needs.<sup>49</sup> China's ambition to build a blue water navy deserves a special comment. The need of protecting the Sea Lines of Communication (SLOCs) on which its exports and imports are dependent are quite obvious. But at the same time, as a side effect this gives China the option to block sea lanes to neighboring countries such as both Koreas and Japan. Therefore, the Chinese naval build-up might well constitute one of the most disturbing developments for China's neighbors. From an American point of view, the perhaps most alarming element

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<sup>47</sup> U.S. Department of Defense, "Military Power of the People's Republic of China 2008," Annual Report to the Congress, p. 32, <[http://www.defenselink.mil/pubs/pdfs/China\\_Military\\_Report\\_08.pdf](http://www.defenselink.mil/pubs/pdfs/China_Military_Report_08.pdf)> (accessed on June 30, 2008).

<sup>48</sup> Information Office of the State Council of the People's Republic of China, *China's National Defense in 2006*, <<http://www.china.org.cn/english/features/book/194485.htm>> (accessed on June 30, 2008).

<sup>49</sup> U.S. Department of Defense, "Military Power of the People's Republic of China 2008," p. 3.

is the Chinese ambition to develop an advanced space program. China's already demonstrated capability to destroy satellites in orbit was a breakthrough when it comes to threatening American supremacy in the air and on the sea, and thereby its possibilities to defend its allies and friends in Northeast Asia.<sup>50</sup> The deeper military co-operation between the U.S. and Japan should be interpreted as a response to the increase in China's military capabilities.

Most regional actors have concerns about China's military ambitions. Accordingly, in response many of the countries in the region have increased military expenditures and embarked on different forms of military modernization for a new security environment in Northeast Asia. South Korea will continue with its military expansion, focused less on defending itself against North Korea but more on building a capacity that may eventually be required to defend the interests of a reunited Korea. Although South Korea sought to increase their military autonomy from the U.S. during the sunshine policy pursued by the Kim Deajoong and Roh Moo Hyun presidencies, South Korea is now strengthening the U.S.-ROK alliance not only to counter possible threats from North Korea but also to be able to balance China's military power in the near future.<sup>51</sup> Recently, South Korea invested more than US\$17 billion in modernizing its armed forces from 2003 to 2007<sup>52</sup> and announced "the defense reform 2020" in 2005, which aims to transform its defense from manpower intensive to technology-intensive, from military-controlled to civilian-controlled, and from a service-oriented force structure to a jointness-oriented force structure.<sup>53</sup> Indeed, South Korea's defense reform through 2020 is one of the most ambitious and comprehensive defense reform plans ever, in and around the Korean peninsula.<sup>54</sup> In analyzing China-North Korea relations, the

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<sup>50</sup> *Ibid.*

<sup>51</sup> Park Jongcheul, Kim Haksung and Kim Suengjin [박종철, 김학성, 김성진], "2020 선진 한국의 국가전략, 통일연구원" [Advanced Korea's National Strategy of 2020], Korea Institute for National Unification [통일연구원], March 2007, p. 31.

<sup>52</sup> Ashley J. Tellis, "Overview: Military Modernization in Asia," in Ashley J. Tellis and Michael Wills, eds., *Strategic Asia 2005-06: Military Modernization in an Era of Uncertainty*, The National Bureau of Asian Research, 2008, <[http://www.nbr.org/publications/strategic\\_asia/pdf/sao5\\_1overview.pdf](http://www.nbr.org/publications/strategic_asia/pdf/sao5_1overview.pdf)> (accessed on June 30, 2008).

<sup>53</sup> Republic of Korea Ministry of National Defense [국방부], "국방개혁 2020" [Defense Reform 2020], <<http://www.mnd.go.kr>> (accessed on June 30, 2008).

<sup>54</sup> Han Yong-sup, "Analyzing South Korea's Defense Reform 2020," *The Korean Journal of Defense Analysis* 18, 1 (Spring 2006), p.112.

most important change in Chinese policy is the increased mutual understanding with South Korea, and the diminishment of ideological and traditional rapport between Chinese and North Korean leaders.<sup>55</sup> Kim Jongil recently has reacted to the current geopolitical situation that “Nobody would help us, and strengthen the armaments, which are the only way to dedicate ourselves to our nation.”<sup>56</sup> North Korea’s perception of national security seems to be that only military strength allows nations to survive. North Korea is a country based on “*Juche*” (Self-Reliance) and “Military-First” ideologies. North Korea possesses the world’s fourth largest armed forces behind China, the U.S., and India,<sup>57</sup> and most analyses of North Korea’s defense sector estimate that defense spending constitutes between one-quarter and one-third of all government spending.<sup>58</sup> However, over the past two decades, North Korea’s economic decline and lack of external support, read the Soviet Union, has made it impossible to modernize the organization. As a result, the North Korean option of an all out war with South Korea has become less credible. This might be one reason behind North Korea’s ambition to create a nuclear capability. North Korea has a 200 MW nuclear reactor and nuclear reprocessing facilities at Taechon in North Pyongan province and in Yongbyon.<sup>59</sup> U.S. officials estimate that North Korea has produced about 50kg (110lb) of plutonium, enough for about eight nuclear weapons, and launched a clandestine programme to enrich uranium for

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<sup>55</sup> Jaeho Hwang, Heungkyu Kim, Byung-kon Jun and Myung-Chul Cho, “Possible Scenarios for China’s Future Relations with North Korea: South Korean Perspective,” *The Korean Journal of Defense Analysis* 18, 3 (Fall 2006), p. 122.

<sup>56</sup> Lee Yongseup [리영섭], “선군시대에 새롭게 밝혀진 주체혁명위업 완성의 주력군에 관한 사상” [An ideology about the main military power of the compliment of the Juche Revolution which is rediscovered], *The Philosophy Research* [철학연구], No. 1, 2004, p. 30.

<sup>57</sup> Andrew Scobell, John M. Sanford, “North Korea’s Military Threat: Pyongyang’s Conventional Forces, Weapons of Mass Destruction, and Ballistic Missiles,” Strategic Studies Institute, April 2007, p.3,

<<http://www.strategicstudiesinstitute.army.mil/pdf/files/PUB771.pdf>> (accessed on June 30, 2008).

<sup>58</sup> *Ibid*, p. 9; See: The International Institute of Strategic Studies, *Military Balance, 2004-2005*, (London: Oxford University Press, 2004), pp. 353-7.

<sup>59</sup> Daniel A. Pinkston and Stephanie Lieggi, “North Korea’s Nuclear Program: Key Concerns,” Center for Nonproliferation Studies, January, 2003, <<http://cns.miis.edu/research/korea/keycon.htm>> (accessed on June 30, 2008); David Isenberg, “North Korea’s Nuke Capability,” *Asia Times Online*, September 24, 2002, <<http://atimes.com/atimes/Korea/DI24Dgo5.html>> (accessed on June 30, 2008).

weapons.<sup>60</sup> The North Korean nuclear program is one of the core issues that have affected Northeast Asian security discussions during the last decade. The North Korean nuclear problem is a dilemma for China. How far can it go in pressuring “a friend” into making concessions? It is also debatable how much influence China really has in influencing North Korean policies. Nonetheless, North Korea understands the value of maintaining good relations with China, while also approaching the U.S., so as to acquire benefits from all sides with its nuclear programs as a bargaining chip.<sup>61</sup>

Russia is concerned about its eastern provinces, where the rapid growth of China’s economic and the military power coupled with the increased immigration of Chinese nationals into sparsely populated and backward regions of Eastern Russia is changing “the correlation of forces,” to use a Marxist term. Russia’s military, especially in the Far East will be challenged by a combination of demographic decline, which will affect its capacity to draft and/or recruit troops, together with problems of (mainly related to costs) modernizing its conventional forces. Over the next decades, a new generation of weapons systems will be introduced in Russia. At the same time, defense expenditures must be maintained at an affordable level.<sup>62</sup> Concerning a Chinese threat, Russia will become more and more dependent on nuclear deterrence, thereby losing much of its freedom of action in case of a future crisis.

#### *Scenarios 2018-2028*

**Probable:** The single most important factor that will influence developments in Northeast Asia is what will happen in China. The most probable scenario is that China will continue to grow economically and as a result also become a major military power, with a global reach, second only to the U.S. Although there will be frictions, due to the rebalancing of regional and global power, the risk for a major conflict should remain low. There will continue to exist an

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<sup>60</sup> Paul Eckert, “North Korea misses year-end deadline on nuclear weapons,” *The Guardian*, January 1, 2008, <<http://www.guardian.co.uk/world/2008/jan/01/korea.nuclear>> (accessed on June 30, 2008).

<sup>61</sup> Esther Pan, “The China-North Korea Relationship,” Council on Foreign Relations, July 11, 2006, <<http://www.cfr.org/publication/11097>> (accessed on June 30, 2008).

<sup>62</sup> “Putin outlines Russia’s successes and plans,” *top.rbc.ru*, February 8, 2008, <[http://top.rbc.ru/english/index.shtml?/news/english/2008/02/08/08184420\\_bod.shtml](http://top.rbc.ru/english/index.shtml?/news/english/2008/02/08/08184420_bod.shtml)> (accessed on June 30, 2008).

equilibrium, acceptable to all parties' concerned: China, the U.S., Japan, and others.

**Plausible:** The U.S. makes a serious effort to counter the increased military and political power of China by forming closer ties namely with Japan, South Korea, and possibly also Taiwan. There is a new "Cold War" in Northeast Asia as well as Southeast Asia, and to some extent globally. Both the U.S. and China compete to enlist allies in their efforts to stave off threats to what they consider being national interests. There is a serious arms race in Northeast Asia.

**Possible:** If the U.S. cannot or does not want to engage itself deeper in Northeast Asia both Japan and South Korea will have to reconsider their options. One is to further strengthen their conventional capabilities and to compensate for the lack of the U.S. support by acquiring a nuclear capability of their own. The other option is to accept Chinese military dominance in the area.

#### *Key Issues to Watch*

China's military rise; North Korea' nuclear program; U.S. relations with Japan and South Korea; U.S. military developments in the Pacific area.

### **Ethnic Relations**

When it comes to the ethnic constitution of the nation-state, there are large differences among the countries of Northeast Asia. China and Russia are multi-ethnic nations, while Korea is exceptionally homogeneous dominated by one ethnic group. Currently, China and Russia face untraditional security threats such as ethnic disputes, ethnic movements, and ethnic nationalism. In this context, for both China and Russia, it is very important to resolve ethnic conflicts and to eliminate suspicion and hostility between main nationality and minority groups. In fact, tensions in inter-ethnic relations are centuries old. For instance, there are longstanding conflicts centered on Tibet and Xinjiang in China. The most immediate consequences of these regions of conflict might result from local and central governments dominating minorities without consideration of their interests, culture, and religion. Similar to China, ethnic relations in Russia have been viewed as a threat to national security, especially in Chechnya. Furthermore, conflict over resources in Far East Russia is causing significant tensions, including such issues as the rights of indigenous populations to control the use of natural resources in their traditional domains. In sum, increasing pressure from a rise in ethnic identities could increasingly

play a role in the national security of China and Russia over the next two decades.

Meanwhile, as previously mentioned, the two Koreas represent two of the most racially homogenous societies in the world. Historically, in Korea, race served as a marker that strengthened ethnic identity, which in turn was instrumental in defining the nation.<sup>63</sup> Especially, in recent years an ethnic nationalism has appeared in South Korea that “Koreans are all one people, North Korea is not an enemy,” that is ethnically homogeneous and racially distinctive.<sup>64</sup> This thinking of ethnic base might be helpful for the future unification on the Korean Peninsula, rooted in the idea that national division is only temporary and unification is inevitable. In contrast, this ethnic nationalism has created a negative impact on ethnic relationships between migrants and South Koreans. A racially ethnic nationalism can be seen to an even greater extent in North Korea. “*Juche*” ideology asserts North Korea’s cultural distinctiveness and creativity as well as a virulent ethnocentrism.<sup>65</sup> In the eyes of North Korea’s leaders, the “occupation” of the southern half (South Korea) of the peninsula by “foreign imperialists” (the U.S.) lends special urgency to the issue of cultural ethnic identity.<sup>66</sup>

The ethnic movement in trans-border issues has been a political issue among the states of Northeast Asia. In particular, the migration flows in the Far East of Russia have raised issues of ethnic balances in the region. Chinese and Muslim<sup>67</sup> immigration in Russia’s Far East has led to a degree of social instability in the region with growing tensions between local people and migrants. On the other hand, the status and flow of North Korean refugees to China has become an important security issue for North Korea as well as China.

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<sup>63</sup> Jeanyoung Lee, “Ethnic Korean Migration in Northeast Asia,” paper presented at the International Seminar on Human Flows Across National Borders in Northeast Asia, p. 1., <<http://gsti.miis.edu/CEAS-PUB/200108Lee.pdf>> (accessed on June 30, 2008).

<sup>64</sup> Gi-Wook Shin, “Ethnic Pride Source of Prejudice, Discrimination,” *The Korea Herald*, August 2, 2006.

<sup>65</sup> “Country Area Studies--the Korean Peninsula,” Global Security.org, 1998, <[http://www.globalsecurity.org/military/library/report/1998/e\\_asia/j5korea.pdf](http://www.globalsecurity.org/military/library/report/1998/e_asia/j5korea.pdf)> (accessed on June 30, 2008).

<sup>66</sup> *Ibid.*

<sup>67</sup> “Mosque and Chapel to Preach Tolerance,” *Vladivostok News*, December 1, 2006, <[http://vn.vladnews.ru/issue546/Social\\_life/Mosque\\_and\\_chapel\\_to\\_preach\\_tolerance](http://vn.vladnews.ru/issue546/Social_life/Mosque_and_chapel_to_preach_tolerance)> (accessed on June 30, 2008). According to the latest statistics, there are currently about 100,000 Muslims living in the Russian Far East.

*Scenarios 2018-2028*

**Probable:** Growing pressure from a rise in ethnic identities could increasingly play a role in the national security of China and Russia. Ethnic, religious, and political tensions in Tibet and the Xinjiang region of China are likely to continue, and the governments will maintain control with a forceful policy. Unrest in the northern Caucasus, including the difficulties in Chechnya, Dagestan, and Ingushetia in Russia, will remain insoluble. If the economic crisis in North Korea continues to worsen, there could be massive refugee flows to China.

**Plausible:** Serious conflict arising from inter-ethnic tensions in China and Russia, especially in Tibet, Xinjiang, and Chechnya, will occur, and the government will attempt to suppress independence movements through repressive military force. South Korea will rethink its concept of ethnicity amidst a trend of globalization, while North Korea will continue to place emphasis on ethnic nationalism.

**Possible:** Minorities in Tibet and Xinjiang will gain greater autonomy from the Chinese government under international pressure. On the other hand, migrants to Far East Russia will increase, especially from China. The two Koreas will strengthen their relations based on one Korean ethnic identity.

*Key Issues to Watch*

Growing tensions related to ethnic conflicts in Tibet, Xinjiang, and Chechnya; Chinese migrants in the Far East of Russia; North Korean refugee flows to China; Ethnic nationalism in Korea.

## **The Development of Extremist Political Groups**

The states of Northeast Asia are exposed to various challenges of global security issues, such as terrorism, nuclear proliferation, and other transnational threats. However, it should be noted that the term “terrorism” as defined by both Russia and China includes separatists of various types.<sup>68</sup> China’s separatist groups have recently escalated activities in Tibet and Xinjiang. In particular, Tibetan protests against the Chinese government in Lhasa in March 2008 caught

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<sup>68</sup> Robert A. Scalapino, “Northeast Asia Today-An Overview,” paper presented at the UN University in Tokyo 2002, <<http://gsti.miis.edu/CEAS-PUB/200202Scalapino.pdf>> (accessed on June 30, 2008).

international attention. In fact, the ethnic conflict in Tibet and the existence of Tibetan independence movements has a direct influence on the security of China. This intractable conflict started with China's annexation of Tibet in 1949. Since the 14<sup>th</sup> Dalai Lama fled into exile in India in 1959, the Dalai Lama and his exile government has essentially sought autonomy for Tibet from China based on a non-violent freedom struggle. However, the Tibetan Youth Congress (TYC) with about 30,000 members and up to 70 branches worldwide has regarded violence and terrorist activity as its primary means of seceding from China.<sup>69</sup> Recently, the TYC and the Tibetan exile government have claimed that Tibet has been the subject of experiments in cultural and demographic engineering, projects that raise serious questions about Beijing's intentions for the region's future.<sup>70</sup> Elsewhere, Xinjiang region, which borders Afghanistan and Central Asia, harbors separatist organizations that have been active. Furthermore, the rise of Islamic extremism has apparently seen increased efforts from extremist and separatist groups in Central Asia and South Asia to enter into Xinjiang and coordinate activities with groups there.<sup>71</sup> Indeed, elements of the Uighur Jihad terrorists seem to have had contact with the Taliban and the International Islamic Front (IIF).<sup>72</sup> Hence, in the foreseeable future, extremist groups in Xinjiang are likely to cooperate increasingly with foreign terrorist groups. In Russia extremist activities in the autonomous republics have been continuous, albeit not unlikely an ever-growing problem. The situation along Russia's southern borders, therefore, particularly in the North Caucasus, could deteriorate—with Islamic extremism, terrorism, and weak states characterized by poor governance—and consequently remain a source of endemic tension and conflict. Changes, too, in the demographic picture of the Russian Far East have serious security implications, politically and socially, as well raising the specter of racial and ethnic hate crimes. In this

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<sup>69</sup> "Commentary: Tibetan Youth Congress is a terror group," *China Daily*, April 15, 2008, <[http://www.chinadaily.com.cn/china/2008-04/15/content\\_6618199.htm](http://www.chinadaily.com.cn/china/2008-04/15/content_6618199.htm)> (accessed on June 30, 2008).

<sup>70</sup> "Tibet's Future: Does It Have One?," Heritage Foundation Conference, March 11, 2008 <<http://www.heritage.org/Press/Events/ev031108b.cfm>> (accessed on June 30, 2008).

<sup>71</sup> Jia Duqiang, "Extremism and its implications for China," Institute of East Asian Studies, University of California, Berkeley, March 2007, <[http://ieas.berkeley.edu/events/pdf/2007.03.08\\_Jia\\_Duqiang.pdf](http://ieas.berkeley.edu/events/pdf/2007.03.08_Jia_Duqiang.pdf)> (accessed on June 30, 2008).

<sup>72</sup> B. Raman, "Threat to Beijing Olympics from Uighurs," *International Terrorism Monitor*--Paper No. 379, 2008, <<http://www.ict.org.il/apage/25879.php>> (accessed on June 30, 2008).

context, China and Russia founded the Shanghai Cooperation Organization (SCO) to focus efforts on ensuring social and political stability in Asia on the basis of the struggle against terrorism and other new threats. All members have a distinctly militarized approach to combating “new threats” and some of the SCO’s most reported activities have involved exercises using military forces in anti-terrorist operations or similar scenarios.<sup>73</sup>

In contrast to the robust performance of extremist groups in China and Russia, it is hard to envisage extremist groups using violence or terror as political weapons in the two Koreas. However, it should be noticed that some political groups in the two Koreas potentially could develop into extremist anti-government groups in the future. In South Korea, there are some pro-North Korean groups which largely blame Washington rather than Pyongyang for tensions on the Korean Peninsula. On the other hand, even if successful in containing the political effect of economic failure, the North Korean regime could be exposed to the challenge of rising instability with the emergence of anti-regime activities.

#### *Scenarios 2018-2028*

**Probable:** The penetration of foreign extremist forces and groups as well as domestic extremist forces will continue to represent a threat to political and social stability in China and Russia. Governments in China and Russia will use the military to deal with terrorist activities by separatist groups in Tibet, Xinjiang, and Chechnya. Moreover, the activities of separatist activities in Tibet are likely to be radicalized after the death of the 14<sup>th</sup> current Dalai Lama.

**Plausible:** Separatist and terrorist activities will increase in China and Russia. Tensions in Xinjiang and Tibet, stoked by separatist groups, will escalate with direct consequences for China’s national security. Similarly in Russia, increasing pressure from a rise in separatist activities in Chechnya could increasingly play a role in the national security of Russia.

**Possible:** Anti-regime dissent and opposition could increase in North Korea and the pro-North Korean movement in South Korea will still remain in the next decade and further destabilize the Korean peninsula.

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<sup>73</sup> Alyson J. K. Bailes, Pál Dunay, Pan Guang and Mikhail Troitskiy, “The Shanghai Cooperation Organization,” SIPRI Policy Paper No. 17, May 2007, p. 28.

### *Key Issues to Watch*

Activities of separatists in Tibet, Xinjiang, and Chechnya; Shanghai Cooperation Organization; Social and economic inequality; Cultural tension.

## **Geopolitical Development**

Northeast Asia is a region where the interests of nations intersect most directly. The implications of the rise of China as an economic and increasingly capable regional military power pose currently the greatest influence on the region. The United States' and Japan's power presence in combination with the rising power of China make Northeast Asia the core security complex in Northeast Asia for the foreseeable future.<sup>74</sup> The reactions of other powers—India, EU, ASEAN, and Australia—to possible growing tensions between U.S.-Japan and China in this region might in fact be more focused on staying out of the power game, and thus instead concentrated on gaining access to the huge market in China.

### *The United States*

The United States, while not a geographic part of Northeast Asia, has been the most powerful influence in the region. However, at least in some respects, over the last several decades China's power has increased at a high speed relative to that of the U.S. Currently, U.S. relations with China can be characterized as a mixture of cooperation and contention, best defined by the word "complex."<sup>75</sup> Accordingly, it argues that U.S. power in Northeast Asia could possibly diminish in direct relation to the growing influence of China over the next two decades. Viewed pessimistically, it is inevitable that their relationship will become more competitive; but, on the other hand, the U.S. and China have strong economic incentives to avoid confrontation. Should relations between the two countries worsen, it could fuel an increasingly antagonistic relationship that could herald the start of a new cold war in Northeast Asia. Nevertheless,

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<sup>74</sup> Gustaaf Geeraerts, "China's Rise and Northeast Asian Security: A European Perspective," Department of Political Science, Free University Brussels (VUB), p. 2, <<http://www.dur.ac.uk/chinese.politics/Public%20lectures/Gustaff%20Geeraerts%20-%20Renmin%20lecture.pdf>> (accessed on June 30, 2008).

<sup>75</sup> Robert A. Scalapino, "The State of International Relations in Northeast Asia," in Special Roundtable: Pursuing Security in a Dynamic Northeast Asia, *Asia Policy*, No. 3, January 2007, p. 27, <[http://www.nbr.org/publications/asia\\_policy/AP3/AP3\\_NEASecRT.pdf](http://www.nbr.org/publications/asia_policy/AP3/AP3_NEASecRT.pdf)> (accessed on June 30, 2008).

this pessimistic scenario is unlikely to occur a decade ahead, since the two countries have strategic partnerships in many areas such as trade, terrorism, and the North Korean nuclear issue; and in the long term, the relationship may be widened to encompass security issues such as military, political, energy, and so on. On the other hand, North Korea and Taiwan pose as complicated issues for the U.S. The U.S. is likely to seek a reduction of tension and the resolution or containment of disputes because of the country's economic future and given the U.S.'s focus on the Middle East, including Iraq and Afghanistan. Moreover, since Northeast Asia already plays an important role in U.S. economic and national security, the U.S. will strengthen existing military alliances with Japan and South Korea,<sup>76</sup> and will continue to develop and deploy Ballistic Missile Defense (BMD) assets in the Northeast Asian region. Consequently, the U.S. policy in Northeast Asia is likely to rest on two fundamentals—a concert of powers and a balance of power during the next two decades.<sup>77</sup>

### *Japan*

Japan is still haunted by its historical legacy and the attitudes that were formed among the populations of the occupied countries prior to and during World War Two, who had to suffer from the cruelties inflicted by the Japanese military. And yet the situation should not be overdramatized. Serious talks are being held on many levels between China and Japan. Between South Korea and Japan both economic and cultural relations are flourishing. Serious issues are being addressed and an increasing amount of sincerity can be discerned in the communiqués from meetings and seminars. Even the thorniest of the issues, the North Korean nuclear weapon and the future security architecture in Northeast Asia, does not seem to be dead-locked. On the whole, Japan seems to be well on the road toward serious improvement of relations with all its neighbors, but can there be any change of direction in the near future?

If the U.S. economy is so badly hit by a recession that calls from the American tax-payers to withdraw U.S. forces from the western Pacific are adhered to, Japan would suddenly find itself in a seemingly dangerous situation. In this event, U.S. nuclear guarantees for Japan would gradually lose credibility as

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<sup>76</sup> Robert A. Scalapino, "The Security Outlook in Northeast Asia: Is the Security Agenda Shifting?" Paper prepared for the United Nations Association of Japan (UNAJ) 8th Kanazawa Symposium on Northeast Asia, June 4-6, 2002.

<sup>77</sup> *Ibid.*

American forces withdrew from the region. Would Japan in such a situation be able to, and decide to, provide for its own defense and what would that mean? Most important of all, would Japan decide that it could not protect itself without an independent national nuclear weapons system as a balance to the Chinese and Russian arsenals?

This worst case scenario, however, seems most unlikely to materialize as a result of the present and arguably mild downturn in the American economy. The fact that such far-fetched scenarios are required to create credible preconditions for a new militaristic nationalism in Japan rather underlines the thesis that Japan is perhaps not “discarding a legacy” as such, but it is bringing about the preconditions of an independent national posture.<sup>78</sup>

At the same time the advent of the U.S. missile defense system and successful missile defense cooperation in the western Pacific is likely to cause an increased U.S. interest in upholding the existing military alliances with Japan, South Korea, and Australia. Since the BMD System is perceived to be a matter of survival capability for the Americans, this desire is likely to remain strong. For Japan (as for South Korea and Australia) this also means that the weapons platforms (Aegis ships of different types) and facilities (radar systems and bases) with which they are providing the U.S. forces will seemingly increase their value.

For Japan, whose mega cities are so exposed to nuclear attack, and who, consequently, is vulnerable to nuclear black-mailing, the TMD-system (Theater Missile Defense) that is being built in the western Pacific could mean actual protection in addition to U.S. nuclear assurances to Japan (meaning an assurance by the United States that it is prepared to defend Japan with nuclear weapons, if necessary). China’s ambition to continue building a strong defense is gaining strength, and the above TMD issue is likely to make China more inclined to see Japan’s role as an ally of the United States (and thus as a potential adversary). Indeed, Japan is becoming more visible in its military role as an ally of the U.S.<sup>79</sup>

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<sup>78</sup> Ingolf Kiesow and John Rydqvist, *Japan as a “Power”; Discarding a Legacy*, Institute for Security and Development Policy, Asia Paper, 2008, pp. 96-98.

<sup>79</sup> *Ibid.*, pp. 82-84.

### *India*

During the next 10-20 years the potential role of India will increase gradually in Northeast Asia in line with its growing global influence and status. India will seek to build strengthened relations and trade links with China, and generally pursue closer economic and political ties with Northeast Asian nations. Recently, India has become interested in establishing cordial ties with China, and China also attempts to develop better relations with India. At the same time as this, however, India is likely to continue deepening its relationship with the U.S. that is aimed at containing China's power amidst fears of Chinese domination in the region. In addition, India is likely to consolidate its old, longstanding relationship with Russia and its new relationship with Japan to deal with issues relating to trade, defense, science, technology, and energy.

### *The European Union*

The significance of Northeast Asia for the EU will increasingly grow and deepen, not only in a bilateral sense, but by extension, regionally and multilaterally, as a significant and rapidly growing economic partner. The EU is attempting to build a common external policy, and it is necessary to review the EU's strategic interests in Northeast Asia until 2020 and to consider the tools required for their promotion.<sup>80</sup> However, as it is not a geographic part of the region, the potential role of the EU in Northeast Asia is likely to be mainly that of an active observer rather than one of direct engagement.<sup>81</sup> In spite of this, the EU could find ways to launch and support processes of peace, security, and cooperation in Northeast Asia.<sup>82</sup> The most crucial issue for the EU is Russia's future strategic projection and agenda, and whether it will turn more to Europe or to Asia. In terms of future global security, while the EU will be concerned with the unstable geopolitical situation in Northeast Asia in the light of China's growing military power, EU-China confrontation is extremely unlikely as China is an important trading partner for the EU. However, European economic trade disputes, China's human rights record, and the Taiwan issue

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<sup>80</sup> Laboratoire européen d'Anticipation Politique, "Seminar Global Europe 6 / EU-Asia," London, September 29, 2004, <<http://www.europe2020.org/spip.php?article338&lang=en>> (accessed on June 30, 2008).

<sup>81</sup> Niklas Swanström, "EU-China relations: troubled relations?", *The Quarterly Journal of Defense Policy Studies* 24, 1 (2008), pp. 153-75.

<sup>82</sup> Markku Heiskanen, "On the Prospects of the Role of the EU in Northeast Asia," paper presented at Rome Conference, 1-2 June 2000, p. 123.

might all have a destabilizing effect on future EU-China relations. In particular, the issue of Taiwan could lead to a deterioration of relations, which would manifest itself in worsening trade relations (tensions and competition).

### *ASEAN*

ASEAN will attempt to maintain balanced relationships with the major regional powers in Northeast Asia—the U.S., China, Japan, and Korea—to enhance its economic benefits from the region. ASEAN's member countries and China, Japan, and South Korea are discussing the future of East Asia, promoting the establishment of a 10+3 framework mainly focused on the fields of trade and economy. However, ASEAN “10 + 3” meetings during recent years have tended to be low-key, and have not produced any joint declarations. Also, there has been intensified competition between China and Japan to increase their influence in ASEAN countries. China’s power has recently been growing faster than that of Japan’s and is further characterized by an intention and capacity to exercise influence in Southeast Asia. This will interact with U.S. and Japanese interests in the latter region, as China’s rise will be one of the most important shaping forces in Southeast Asia during 2018-2028.

### *Australia*

During recent years, Australia has started to consider the changing nature of its identity and role in Asia, and it has had to cope with a rapidly changing external security environment and a series of new challenges, including a rising China and North Korea’s nuclear program.<sup>83</sup> Although not a regional member of the Northeast Asian security mechanism, Australia will likely be increasingly involved in Northeast Asia and continue deepening its relationship with the U.S. Australia’s role in Northeast Asia during the next 10-20 years will be that of a regional middle power heavily dependent on trade with East Asian countries. Hence, Australia will increase its economic interaction with Northeast Asia at the same time as extending its political and strategic relevance in the region during 2018-2028.

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<sup>83</sup> Peter Van Ness, “Australia and Regional Cooperation in Northeast Asia: From Hegemony to a Multilateral Security Mechanism?”, *Austral Policy Forum* 07-11A 17, Nautilus Institute, May 2007, <<http://www.nautilus.org/~rmit/forum-reports/0711a-van-ness.html>> (accessed on June 30, 2008).

*Scenarios 2018-2028*

**Probable:** The U.S. will continue to play the most important role economically, politically, culturally, and militarily in Northeast Asia. In terms of relationships with countries of Northeast Asia, the U.S. will continue to maintain a strategic relationship with China, at the same time, the U.S. together with Japan, will consolidate as a bloc of influence in the region. The EU, India, ASEAN, and Australia will pursue a policy of positive engagement with China, at the same time as maintaining constructive relationships with the U.S.

**Plausible:** The increasing power of China with its rapid rise will forge the new security environment in Northeast Asia. China will align together with Russia in order to deal with the U.S.-Japan alliance. However, in a short-term perspective, the overall security environment in the region will be relatively stable with the balance of power between the U.S. and China. The EU, India, ASEAN, and Australia will not see favorably to China's rise which they will see as a strategic challenge, even though they also seek to advance relations with China.

**Possible:** In the long-term, China will try to eject the U.S. from the region and will confront the U.S. and Japan for domination of economic, cultural, energy, and military power in Northeast Asia. The issues of North Korea and Taiwan are misused both by China and external actors and this will damage the bilateral relationship between the U.S. and China, but also with other powers such as the EU.

*Key Issues to Watch*

China's rise; the U.S. position in the region; North Korean stability, Sino- U.S. and Sino-Japan relations will be critical factors in the region's security landscape.

**Unresolved Conflicts**

Tension in Northeast Asia may be exacerbated in the future due to issues centering on the Korean Peninsula, the Taiwan Strait, and longstanding territorial and history disputes. However, the main driving factors that could ignite conflict in the short term, or give rise to security dilemmas, relate to the North Korean nuclear crisis and the Taiwan Strait.

*North Korean Nuclear Issue*

North Korea's nuclear test in October 2006 had a significant impact on the security calculations of all countries in Northeast Asia. While the February 13 Agreement of the Six-Party Talks aims at disabling North Korea's nuclear program, the directions North Korea's nuclear development will take over the next two decades remain uncertain. There are outstanding concerns about the possibility that North Korea will not completely abolish all of its nuclear materials and weapons despite of the consequences of possible sanctions by the international community despite its demolition of the reactor in Yongbyong and sharing of information. The reason that North Korea may not dismantle its nuclear program completely without significant security guarantees is that nuclear weapons represent a life-line to the survival of the regime; and that North Korea has realized that the possession of nuclear weapons is the only way that it can negotiate with the U.S.. In this sense, North Korea's nuclear weapons are not likely to be completely dismantled, for they are useful as a bargaining chip with the U.S.. Nonetheless, regardless of the outcome of North Korea's denuclearization, it has clear ramifications for a new order in Northeast Asia: either a peace regime in Northeast Asia that is to include North Korea's diplomatic normalization of relations with the U.S. and Japan; or a threat to overall security in Northeast Asia that includes the possibility of military conflict on the Korean Peninsula.

*Taiwan Strait*

A conflict in the Taiwan Strait could also serve to critically undermine the stability of the region. Leaders' future decisions in China and Taiwan will be a critical factor to whether this seemingly intractable issue is resolved peacefully or not. Many of the current Chinese leaders have been prepared to place greater emphasis on social and economic stability rather than inviting instability. Indeed, Chinese leaders' top priority is to continue economic development. At the same time, Taiwan's new leader has sought to improve relations with China—that were damaged during the presidency of Chen Shui-bian—in order to promote domestic economic development. Furthermore, with China's rising economic prospects, Taiwan's business leaders are increasingly seeking mainland business and investment opportunities; these closer ties could ease the way to a peaceful resolution. Nonetheless, since China has always held a policy of no toleration regarding independence for Taiwan, the actions of Taiwan's

future leaders remain the most critical in how this issue will play out or be resolved.

### *Territorial Disputes*

Rising nationalism in Northeast Asia has exacerbated long-standing disputes over territorial boundaries between the countries of Northeast Asia. The China-Japan dispute is over a set of eight small islands in the East China Sea known as Senkaku/Diaoyu. The Japan-South Korea dispute is over Tokdo/Takeshima, which consists of two rocky islands that have historically been uninhabited. The Russia-Japan dispute centers on Kuril Island, which is a group of four islands at the southern end of the Kuril Island chain. The border dispute between China and North Korea concerns in the Yalu and Tumen rivers, along with territory around Mount Paektu;<sup>84</sup> the main problem has been over the dozens of islands that are to be found in the aforementioned rivers. The North-South Korea dispute is over the Northern Limit Line (NLL) maritime border in the West Sea—or Yellow Sea as it is also known—where over the past half-century it has proven to be a hotspot of instability as witnessed by naval skirmishes, fishing disputes, and the kidnapping of fishermen. All sides present elaborate legal-historical arguments to support their claims to the islets or border lines. Most disputes have an underlying similarity—they are primarily driven by domestic politics and the presence of natural resources such as oil, gas, and fish stocks in the areas of dispute.<sup>85</sup> In fact, disputes have been inflated and become entangled in each country's nationalist sentiments and ideology, which are exploited by politicians and pose obstacles to reaching compromises. Gradually, however, the relevant countries have realized that their best interests lie in avoiding military conflict, and so this would be a limiting factor to a violent resolution.

### *History Disputes*

In Northeast Asia, recent rising nationalism in turn has exacerbated historic animosities among countries. While this revolves mainly around Chinese and Korean animosity toward Japan, recently tensions have increased in the history

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<sup>84</sup> Called Paektusan in Korean and Baitoushan in Chinese, in both cases this name means “white-headed mountain”.

<sup>85</sup> The East China Sea is abundant in natural resources such as oil and natural gas, and there are rich fishery resources in waters around Tokdo/Takeshima, Kuril Islands, and the maritime border in the West Sea of Korea.

dispute over Koguryo between China and South Korea.<sup>86</sup> The former Japanese Prime Minister Koizumi's visits to the Yasukuni Shrine and attempts by right-wing groups to produce revisionist history textbooks have prompted alarm in both China and South Korea and have added to the emotion with which they accuse Japan of failing to show contrition for its crimes during World War II.<sup>87</sup> Accordingly, historical conflicts and grievances have resurfaced between China, Korea, and Japan to the extent that serious diplomatic rows have erupted. There is no simple way to erase the memory of history: it only gradually, but never completely, disappears.<sup>88</sup> However, there have recently been calls for historians of the nations of Northeast Asia to unite to write a joint history of the region. Perhaps only by addressing their shared past can China, Korea, and Japan meet their shared future.<sup>89</sup>

#### *Scenarios 2018-2028*

**Probable:** The North Korean nuclear issue will not be fully resolved, even if the member states of the Six-Party Talks make some progress on dismantling the North Korean nuclear program. As far as Taiwan is concerned, military intervention is highly unlikely and China-Taiwan relations will remain at the status quo. The possibility of conflict in issues of history and territory will remain moderately low so as not to impede increased economic cooperation.

**Plausible:** North Korea will give up its nuclear program and will be able to leverage regime stability by receiving resources for economic reform and achieving diplomatic relations with the U.S. and Japan. Relations between China and Taiwan will be constructive in terms of economic exchange and cooperation. Relations among countries of Northeast Asia are unlikely to be

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<sup>86</sup> The Koguryo controversies refers to the disputes between China and Korea on the history of Koguryo, an ancient kingdom located mostly in the present day Northeast China and North Korea. In 2004 this dispute threatened to lead to diplomatic disputes between China and both Koreas.

<sup>87</sup> "Northeast Asia's Undercurrents of Conflict," International Crisis Group, Asia Report No. 108, December 15, 2005, <<http://www.crisisgroup.org/home/index.cfm?id=3834>> (accessed on June 30, 2008).

<sup>88</sup> Niklas Swanström and Ryosei Kokubun, *Sino-Japanese relations: The need for conflict management* (Cambridge: Cambridge Scholars Publishing, forthcoming 2008); Joshua Snyder, "Old history, fresh tension in Northeast Asia," *Spero News*, April 18 2005, <<http://www.speroforum.com/site/article.asp?idCategory=33&idsub=122&id=1305>> (accessed on June 30, 2008).

<sup>89</sup> *Ibid.*

seriously damaged due to history and territorial disputes. However, leaders in each country could exploit domestic nationalism to stabilize their political positions.

**Possible:** North Korea will not terminate its nuclear program and will possess nuclear weapons that will threaten the overall security of the region. But the possession of nuclear weapons will not guarantee regime survival: external powers will apply acute economic and political pressure that could lead to the collapse of the regime. The dispute over the Taiwan Strait could potentially undermine China's rhetoric of "peaceful rise."

#### *Key issues to Watch*

North Korea's nuclear program; the tension of the Taiwan Strait; Long-standing conflicts over history and territorial disputes.

#### **Conclusion**

The analysis above cannot avoid being termed as speculative. While many questions remain unanswered, this chapter does portend certain prospects for Northeast Asia, which can be summed up succinctly. Overall, the region has tremendous potential to utilize the positive trends it is currently experiencing, and to overcome the lingering effects of the calamities sustained within its borders during the Cold War. Nonetheless, it is impossible to portray with any degree of certainty a rosy picture of Northeast Asia a decade ahead. Accordingly, in fact, this chapter suggests many negative possibilities in the issues under study, since this region still holds a number of key uncertainties related to the future.

The overall assessment of this chapter is that every nation in this region faces daunting domestic challenges in a revolutionary age. China, Russia, and South Korea will experience continued economic growth with extensive economic reform in spite of some likely growing pains. At the same time, regimes in Northeast Asia could potentially come to be governed by more progressive and democratic forces albeit with strong state institutions. Consequently, it would seem overall that future economic and political reforms are to be expected. Still, an analysis of topics in areas such as demographics, energy, ethnicities, and military and geopolitical security issues are ripe for immediate attention and consideration regarding their impact on the future development of the region. Further, the Northeast Asian region should be prudent in finding a way for

unresolved problems among countries, such as territorial, historical, and energy disputes, as well as the North Korean nuclear and Taiwan Strait issues (which have fundamentally altered the course of Northeast Asia). The issues of demographics, energy, ethnicities, military, and geopolitical security therefore would tend to suggest that the situation could become worse or remain at the status-quo rather than get better as time goes on.

Whether or not emergent events in North Korea and Taiwan will occur, however, most security issues in Northeast Asia will stand to be significantly affected by factors brought about by China's rise in the region during the period of 2018-2028, as this chapter has strongly illustrated. The obvious concern that China's neighbors have about China's rise is that it will continue to increase its military power. However, China will be unlikely to escalate serious regional tensions or military confrontation, at least *before* it becomes a dominant regional superpower. According to Chinese foreign policy, establishing peaceful foreign relations for the purpose of continued economic development until 2020 when a "Xiaokang Society"<sup>90</sup> will be attained is the state's overarching goal. In this context, China will need regional stability and positive relationships with others that support its domestic economic development plans. On the other hand, there is a significant probability that China's power will not continue to grow at anything resembling the pace of the past two decades. In this calculation, China's power is unlikely to equal that of the U.S. in Northeast Asia by 2028. Accordingly, China will not engage in any direct confrontation with the U.S. as long as it has inferior capability. Thus, conflicts in this region could be limited or ameliorated by economic interconnectedness and the maintenance—despite China's challenge—of the existing regional power order during the period 2018-2028.

However, there is a remaining question for the more long-term future of Northeast Asia. As China emerges as the foremost power in Northeast Asia, economically and militarily, will it continue to abide by the peaceful evaluation that it now so frequently asserts? This concern is present not only in Northeast Asia, but also in other regions as well.

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<sup>90</sup> Xiaokang Society refers to a society of modest means, or a middle-class society.

# Chapter 2: Southeast Asia

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## Introduction

Southeast Asia is a region characterized by complexity geographically, ethnically, politically, and militarily. It is constituted by one part continental landmass located between the southwest provinces of China and the east of India, and the other part is made up by an archipelago dividing the Pacific Ocean and the Indian Ocean. Accordingly, the region is comprised of the following countries: Brunei Darussalam, Cambodia, Indonesia, Lao People's Democratic Republic (PDR), Malaysia, Myanmar,<sup>91</sup> Philippines, Singapore, Thailand, Vietnam, and arguably also the Democratic Republic of Timor-Leste—formerly known as East Timor.<sup>92</sup> The region's position as a bridge or crossroads between two oceans and also between the continents of Asia and Oceania has lent it the distinction of being a point of convergence for a diversity of religions, cultures, and ethnic groups, among other distinguishing features. The countries of the region also display a range of political systems from authoritarian, communist, democratic, to monarchical, which serves to add to the regional diversity. In spite of the miscellany, there are many common similarities in the conditions and challenges that the countries of the region face. An important area for trade and transport, with vital Sea Lanes of

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<sup>91</sup> In 1989, Burma was renamed Myanmar by the military government. The name Myanmar is recognized by the United Nations and most Asian countries.

<sup>92</sup> Although Timor-Leste is geographically a part of Southeast Asia, ASEAN has not admitted it as a member.

Communication (SLOCS) accounting for 32 percent of world oil net trade and 27 percent of world gas net trade, as well a rich endowment of natural resources and biodiversity, holds much potential for the countries of the region. However, hazards such as overfishing, water pollution, de-forestation, maritime piracy, and ethnic and religious violence (such as the nightclub bombing in Bali in 2002) represent the flipside of the region's diversity and opportunities. Moreover, the tendency for weak or poor state governance and weak conflict management structures combined with corruption and organized crime further exacerbates the risks in the region.

The history of Southeast Asia has during the post-colonial period been marked by internal conflicts and prominent international conflict. As a scene of both anti-colonial struggles and a theater of the Cold War, the region continues to display many vestiges of a past that will continue to play an influential role in the region's future development. As a result of the Vietnam War, the effects of which also spilt over into neighboring countries, Vietnam and Lao PDR became consolidated as one-party political systems modeled after China, with the communist party holding a monopoly over power to the present-day. In Cambodia, the Khmer Rouge led by Pol Pot took control over the country and sought to restructure society and eradicate external influences, a policy which resulted in the huge loss of life; the regime was toppled by a Vietnamese invasion in 1979, but it is only in more recent years that reconstruction and greater stability have started to take root. Authoritarian Myanmar ruled by a military junta is a notable anachronism and increasing anomaly in a region offering increasing signs of political reform and economic potential. And while Indonesia and the Philippines have undergone democratic transition—Indonesia started its path toward political liberalization in the aftermath of the financial crisis in 1998, when President Suharto was forced to resign from office; in the Philippines the authoritarian rule of President Ferdinand Marcos was terminated in 1986 after massive protests—military interference in domestic politics (and also economy) continue to pose as obstacles to democratic consolidation. That military involvement in domestic politics is, to some extent, a recurring theme is amply demonstrated by the military coup in Thailand in September 2006—the last time the military had held power was in 1991-1992. All these countries, furthermore, have experienced decades-long internal conflicts, albeit at varying intensities, that continue to threaten national cohesion. Traits of continuity thus undergird the trajectory of many countries of the region at

the same time as they are undergoing dynamic change. Change and continuity are thus a hallmark of Southeast Asia lending accurate predictions of the future difficult, as the two interact uneasily in a region that displays both a negative tendency toward volatility but also a potential for peace and prosperity. With a combined population of over 500 million people, and important to the economic and security architecture of not just Asia but the wider world, it is nevertheless clear that the region is a crucial one with developments holding far-reaching implications.

Rapid developments and trends in many of the countries studied in this chapter, together with existing conflicts and traits, will undoubtedly influence the situation in the region ten to twenty years in the future. Accordingly, this chapter provides a background of some of the most pressing issues facing Southeast Asia, and outlines a number of scenarios for 2018-2028. Among the current and potential dangers are weak economic development, environmental issues, ethnical and religious conflicts, as well as the looming threat of failing states and social conflicts, often in a dangerous combination. Due to limited space, the customers focus, and depending on the issue, the chapter inevitably accords more attention to some countries more than others, such as Indonesia, or those countries where developments in a particular issue are held to be particularly significant. Nonetheless, the overarching aim of the chapter is to enable the reader to frame developments in the countries of Southeast Asia from a wider regional perspective. In addition, this chapter will not consider external actors in greater detail unless they are deemed to have a direct impact on the development of the region of individual states. Important, however, is the regional focus of the chapter, with the proceeding paragraphs providing an overview of the region's main regional organization: ASEAN.

### *ASEAN—Regional Cooperation*

The region's most prominent regional organization was established in 1967 by Malaysia, Thailand, the Philippines, Indonesia, and Singapore. It was named the Association of Southeast Asian Nations (ASEAN), and the organization's aim centered on political interaction at a regional level. Prior to this organization, the Southeast Asia Treaty Organization (SEATO) had been established, but membership was limited to Thailand and Philippines and the focus was exclusively limited to countering the communist threat in the

region.<sup>93</sup> With the establishment of ASEAN, the focus broadened with the primary goal of the organization to not only increase economic growth and promote peace and stability in the region, but also to address cultural and social development. ASEAN is currently constituted by 10 countries (Southeast Asia as ASEAN has defined it) but the organization also attempts to interact with neighboring countries and influential parties in the world economy through summits such as ASEAN+3 and the World Trade Organization (WTO); this is very much as a result of the very low level of intra-regional trade in Southeast Asia and the lack of complementarity between the economies.<sup>94</sup>

To be able to take the regional structure further than earlier had been possible under SEATO, ASEAN members agreed on a set of pillars for the inter-state relations in the organization.<sup>95</sup>

- mutual respect for the independence, sovereignty, equality, territorial integrity, and national identity of all nations;
- the right of every State to lead its national existence free from external interference, subversion or coercion;
- non-interference in the internal affairs of one another;
- settlement of differences or disputes by peaceful manner;
- renunciation of the threat or use of force; and
- effective cooperation among themselves.

The strong focus on state sovereignty and non-interference underscores the limitations as well as advantages of the organization. The stringency of the non-interference policy in ASEAN has developed from a common aim of stability among the member states. ASEAN moreover made consensus in all decisions obligatory, even if this has changed somewhat and it has evolved to an understanding to agree to disagree in certain issues. This does not indicate that the states could take decisions that would contradict the non-intervention policy, and it has become obvious that the non-interference policy has made it

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<sup>93</sup> Niklas Swanström, *Foreign Devils, Dictatorship or Institutional Control: China's Foreign Policy Towards Southeast Asia* (Uppsala: Uppsala University, 2001).

<sup>94</sup> Niklas Swanström, *Regional Cooperation and Conflict Management: Lessons from the Pacific Rim*, (Uppsala: Uppsala University, 2001).

<sup>95</sup> See the website of ASEAN Secretariat: <<http://www.aseansec.org/64.htm>> (accessed on June 30, 2008).

feasible to interact and open up to politically and economically isolated countries in the region such as Myanmar. Further reasons for ASEAN commitment to its members' sovereignty are related to the struggle for independence from colonialism and Western control, which has played an imperative part in the creation of several of the Southeast Asian states. Even more influential is the political and economic diversity among and within the Southeast Asian countries as well as the frail condition of the states, many suffering from long drawn-out domestic conflicts. This has prevented ASEAN from acting in internal matters and the few occasions when the organization has acted on domestic issues of one member state it has been with a strong mutual understanding—the base for ASEAN—of self-preservation, the security and stability of the region or several of its member states.<sup>96</sup>

In looking to the future, ASEAN had set out to create an ASEAN Community by the year 2020; this was outlined in the ASEAN Vision 2020 drafted in 1997. In 2006, ASEAN decided to speed up the process by five years for the members that would like to go further faster.<sup>97</sup> It was stipulated that the ASEAN Community should rest on three cornerstones: political and security cooperation, economic cooperation, and socio-cultural cooperation. The economic cooperation within ASEAN aims to strengthen the competitiveness and promote economic development of the region through harmonizing the markets and standardization. This is a task that will be daunting as the Southeast Asian markets are still dependent on imports from external actors to a significant degree and will remain so for some time.<sup>98</sup>

The principle of non-interference and the focus on sovereignty has, so far, made the new approach to security cooperation difficult. Maritime security and the asymmetrical threats in the region are issues pointing toward the current complexity.<sup>99</sup> Regarding the development of maritime security, it is affected by the condition of cooperation and coordination between the Southeast Asian

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<sup>96</sup> Rodolfo C. Severino, *Southeast Asia in Search of an ASEAN Community* (Singapore: ISEAS Publishing, 2006), pp 88-90.

<sup>97</sup> ASEAN, Cebu Declaration on the Acceleration of the Establishment of an ASEAN Community by 2015 <<http://www.aseansec.org/19260.htm>> (accessed on June 14 2008); Kavi Chongkittavorn "The politics of speed: An Asean Community by 2015?" *The Nation*, December 12, 2006.

<sup>98</sup> Swanström, *Regional Cooperation and Conflict Management: Lessons from the Pacific Rim*.

<sup>99</sup> Chongkittavorn "The politics of speed: An Asean Community by 2015?"

states.<sup>100</sup> Further issues to be addressed by a new interest in developing the security cooperation of ASEAN are of a transnational character. Areas of interest are the trafficking of narcotics and humans, organized crime, and environmental issues. Among these are the combating of organized crime and drug trafficking in particular, since ASEAN is aiming for a Drug free ASEAN by 2015.<sup>101</sup> The initiative of counter narcotics in the region requires a development of cooperation and coordination of law-enforcement in but also beyond the region, including with major transit and consumer markets such as China, similar to development needed for maritime security.

The development of interest in enlarging the security cooperation points toward a motivation amongst some members to address the non-traditional security threats within the ASEAN context. The obstacles of non-traditional security for regional integration and cooperation between Southeast Asia states may be found in both differences and inequalities among countries as well as within countries themselves. The differences in political climate, financial development, institutional capacity, and human development between the ASEAN countries all affect the association's ability to find consensus, and this is an obstacle that is likely to remain for a long time. Moreover, even if consensus is found, differences in capacity and infrastructure would have an effect on the ability to actually implement policies in the member states.<sup>102</sup> Thus, to create effective implementation of policies the region seeks to create the ASEAN Community, in which a new form of cooperation would potentially be able address the non-traditional security issues in order to assure political and social stability.

## **Demographic Outlook**

Southeast Asia is undergoing a less pronounced population expansion compared to the rest of developing Asia. By 2025, Southeast Asia's population is estimated to reach 689.5 million compared to 573 million in 2007—representing a population increase of 20 percent over this period (calculations from Table 1

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<sup>100</sup> See part on Energy Production and SLOC Security Issues.

<sup>101</sup> Bangkok Political Declaration in Pursuit of A Drug-Free ASEAN 2015, Bangkok, Thailand, 11-13 October 2000 <<http://www.aseansec.org/5714.htm>> (Accessed on June 15 2008).

<sup>102</sup> Niklas Swanström, "Southeast Asia's War on Terror: Who is Cooperating Across Borders?", *Harvard Asia Quarterly*, 9, 1-2 (2005).

below, based on Population Reference Bureau Data). The uncertainty distribution for the future population size of Southeast Asia is, however, relatively large and population estimates also vary according to sources. The International Institute for Applied Systems Analysis, for instance, estimates that Southeast Asia's population could range from around 590 million to 690 million by 2025.<sup>103</sup>

Speaking about Southeast Asia's population as a monolithic bloc ignores, however, the wide population distribution in the region. This distribution could fairly be divided into three different categories: The "large-sized population" group including Indonesia, Philippines, and Vietnam; the "medium-sized population" group including Myanmar, Thailand, Malaysia, and Cambodia; and the "small-sized population" group constituent of Singapore and Laos.

The demographic trends in Southeast Asia shows growing populations in countries such as Lao PDR, Cambodia, Malaysia, and Philippines, all with an expected birth rate of over 1.5 percent during the period 2005-2010. Indonesia is predicted to have a more modest population growth of approximately 1.1 percent. Seen over a longer period of time the projections of demographic growth have declined which has created some demographic stability in the region. This is partly due to South Asia's growing middle class and urban population that both tend to have fewer children than rural populations and a generally better socio-economic situation.

The population growth for ASEAN members is projected to range from 0.8 percent in Thailand to 2.2 percent in Lao PDR. However, since Lao PDR has a population of just above 6.2 million the significance of its growing population for the region would seem minor. The four countries whose population growths could have a larger impact on Southeast Asia are Indonesia, Thailand, Vietnam, and Philippines. All of them, except Vietnam, have had a slowdown in population growth during the recent decade, but it is still higher than in comparison to countries in Northeast Asia.<sup>104</sup>

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<sup>103</sup> Wolfgang Lutz et al. "Future Aging in Southeast Asia: Demographic Trends, Human Capital, and Health Status," International Institute for Applied Systems Analysis, Interim Report IR-07-026, September 27 2007.

<sup>104</sup> Statistic material from UNFPA, <<http://www.unfpa.org/swp/>> (accessed on June 20 2008).

As detailed in Table 1 below, Indonesia—the most populous country in the region—is predicted to experience a population increase from 231.6 million in 2007 to 272.2 million by 2025. Similarly, the Philippines’s current population of 88.7 million is expected to increase to 120.2 million in the same time-period while Vietnam’s population is predicted to rise from 85.1 million to 103.6 million. These are all relatively modest growths (with the partial exception of the Philippines) compared to earlier predictions.

**Table 1.** Population size 2007 and 2025

<i>Population (in millions)</i>	<i>2007</i>	<i>2025</i>
Indonesia	231,6	272,2
Philippines	88,7	120,2
Vietnam	85,1	103,6
Thailand	65,7	70,2
Myanmar	49,8	55,4
Malaysia	27,2	34,5
Cambodia	14,4	19,6
Laos	5,9	8,5
Singapore	4,6	5,3

*Source:* Population Reference Bureau 2008, compiled from individual country databases.

Southeast Asia will undoubtedly face challenges in both employment creation and in meeting demand for social services as a result of these growing populations. One particular challenge for Southeast Asia to tackle beyond 2025 will be the trend of massive population ageing. According to some estimates, the proportion of the population above 65 years of age will increase by a factor of three or more.<sup>105</sup>

However, the current demographic trend points to a fairly stable scenario for the period up until 2025 with a moderate population growth. The population

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<sup>105</sup> Lutz et al. “Future Aging in Southeast Asia: Demographic Trends, Human Capital, and Health Status,” p. 16.

growth has not slowed down to the extent that the reproduction of the labor force is severely threatened and neither has it resulted in an uncontrolled demographic growth which potentially could result in mass unemployment. Moreover, the adverse social and demographic impact of the Southeast Asian crisis of 1997-1999 did not materialize as predicted by some and the regional countries have recovered remarkably fast.<sup>106</sup>

### *Urbanization*

This rapid recovery is partly a consequence of urbanization which has acted as an engine of economic growth. The larger cities (mega-urban areas) in Southeast Asia such as Bangkok, Jakarta and Manila continue to dominate regional economic growth patterns due to their size, productivity, and economic power. The output per capita has reached such levels that the situation could fairly be described as “a developed country within a developing country” in some of these mega-cities.<sup>107</sup>

The number of people residing in urban areas in Southeast Asia is, according to WHO, expected to be as high as 45 percent of the population.<sup>108</sup> This is also a process which is likely to continue as UN predictions suggest that the level of urbanization will be close to 59 percent in 2025. This is a trend that undoubtedly will have serious implications both in terms of tense center-periphery relations as well as ecological sustainability. The difference in the rural-urban wealth divide is especially pronounced in Thailand and Indonesia. Such economic diversity and inequality between regions raise the probability of domestic conflicts and clashes of interest between rural and urban populations.

Moreover, urbanization re-structures society and alters important aspects of social-identity belongings, such as religion, class, and ethnicity. This restructuring also has direct implications for regional stability—particularly in countries such as Indonesia, Philippines, and Thailand where revolutionary or religious fundamentalists groups have gained traction; urbanization increases

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<sup>106</sup> Gavin W. Jones, “The Social and Demographic Impact of the Southeast Asian Crisis of 1997-1999,” *Journal of Population Research* (May, 2000).

<sup>107</sup> Gavin W. Jones “Southeast Asian urbanization and the growth of mega-urban regions” *Journal of Population Research*, (Nov, 2002), p.121

<sup>108</sup> WHO “Core Indicators 2005 –Health Situation in the South-East Asia and Western Pacific”

<[http://www.searo.who.int/LinkFiles/Health\\_Situation\\_core\\_indicators\\_2005\\_DI.pdf](http://www.searo.who.int/LinkFiles/Health_Situation_core_indicators_2005_DI.pdf)> (accessed on May 30 2008).

the potential for these groups to form, mobilize, and recruit. The correlation between urbanization and political mobilization has also been well documented in the large-scale anti-government demonstrations that occurred in Indonesia's larger cities in 1998.<sup>109</sup> This is, if not a new trend, a new trait in a region where political movements of a revolutionary and separatist character have been hitherto prominent in rural areas.<sup>110</sup>

#### *Scenarios 2018-2028*

**Probable:** The projected population growth continues according to the abovementioned estimates in all states with a total population being closer to 700 million than 600 million. Singapore's population will be affected by high migration rates while Lao PDR and Philippines will have comparatively higher population increases. The problem of an ageing population, which it also shares with Northeast Asia and Europe, will present a particular challenge for the regional states. Taken together, however, the moderate population growth combined with a rapid decline in fertility and growing working-age populations will give Southeast Asia a window of opportunity up until 2028. The "demographic dividend" will likely promote economic development and decrease societal tensions, although the environment will be adversely affected. Urbanization will increase while the cleavages between the urban and rural areas create tension.

**Plausible:** The fertility rates among families in Southeast Asia decline further and South Asia's total population is closer to 600 million than 700 million. This trend is accentuated as economic development picks up pace and gradually replaces extended family patterns, particularly in Singapore, Thailand, and Malaysia. The capacity of governments to develop national pension systems becomes crucial due to the massive ageing accompanying this trend. Urbanization is quickly expanding as individualism grows while the mega cities act as the main drivers of economic growth.

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<sup>109</sup> Brian Nichiporuk, Clifford Grammich, Angel Rabasa, and Julie DaVanzo "Demographics and Security in Maritime Southeast Asia", *Georgetown Journal of International Affairs* (Winter/Spring 2006), pp. 83-91.

<sup>110</sup> Examples of successful insurgency groups originating from rural area are Viet Cong, Pathet Lao, and Khmer Rouge. In present days are the rural areas of Southern Thailand and Mindanao the scene for separatist rebellions.

**Possible:** Economic difficulties in the region (with the exceptions of the rural areas and Singapore) force the poorest segments of society to rely on a greater number of children to cater for them in older ages. High population growth rates and a large population, topping 700 million, combined with a very high level of urbanization, increase environmental degradation in and around cities and the agricultural sector, which becomes overburdened in sustaining the mega-cities. Increasing tensions between the center and the periphery have potentially violent outcomes while radicalist groups recruit in the expanding mega-city slums.

### *Key Issues to Watch*

Population growth rates; ageing society; urbanization and the creation of larger mega-cities; migration.

## **Economic Development**

The Southeast Asian economies have still not fully recovered from the economic crises in 1997 and 1998 although most countries are approaching, or already have surpassed, the high growth rates of 7-8 percent experienced during the first half of the 1990s (see Table 2 below).<sup>111</sup>

Continued uncertainty over political and economic developments impedes economic growth but other destabilizing factors such as environmental crisis, insurgency, ethnic or religious conflicts, and terrorism have also contributed negatively to economic development. Moreover, despite the availability of a long-lasting regional framework (ASEAN) as well as access to cheap labor, the region has failed to accomplish a similar impressive trajectory as the economies of China, India, or Brazil. ASEAN has established the ASEAN Free Trade Area in 1992 to counter this failure, but it was not operational until January 2003, and the positive impact is still weak despite an initial reduction of tariffs and trade restrictions.<sup>112</sup>

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<sup>111</sup> See ASEAN Secretariat webpage:

<[http://www.aseansec.org/Statistics%202004/04\\_Macro.pdf](http://www.aseansec.org/Statistics%202004/04_Macro.pdf)> (accessed on June 15 2008) and <<http://www.aseansec.org/stat/Table6.pdf>> (accessed on June 14 2008).

<sup>112</sup> ASEAN, *Southeast Asia: A free Trade Area* (Jakarta: ASEAN, 2002), <<http://www.aseansec.org/viewpdf.asp?file=/pdf/afta.pdf>> (June 14 2008); see also *ASEAN Free Trade Agreements (AFTA)* at <<http://www.worldtradelaw.net/fta/agreements/afta.pdf>> (accessed on June 14 2008).

**Table 2.** GDP Growth in South East Asian Economies, 2000 - 2006 (Annual Percent Change)

	2000	2001	2002	2003	2004	2005	2006
Indonesia	5.4	3.6	4.5	4.8	5.0	5.7	5.5
Malaysia	8.9	0.3	4.4	5.5	7.2	5.2	5.9
Philippines	6.0	1.8	4.4	4.9	6.4	4.9	5.4
Singapore	10.1	-2.4	4.2	3.1	8.8	6.6	7.9
Thailand	4.8	2.2	5.3	7.1	6.3	4.5	5.0
Vietnam	6.8	6.9	7.1	7.3	7.8	8.4	8.2

Note: Local currency based.

Source: IMF, World Economic Outlook, October 2007

Cambodia is experiencing the most rapid growth among the Southeast Asian countries with an annual GDP growth of 9.6 percent in 2007—which is slightly lower than the average of 11 percent recorded in the previous three years. Indonesia, in turn, experienced its highest annual growth since 1996, reaching 6.3 percent in 2007. Laos is experiencing a similar economic upturn with a growth rate of 8 percent in 2007, which is higher than the 6.8 percent average during 2002-2006, while Malaysia’s economy grew by 6.3 percent in 2007, up from an average of 5.8 percent in the same period. Much of this success is due to the increased globalization of the economies, improved free markets, strengthened savings ratios as well as improved stability in the states concerned.<sup>113</sup>

Myanmar’s official estimates put GDP growth at 10 percent in the past few years but the country’s economic statistics are notoriously unreliable and the Asian Development Bank (ADB) has downgraded these figures. Myanmar also lacks all the characteristics that have been attributed to the improved financial strength of most of Southeast Asia. The Philippine economy is experiencing an economic upturn (perhaps the best in the past 30 years) with a growth rate reaching 7.3 percent in 2007 while Singapore’s GDP expanded by 7.7 percent in the same year. Political instability in Thailand has weakened consumption and investment and resulted in a lower growth rate than the previous five year period, reaching 4.8 percent in 2007.

<sup>113</sup> Commission for Growth and Development, *The Growth Report: Strategies for Sustained Growth and Inclusive Development*, 2008

<<http://www.growthcommission.org/storage/cgdev/documents/Report/GrowthReportfull.pdf>> (accessed on June 14 2008).

Finally, the Vietnamese economy is growing at a fast pace after its 2007 WTO accession. The government in Hanoi achieved an 8.5 percent growth in 2007 compared to an average of 7.8 percent during 2002-2006.<sup>114</sup> Today, it seems that foreign investments also are primarily concentrated on politically stable countries like Vietnam, which together with China and India currently belongs to the strongest emergent economies in Asia.<sup>115</sup>

Although the northern Southeast Asian countries (Thailand, Myanmar, Lao PDR, and Cambodia) share many features, there are also great differences between them. For example, while Thailand formed part of the so-called “Asian Tiger economies” during the 1990s and has reached a high level of economic development, others like Vietnam and Cambodia are still far behind despite impressive growth rates and are unlikely to catch up in the predictable future. According to the UN Economic and Social Commission there is some potential for higher growth in the agricultural sector in Vietnam, but also in other poorer states in Southeast Asia.<sup>116</sup> This is fundamental if poverty is to be reduced and economic improvements and employment are to be accessible for a larger part of the populations, as the bulk of the people is still employed in the agricultural sector, with the exception of Singapore and Brunei.

Thailand has one of the most developed economies among the northern Southeast Asian states and is a vital investor in neighboring countries. The country is also strategically located between Myanmar, Lao PDR, and Cambodia with links to China and Vietnam and could as such be said to constitute the centre and the main crossroad in northern Southeast Asia, in both East-West and North-South directions. Thailand will increasingly function as the engine of the sub-region both economically as well as to certain extent politically and share this function with Singapore at a regional level.

Conflict-ridden Cambodia’s economic development is partly driven by significant off-shore oil and gas finds, and it will have to diversify to have an

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<sup>114</sup> All figures from ADB, *Asian Development Outlook 2008* (Manila: ADB, 2008).

<sup>115</sup> Keith Bradsher “10 years after Asia's financial crisis, worries remain”, *International Herald Tribune*, June 27, 2007.

<sup>116</sup> UN Economic and Social Commission for Asia and the Pacific, *Economic and Social Survey of Asia and the Pacific 2008* <<http://www.unescap.org/survey2008/edition.asp>> (accessed on June 14 2008).

impact on society at large.<sup>117</sup> Myanmar, in turn, sits astride a strategically advantageous location and vast natural resources but these comparative advantages have so far likely failed to generate economic development due to political instability in the country and reluctance from international actors to work with Myanmar as long as the political stalemate continues.

Indonesia's failure to act as a regional "lead-nation" both politically and economically is one of the most troubling aspects of Southeast Asia. Indonesia is territorially the largest and most populous state in the region and has as such a large impact on regional economic and political development. However, this passivity has not always been present. Up to the financial crisis in the late 1990s, Indonesia positioned itself in a far more apparent leadership role. Today, in contrast, Indonesia is mostly occupied with countering its manifold domestic problems, including political instability and natural disasters. To date, the troika of Singapore, Thailand, and, to certain extent, Malaysia has taken up the leadership, but this is artificial due to the importance of Indonesia in the region.

Notwithstanding the impressive growth figures, there are still numerous obstacles to be surmounted to utilize the full potential and prevent further economic crises. Corruption and the connections between patriarchal elite groups and governments are particularly troubling considering their harmful effect on market mechanisms and competition. A further obstacle for economic development in Southeast Asia is the weakness of indigenous export industries. Moreover, although there are sub-regional initiatives intended to stimulate economic development, the absence of a regional common market has slowed down economic growth.<sup>118</sup> To be fair, this is partly an effect of the lack of complementarities among the region's economies, but the lack of standardization of commodities in Southeast Asia has also impeded the formation of an integrated regional market.<sup>119</sup>

A regional initiative worth mentioning is, however, the Economic Growth Zones (EGZ) which have been established to connect cross-border provinces

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<sup>117</sup> World Bank, World Development Indicators database, April 2007 <[http://ddp-ext.worldbank.org/ext/ddpreports/ViewSharedReport?REPORT\\_ID=9147&REQUEST\\_TYPE=VIEWADVANCED&WSP=>>N&HF=N/www.worldbank.org/data/dataquery.html](http://ddp-ext.worldbank.org/ext/ddpreports/ViewSharedReport?REPORT_ID=9147&REQUEST_TYPE=VIEWADVANCED&WSP=>>N&HF=N/www.worldbank.org/data/dataquery.html)> (accessed on June 14 2008).

<sup>118</sup> Swanström, *Regional Cooperation and Conflict Management: Lessons from the Pacific Rim*.

<sup>119</sup> "The tigers that lost their roar", *The Economist*, February 28 2008.

and to stimulate local trade. But these are not merely market driven projects.<sup>120</sup> Instead, the rationale behind the EGZ is primarily to be found on a political level, and the economic development that these zones create is used more to shore up domestic political legitimacy than promoting economic development per se. The economic gains from these are also arguably relatively low although some FDI has been attracted to the EGZs. The strategic cooperation between Indonesia, Malaysia, and Singapore across the Strait of Malacca has, in contrast, proved more beneficial for the regional economy. This trilateral interaction also serves as a potential model of economic integration and regional cooperation for other countries. Indonesia and Malaysia particularly benefit from this since they can utilize Singapore's attraction of foreign investment to the region. Indeed, Singapore has today emerged as a regional center for transport and finance and has continuously sought a leadership position in regional economic development and reforms. Since Singapore accounts for a majority of the investments in the region, the neighboring Malaysian and Indonesian regions are also well-positioned to take advantage of this and have now become the primary recipients of these investments.<sup>121</sup> Singapore on its side takes advantage of the low employment costs in the other states and natural resources which it lacks itself.

Moreover, ASEAN is set to launch economic cooperation and a regional market as a key objective of the organization in 2015. ASEAN has also approached neighboring countries in East Asia, Oceania, South Asia, and the U.S. to sign free trade agreements.<sup>122</sup> Extra-regional economic cooperation will be essential to overcome the regional shortcomings, until the economies mature and

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<sup>120</sup> Jason Parsonage "Trans-state Development in South-East Asia" in Garry Rodan, Kevin Hewison, Richard Robison (Eds.) *The Political Economy of South-East Asia –An Introduction* (Oxford: Oxford University Press, 1999), pp. 248-274; Swanström, *Regional Cooperation and Conflict Management: Lessons from the Pacific Rim*.

<sup>121</sup> Jason Parsonage "Trans-state Development in South-East Asia" in Rodan, Hewison, Robison (Eds.) *The Political Economy of South-East Asia –An Introduction*, pp. 248-274; World Bank, World Development Indicators database, April 2007 <[http://ddp-ext.worldbank.org/ext/ddpreports/ViewSharedReport?REPORT\\_ID=9147&REQUEST\\_TYPE=VIEWADVANCED&WSP=>>N&HF=N/www.worldbank.org/data/dataquery.html](http://ddp-ext.worldbank.org/ext/ddpreports/ViewSharedReport?REPORT_ID=9147&REQUEST_TYPE=VIEWADVANCED&WSP=>>N&HF=N/www.worldbank.org/data/dataquery.html)> (accessed on June 14 2008).

<sup>122</sup> "Asean seeks trade bloc by 2015," *International Herald Tribune*, August 20 2006; Joint Media Statement of the Tenth Consultations between the ASEAN Economic Ministers and the Ministers of People's Republic of China, Japan and Republic Korea (AEM Plus Three), Makati City, Philippines, August 25 2007, <<http://www.aseansec.org/20868.htm>> (accessed on June 30 2008) ; ASEAN, *Southeast Asia: A free Trade Area*.

complement each other better, if economic development is to increase in the years to come. The widely disparate levels of development among the ASEAN members will persist until 2018 which, in turn, will present an obstacle due to their differing capacities in implementing economic cooperation. The consequence will likely be a continued focus on the growth zones while the development of the ASEAN Economic Community will suffer from both structural problems as well as conflicting political interests.<sup>123</sup>

#### *Scenarios 2018-2028*

**Probable:** Southeast Asia will remain economically dynamic. Increased cooperation between the Southeast Asian economies (as well as extra-regional economies) capitalizes on each and everyone's strengths and regional economic integration is improved significantly. Indonesia's economy takes a stronger position and utilizes its natural and human resources in a way commensurate with it being a regional leader. Southeast Asia utilizes its position as a transit hub, even if insecurity still remains in the region. The region takes full advantage of being relatively young demographically and, up to 2028, the effect of increased pension costs and low reproduction on the labor market will not have fully emerged as problems.

**Plausible:** Indonesia, Malaysia, Vietnam, and the rest of Southeast Asia follow the examples set by Thailand, Philippines, and Singapore in liberalizing their economies. Both regional economic cooperation as well as GTZ increases in depth and size with a strengthening of the region as a global player.

**Possible:** Social and political turbulence in the region, especially in Indonesia and Myanmar but also relating to terrorist activities, disrupts the economic development in the region. Much of the transit trade between Northeast Asia and Europe and Middle East will be drawn through Central Asia due to the increased insecurity. Disruption of trade and financial flows could cause major economic distress in the states in question, but also result in trade disputes between countries that will disrupt economic cooperation in the region.

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<sup>123</sup> Nguyen Xuan Thang et al "Development Gaps and Economic Security in ASEAN Economies" in Ralf Emmers, Mely Caballero-Anthony, and Amitav Acharya (eds.) *Studying Non-Traditional Security In Asia: Trend and Issues* (Singapore: Marshall Cavendish Academic, 2006), pp. 82-107.

### *Key Issues to Watch*

Indonesia's economic growth; Social instability; Regional economic cooperation; Political stability.

### **Environmental Issues**

Southeast Asia exhibits much vulnerability to ecological disasters, both natural and manmade. The tsunami in December 2004 which predominantly affected Indonesia and Thailand, and Cyclone Nargis which struck coastal Myanmar in May 2008, resulted in widespread destruction and the deaths of hundreds of thousands of people. Climate change, too, is raising concerns about its future impact on the region. More direct human-induced problems—which are exacerbated by the above—include deforestation and forest fires, water shortages, and the decline of water quality and fish stocks. Moreover, many of these problems are transboundary in character and could serve to increase tensions between the states of the region.

### *Natural Disasters and Climate Change*

Much of maritime Southeast Asia, in particular Indonesia, is seismically active, which throughout history has caused disastrous earthquakes, volcanic eruptions, and tidal waves. In addition to huge losses of life, economic losses and reconstruction have represented severe setbacks to the countries of the region; it was estimated that the economic costs of the 2004 Tsunami for Indonesia's worst-hit Aceh province amounted to approximately US\$4.5 billion (97 percent of the province's GDP).<sup>124</sup> As a result, efforts have been made to implement an Indian Ocean Tsunami Warning System with a wide coalition of partners. It is estimated that one or more Regional Watch Providers could be operational by 2009. In Indonesia, moreover, a Strategic National Action Plan for Disaster Reduction Planning (2006-2010) has been formulated to integrate all relevant institutions so as to improve capacity building. It is surmised that the region is now, and in the future, better equipped for disaster management. However, effectively operationalizing new technology as well as institutional and coordinational challenges will remain important issues both in the short and

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<sup>124</sup> "Summary of situation in tsunami-hit region one year on", *Reliefweb* <<http://www.reliefweb.int/rw/rwb.nsf/db90osid/JFUA-6KFBCJ?OpenDocument>> (accessed on June 14 2008).

long term.<sup>125</sup> Inadequate responses to natural disasters, furthermore, as demonstrated by the Myanmar government's slow response to Cyclone Nargis, could in the future add to and ignite frustrations with political repercussions; even more so as certain regions, and predominantly poor and rural communities, are and will be disproportionately affected by natural disasters and climate change.

In addition, there are fears that climate change with rising sea levels will have a devastating impact on lowland regions such as the Mekong Delta in Vietnam—vital for rice production—and also that rising temperatures will increase incidences of extreme weather and worsen existing problems. Prolonged drought in the region (with growing concerns that fires are increasingly self-igniting) together with stronger winds that have exacerbated forest fires have been attributed to the impact of climate change on the El Nino-Southern Oscillation.<sup>126</sup> While Cambodia and Thailand are most vulnerable to droughts and floods, the Philippines, Indonesia, and Vietnam are particularly susceptible to cyclones, forest fires, and increasing sea levels; it is estimated that Indonesia could lose over 90,000 km<sup>2</sup> of land (with a value of US\$25.5 billion) to rising sea levels by 2100. Most predictions are long term, from 2050 and 2100, and are characterized by uncertainty. While prognoses in the middle term remain weak, rising annual mean temperatures—it is estimated for example that average temperatures in Cambodia will rise by 0.3 degrees by 2020—and increasing inundation of low-lying land may reinforce trends in the region that are likely to become more pronounced over the next two decades.<sup>127</sup>

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<sup>125</sup>“U.S. Contribution to the Indian Ocean Tsunami Warning System” USAID Website <<http://apps.develebridge.net/usiotws/pageaahome.html>> (accessed on June 14 2008); USAID, *Review of Policies and Institutional Capacity for Early Warning and Disaster Management in Indonesia*, (January 2007)

<<http://apps.develebridge.net/usiotws/b/Indonesia%20Policy%20and%20Institutional%20Capacity%20Review.pdf>> (accessed on June 14 2008).

<sup>126</sup> “Fire in Indonesia and the Integrated Forest Fire Management Project – IFFM,” *IFFN* No. 23 (December 2000), pp. 12-16,

<[http://www.fire.uni-freiburg.de/iffn/country/id/id\\_26.htm](http://www.fire.uni-freiburg.de/iffn/country/id/id_26.htm)> (accessed on June 14 2008).

<sup>127</sup> Proceedings from EEPSEA Climate Change Conference, *Climate Change: Impacts, Adaptation, and Policy in Southeast Asia*, February 13-15 2008 <<http://www.eepsea.cc-sea.org/pages/resource/Proceeding.pdf>> (accessed on June 14 2008).

*Unsustainable Development*

Besides natural disasters and climate change which remain difficult to predict, many environmental issues in Southeast Asia are attributable to unsustainable development and the corresponding lack of sound environmental practices. Much of the region is covered by large—albeit rapidly diminishing—tracts of forest: consequently the forestry industry is very significant for the regional economy, in particular for Indonesia and Thailand, with China and India constituting important export markets for timber. However, illegal and uncontrolled logging often linked to corruption and the handing out of lucrative contracts to private companies with little oversight—it is estimated that 70 percent of logging in Indonesia is illegal—is of serious concern. Growing populations and the encroachment on forested and fragile eco-systems through the expansion of settlements, infrastructure, and agriculture is also a mounting problem: the use of harmful slash and burn practices employed in the cultivation of woodland and agriculture leads to soil erosion, the desertification of land, as well as devastating forest fires. A well-documented case was the forest fires in Indonesia in 1997/98 that led to estimated economic losses of US\$9.3 billion.<sup>128</sup> Much of the clearing of natural forests, moreover, has given way to large-scale palm oil plantations with a serious impact on biodiversity; the expansion of such plantations is to be further expected given the increasing trend toward biofuels in the light of rising oil prices.<sup>129</sup> The United Nations Environment Programme (UNEP) suggests that based on recent rates of deforestation, 98 percent of the rainforest in Indonesia will have disappeared by 2022.<sup>130</sup> The increasing encroachment of settlers and development projects that marginalize indigenous communities through the loss of land and forest resources raises prospects of increased tensions between such communities and logging

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<sup>128</sup> ADB and BAPPENAS “Causes, extent, impacts and costs of 1997/98 fires and drought”, Final Report, (Jakarta: ADB 1999), Annex 1 and 2; UNESCAP, *State of the Environment in Asia and the Pacific 2005 – Economic Growth and Sustainability* (New York: United Nations Publication, 2006), pp.289-292,

<[http://www.unescap.org/esd/environment/soe/2005/mainpub/documents/Part4\\_10.pdf](http://www.unescap.org/esd/environment/soe/2005/mainpub/documents/Part4_10.pdf)> (accessed on June 14 2008).

<sup>129</sup> Patrick Barta, "Alternative-energy boom roils Asian environments," *Wall Street Journal*, December 5 2006.

<sup>130</sup> Nellemann, C., Miles, L., Kaltenborn, B. P., Virtue, M., and Ahlenius, H. (Eds), *The last stand of the orangutan – State of emergency: Illegal logging, fire and palm oil in Indonesia's national parks*, (GRID-Arendal, Norway: United Nations Environment Programme, 2007), p. 6.

companies and settlers, as was witnessed between Dayaks and Madurese in Kalimantan, Indonesia between 1996 and 2003,<sup>131</sup> and, more recently, in Sarawak, Malaysia which has led to recent confrontations between the indigenous Kenyah peoples and logging companies.<sup>132</sup> This is a trend likely to increase in many countries of the study as forest reserves dwindle to a critical minimum over the next two decades.

Forest burning is not only an economic and ecological problem, but it has also led to health problems resulting from air pollution. This raises future prospects of increasing health disorders among people in the region.<sup>133</sup> The transnational dimension of the threat is also apparent as winds have caused smoke from fires in Indonesia to settle over neighboring countries, notably Singapore and Malaysia. Despite the existence of an ASEAN Agreement on Transboundary Haze Pollution signed in 2002, Indonesia has failed to ratify the agreement despite pressure from other ASEAN countries.<sup>134</sup>

Another major environmental issue concerns marine resources: fish is the single most important protein source for a large majority of people in Southeast Asia. Increasing populations and the growing export of fish products from the region over the past few decades have resulted in an increased intensity of fishing and the decimating of food fish stocks, thus negatively affecting food security and livelihoods dependent on fishing. With a declining fishery, production in the use of fishponds and the development of aquaculture has increased to cover the decline in catches. Development of the coastal and low tide fishing industry are far from unproblematic, however, as the aquaculture of fishponds and increased activity in mangrove areas has led to erosion and saltwater intrusion, threatening biodiversity and the possibility for vital species to reproduce.

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<sup>131</sup> International Crisis Group, *Communal Violence in Indonesia: Lessons from Kalimantan*, Asia Report N°19, June 21 2001.

<sup>132</sup> "Malaysian Police ordered to clear Kenyah logging road blockade", Borneo Resources Institute, June 17 2008, <<http://www.bmf.ch/en/news/?show=102>> (accessed on June 14 2008).

<sup>133</sup> Rhett A. Butler "Haze in Malaysia worsens, may last until October", *Mongabay.com*, August 11 2005.

<sup>134</sup> Accessed at Haze Online, <<http://www.haze-online.or.id/misc/wlffh2.php>> (April 14 2008).

Further indicators pointing toward disturbing developments are the decline in coral reefs and ocean biodiversity.<sup>135</sup>

The development of hydroelectricity to cater for the energy demands of growing, modernizing populations, especially in larger cities, is a further significant concern. The construction of dams and hydropower stations raises concerns over water quality as well as shortages. Dams built on the Mekong River by China could have a significant impact on the downstream countries of Lao PDR, Cambodia, and Vietnam. Further, starting in December 2006, China's decision to use the river to transport oil, with quotas expected to rise to 70,000 tons of refined oil a year, raises considerable anxiety about oil spills, which would have devastating consequences for the 60 million people who live on the river's banks, not least the Mekong Delta which accounts for 40 percent of Vietnam's agricultural output.<sup>136</sup> In sum, environmental issues could develop in the longer run into ever-increasing political, economic, and social security threats without sustainable development and the implementation of regional mechanisms.

#### *Scenarios 2018-2028*

**Probable:** Technological advances aside, natural disasters will continue to test the capacity of governments to cope. There will be slight improvements in environmental management as the impact of unsustainable development and climate change becomes clearer; but enforcement will remain weak with economic priorities continuing to take precedence. Deforestation will reach critical levels leading to tensions that will become violent and, in some cases, mobilized along ethnic lines with political ramifications. Health disorders particularly among urban populations will rise, while increasing divisions will appear between those able to adapt and predominantly rural, indigenous, and poor sectors of society most vulnerable to climate change and environmental degradation.

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<sup>135</sup> UNESCAP, *State of the Environment in Asia and the Pacific 2005 – Economic Growth and Sustainability*, (New York: United Nations Publication, 2006), pp. 292-295. <[http://www.unescap.org/environment/soe/2005/mainpub/documents/Part4\\_10.pdf](http://www.unescap.org/environment/soe/2005/mainpub/documents/Part4_10.pdf)> (accessed June 14 2008).

<sup>136</sup> Marwan Macan-Markar, "Sparks Fly as China moves oil up Mekong", *Asia Times Online*, January 9 2007, <[http://www.atimes.com/atimes/Southeast\\_Asia/IA09Ae01.html](http://www.atimes.com/atimes/Southeast_Asia/IA09Ae01.html)> (accessed June 14 2008).

**Plausible:** Transboundary environmental issues will become important on the agenda of regional bodies like ASEAN, and there will be increased willingness and capacity, with some success, to combat problems of air and water pollution in the region.

**Possible:** The effects of climate change will already start to be felt by rising sea levels, leading to the relocation of populations and acute social unrest. Disagreements and inability to combat haze and water shortages will lead to increased intra-regional tensions.

#### *Key issues to Watch*

Natural Disasters; Climate Change; Deforestation; Rising Sea Levels; Declining Fish Stocks; Hydroelectricity; Transboundary Environmental Cooperation

### **Energy Production and SLOC Security Issues**

Energy security will increase its salience in the Southeast Asian strategic landscape during the next two decades. Energy consumption is expected to rise steeply as a consequence of growing populations and development needs. The growing energy import demands in Asia will also necessitate uninterrupted transit through the sea lanes of communication (SLOC) used by oil and LNG (Liquefied Natural Gas) tankers. Most oil destined for the East Asian economies during the next 20 years is also expected to be transported by sea from Middle East.

Indonesia, the country with Southeast Asia's largest population and largest proven oil reserves, was other in 2005 a net oil importer and in 2006 it produced only slightly more oil than it consumed. According to BP, Indonesia's production decreased by approximately one third during the period 1996-2006 as many of the largest fields age and decline in output. Although there are countries in Southeast Asia with large hydrocarbon resources, the regional proven reserves will fail to meet the increased demand. This growing deficit is predicted to be covered by Middle Eastern producers.<sup>137</sup>

Overall, the productive capacity of the Southeast Asian oil sector remains minimal compared to the Middle East, Africa, and Latin America. On the other hand, the Southeast Asian region has become the fourth largest LNG producer

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<sup>137</sup> BP *Statistics Review of World Energy*, June 2007, pp. 6-12

and significant gas reserves are also found in the region. Indonesia is a net exporter of natural gas and coal. Malaysia, Indonesia, and Thailand are the main producers of natural gas in the region, but only the first two are net-exporters, while Thailand's proven reserves of natural gas are smaller than both Myanmar's and Vietnam's. Thailand is nonetheless a big exporter of LNG to China accounting for roughly 5 percent of Chinese total LNG imports. India, China and Thailand are also all involved in the development and exploration of Myanmar gas while Thailand and Cambodia jointly have explored gas in the Gulf of Thailand. The latter partners have, however, so far failed to generate any major results from their drilling.<sup>138</sup>

The findings of oil-and-gas blocks off Cambodia's southern coastline have also raised the interest of energy companies. The high hopes pinned on these assets were nonetheless quickly toned down after pessimistic reports on their extractive capacity were delivered by Chevron, the main operating company of the blocks. Exploration of these blocks will now, according to recent statements, be postponed until 2011. It remains to be seen whether a developing economy like Cambodia can improve the climate for FDI and prevent the Dutch Disease and pervasive corruption associated with emerging hydrocarbon economies. A further factor to monitor is China's activities in exploring energy sources in Cambodia and elsewhere in Southeast Asia.<sup>139</sup> A gas pipeline connecting China with Myanmar is also expected to come online in 2010. Moreover, in 2005, Myanmar granted China permission to explore Myanmar off-shore blocks in the Indian Ocean.<sup>140</sup>

The combination of growing intra-regional energy demand, rapidly expanding energy import needs in China and India, and relatively unexplored energy resources in Southeast Asia will logically result in growing production and

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<sup>138</sup> *Ibid*, pp. 22-33.

<sup>139</sup> Shawn W Crispin, "Cambodia's coming energy bonanza," *Asia Times Online*, January 26 2007 <[http://www.atimes.com/atimes/Southeast\\_Asia/IA26Ae01.html](http://www.atimes.com/atimes/Southeast_Asia/IA26Ae01.html)> (accessed June 14 2008); "Cambodia set to begin Oil Production," *UPI*, March 26 2008, <[http://www.upi.com/International\\_Security/Energy/Briefing/2008/03/26/cambodia\\_set\\_to\\_begin\\_oil\\_production/2544](http://www.upi.com/International_Security/Energy/Briefing/2008/03/26/cambodia_set_to_begin_oil_production/2544)> (accessed June 14 2008).

<sup>140</sup> See Zhang Xuegang, "Southeast Asia and Energy: Gateway to Stability," *China Security* 3, 2 (2007), pp. 18 - 35.

competition over these resources.<sup>141</sup> Moreover, the predominantly tanker-borne transport of Middle Eastern oil to Southeast and East Asia will increase traffic in the already congested sea-lanes in Southeast Asia.<sup>142</sup> All the shipping routes for China's energy imports from the Middle East, Africa, and Latin America traverse the Southeast Asian region. There are around a dozen strategic straits in the region including the Sunda Strait, Gaspar Strait, Lombok Strait, Makassar Strait, Maluku Strait, and the Malacca Strait.<sup>143</sup>

The highly trafficked and narrow Malacca Strait, located in between the island of Sumatra and Malaysia, is already the second largest chokepoint for oil-transport in the world after the Strait of Hormuz (separating the Gulf of Oman with the Persian Gulf). Eleven million barrels of oil are transported through the Malacca Strait daily, and the International Energy Agency (IEA) predicts an increase to 20mb/d in 2030. As regards LNG, the IEA expects almost a doubling of volumes transported through the Malaccan Strait during the same period: from 40 bcm to 94 bcm.<sup>144</sup> Moreover, fifty thousand vessels are estimated to pass through the Malacca Strait each year and the narrowest point, Phillips Channel in the Singapore Strait, is only 2.5km wide.<sup>145</sup> Over 80 percent of China's oil imports currently pass through the Malacca Strait. China's growing dependence on Middle Eastern oil will also render the country even more dependent on this bottleneck.<sup>146</sup>

Needless to say, a scenario where the strait is blocked would cause enormous harm to China's as well the other Asian economies and immediately render higher freight rates worldwide and disrupt a significant proportion of world trade. The growing importance of economic development for political stability will also raise the stakes of such disruption over the next two decades. This pertains particularly to the flow of oil and LNG, as well as the east-west movement of goods between the Indian Ocean and the South China Sea. Hence,

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<sup>141</sup> Sarah Belfield "Southeast Asia's Exploration and Production Surges" *Energy Tribune*, January 17 2008 <<http://www.energytribune.com/articles.cfm?aid=766>> (accessed on June 14 2008); IEA, *World Energy Outlook 2004*, p. 262.

<sup>142</sup> IEA, *World Energy Outlook 2004*, p. 72.

<sup>143</sup> See Xuegang, "Southeast Asia and Energy: Gateway to Stability," pp. 18 – 35.

<sup>144</sup> IEA, *World Energy Outlook 2004*, p. 117.

<sup>145</sup> Jonathan Howland, "Recent Attacks Prompt International Pressure to Secure Malacca Straits" *JINSA*, July 15 2005.

<sup>146</sup> See Xuegang, "Southeast Asia and Energy: Gateway to Stability," pp. 18 – 35.

it is safe to assume that the strategic importance of the Southeast Asian straits due to energy transport will increase markedly during the period 2018-2028.<sup>147</sup>

Apart from its economic importance, the Malacca Strait also possesses a military value: it is the fastest route to deploy navy units from the Indian Ocean and Arabic Sea to the Pacific Ocean and vice versa. Securing the Strait and transport through it is not only in the interests of regional countries such as Indonesia, Malaysia, Singapore, and Thailand but also for China, Japan, the U.S., and India. The heightened threat from piracy has added another dimension to these security problems. Indeed, Southeast Asia is one of the most pirate-ridden regions in the world with over 70 pirate attacks or attempts made during 2006.<sup>148</sup> The possibility of terrorist attacks in the Malacca Strait is another major concern. Several potential methods for attacking and disrupting transport in the narrow strait have also been identified, among them to sink larger ships using smaller vessels.<sup>149</sup>

The littoral states (Malaysia, Indonesia, and Singapore) have so far been unable to maintain security and hinder piracy in the Strait of Malacca. This is partly a result of ineffective maritime policing, but also due to lack of cooperation between the states and the perceived encroachment on sovereignty. For example, Indonesia has not allowed Singaporean and Malaysian forces to pursue perpetrators on Indonesian territorial waters. Japanese requests for escorting ships through risky waters have also been denied by the littoral states, as have requests for deployment of Thai and U.S. naval forces to patrol the strait. India could potentially be an important actor in the effort to secure the SLOC in and around the Malacca Strait. India and Thailand have jointly conducted operations to combat piracy, smuggling, and terrorism in the Andaman Sea west of the Malacca Strait, which has enabled both countries to gain useful experience.<sup>150</sup>

Another aspect of the energy profile of Southeast Asia which has been in the news lately is the issue of biofuels, especially the production of palm oil. Palm oil while used mainly for cooking is increasingly regarded as a biodiesel. The two largest producers are Malaysia and Indonesia. However, the main focus of

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<sup>147</sup> IEA, *World Energy Outlook 2004*, p. 118.

<sup>148</sup> Marti N. Murphy "Contemporary Piracy and Maritime Terrorism- The threat to international security" *Adelphi Paper 338*, (IISS) (2007), p. 43.

<sup>149</sup> *Ibid*, pp. 57-58

<sup>150</sup> Howland, "Recent Attacks Prompt International Pressure to Secure Malacca Straits".

the development of such fields is largely centered around the environmental impact of clearing land for this cash crop.

*Scenarios 2018-2028*

**Probable:** The strategic importance of Southeast Asia and its waterways increases in pace with growing traffic and threats of disruptions. The congested sea-lanes in Southeast Asia forces China to build overland pipelines from Pakistan's port in Gwadar to China's far western province of Xinjiang. This diversification will only cover a fraction of China's import needs, however, and Southeast Asia will remain of substantial importance to China—both in terms of energy transit and production. There will be increasing calls for the joint policing of the Southeast Asian waters as a means to address the threat of piracy and terrorism concerns. However, the outcome of such a decision would in part depend on the future state of relations between China, Japan, and the U.S., as well as the sensitive issue of sovereignty, particularly for Malaysia and Indonesia. Rising fuel prices will affect the growth rate of the countries, and the issue of fuel prices and inflation will be a prominent task for governments to address.

**Plausible:** Southeast Asia's regional production fails to meet set production targets while rapidly expanding populations will result in an increased dependence on the Middle East. Sea lane security will be a recurring issue being raised for discussion. There is a possibility that some vessels will avoid the Strait of Malacca and that the Lombok and Sunda Straits will be further developed as transit passage alternatives. Domestically, rising fuel costs and inflation will add further divisions within society, as well as between societies and the governments leading to unstable governments.

**Possible:** Terrorist attacks in any of the Southeast Asian straits raise freight costs considerably necessitating escorts of vessels. However, there will be disagreement as to how the increased security costs should be shared among the stakeholders and how the patrols would be coordinated. Spiraling misperceptions may mean that patrols are carried out to assert the sovereignty of the countries, rather than for the security of the vessels in transit. Domestically, social unrests breaks out as a result of energy prices. Within oil and gas producing states, there is the threat that militant and armed groups might form and attack oil and gas installations and kidnap staff in a bid to

extract concessions from the government for the development of oil and gas fields.

### *Key Issues to Watch*

Transit trade; Congestion of the SLOC; Technological Developments in Biofuel; Natural Gas Production; Piracy.

## **Domestic Political Developments and Governance**

The continental part of Southeast Asia is dominated by authoritarian regimes. Despite that Lao PDR and Vietnam have both adopted market economic reforms, they continue to remain one-party political systems ruled by their respective communist parties. Myanmar, meanwhile, has de facto been ruled by a military junta since 1962, after overthrowing the civilian government. Thailand, too, has displayed susceptibility to military interference with a coup in September 2006. Indonesia, Malaysia, the Philippines, and Cambodia have displayed progress toward democratic governance, though political development is not consolidated and manifest weaknesses remain.

### *Authoritarian States*

In Myanmar, the fact that the military has ruled the country for an extensive period of time can be traced to a combination of the following factors: (1) the military claims to have won the country's independence and protected national unity; it has little confidence in a civilian government, citing the chaos in the first decade after independence; (2) there is no alternative force capable of mounting a substantial and credible challenge to the military rule with the main political opposition, the National League for Democracy led by Aung San Suu Syi, weak and divided; (3) the military's internal cohesion is not under serious threat as demonstrated by the military's crackdown on large-scale protests in August-September 2007; and 4) divergences in strategies between Western countries and Asian states toward the country between isolation and engagement. Though there might be slight changes in these indicators over the course of the next decade, they are likely to remain largely intact and ensure

that the military continues to play a large role in the future governance of the country.<sup>151</sup>

This notwithstanding, there is likely to be some political development over the course of the next few years, as the military government has pledged to implement a seven-stage roadmap to democracy<sup>152</sup> —a referendum on the constitution was held on May 10, 2008 and subsequently adopted—with the next stage, a general election, scheduled to be held in 2010. The holding of the referendum in spite of the cyclone that wreaked devastation on the country could be a signal that the regime is intent on pursuing the roadmap. Provisions in the constitution, however, ensure a large role for the military, and it is highly unlikely to completely withdraw from politics over the next decade. The Indonesian model of state power (Golkar) is said to have long been regarded as an ideal model for Myanmar by the country's military rulers themselves, and the future political development in Myanmar may well move in that direction with the military continuing to hold on to the main political and economic powers of the country. Given that military officers and families have by now penetrated the country's vital economic sectors, furthermore, one may expect to see in the future a corporate state with military connections/roots.<sup>153</sup>

Another possibility also exists, however: the Myanmar military government has demonstrated a capacity for mismanagement of the economy which represents a serious threat to the regime. The protests of August-September 2007, sparked by a sudden hike in fuel prices, were the largest in nearly two decades. This could be an indication of future large-scale protests to come, and reported cracks in the

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<sup>151</sup> See Alec Forss, *Myanmar-Burma in Focus: Moving Beyond Intractability*, Conference Report, Institute for Security and Development Policy, 2008, available at <[www.isdp.eu](http://www.isdp.eu)> for concise overview of domestic developments in the country.

<sup>152</sup> Alvin “Democracy in Myanmar/Burma: The Role of the West” in Xiaolin Guo (Ed.) *Myanmar/Burma Challenges and Perspectives*, (Stockholm: Institute for Security and Development Policy), pp.187-89,

<sup>153</sup> Li Chenyang, “Shixi Miandian junren zhengquan de fazhan qushi (Study of the Myanmar Military Government and Its Development Trend), *Yatai ziliao* 19 (1994); “Miandian Xinjunren zhengquan changqi cunzai de yuanyin tanxi” (Analysis of the New Myanmar Military Government and Its Sustainability). Unpublished paper; Li Chenyang and Chen Yin, “Yingxiang Miandian minzhuhua jinchengde zhuyao zhengzhi shili” (Main Forces Influencing the Democratization Process in Myanmar). *Dangdai yatai* 4 (2006).

military, though small, could grow to undermine its rule if future unrest should erupt.<sup>154</sup>

Elsewhere on the Indo-China Peninsula, Vietnam and Lao PDR have exhibited tentative political reforms in recent years, such as granting greater powers to elected National Assemblies, but tolerance of political dissent remains low and opposition political parties are outlawed. They have a strong grip on power and regime change and/or political instability would seem unlikely in the near future. However, if economic growth falters and/or the political consciousness of the populations grows without corresponding political liberalization, this could lead to serious threats to the current regimes. Further indications of change in authoritarian states will be generational changes in leadership with the old leaderships, rooted in anti-colonial struggles, giving way in the next 5-10 years to a new generation of potentially more educated, liberal political leaders. In Lao PDR, for instance, a reshuffle at the party congress in 2006 saw 19 new, younger faces out of a total of 55 members in the Party Central Committee.<sup>155</sup> In Vietnam, the National Assembly appointed two new leaders as president and prime minister, both from the more commercialized south of Vietnam and favoring economic reform and greater global integration while maintaining political control.<sup>156</sup> Most likely is that the course of development will be more in line with development in China during recent decades, displaying change within continuity rather than developments such as the sudden collapse of communism in Central-Eastern Europe.

### *Southeast Asia Political Structures*

A common characteristic of Indonesia, Thailand, Cambodia, and the Philippines is the weak condition of the state in that it is dominated by influential groups from the private economy and the military. In Indonesia the armed forces has had a historical legacy as co-founder of the nation and virtually dominated politics under Suharto. Currently a reformation, addressing three main areas: political, economical, and organizational, is in progress to

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<sup>154</sup> See Alvin, "Democracy in Myanmar/Burma: The Role of the West", pp.183-187.

<sup>155</sup> Laos Country Factfile at Freedom House webpage, pp.4-5 <<http://www.freedomhouse.org/uploads/ccr/country-7211-8.pdf>> (accessed on June 30 2008).

<sup>156</sup> Harvey Demaine, *Regional Surveys of the World: 2006 The Far East and Australiasia*, (London: Europa Publications, 2006) p. 1252.

decrease military influence on civil government and to reverse the military control over the state apparatus. Although the armed forces no longer, as an institution, take active part in the civil government or support political parties, politicians still seek the support of military leaders, which suggest that a total military withdrawal from civilian politics has not been made. In addition, the centralization of control of the military budget and expanding transparency regarding the defense budget is in progress. The purpose of these measures is to fight corruption and diminish military business activities, transforming the armed forces into an institution under civilian government control. Future reforms are still needed, however, such as modernization of armed forces, reining in militias, and separating police and military forces.<sup>157</sup>

In Thailand, continued military influence over domestic politics was laid bare when in a coup on September 19, 2006, the military removed the elected government of Thaksin Shinawatra. The main stated reasons behind the coup were the increase of governmental control over the press and independent institutions as well as accusations of corruption, nepotism, and tax evasion.<sup>158</sup> Although democratic governance has since been restored, social tension and political strife in Thailand continues to threaten stability.<sup>159</sup> Regarding Cambodia, the overall impression of political development is the ongoing stabilization and transformation of a political system still in need of developing its institutions. Two main issues to address are corruption and poverty.<sup>160</sup> The Philippine state is dominated by interests in the private sector. The features of the political structure are: struggle among oligarchs and economic elites, and corruption and nepotism, where support is bought with state revenues once in power.<sup>161</sup> A number of military mutinies and attempted coups have occurred since 2003. So far they have not been successful, but the political situation still

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<sup>157</sup> John B. Haseman "Indonesian Military Reform: More Than a Human Rights Issue," in Daljit Dingh and Lorraine C. Salazar (Eds.) *Southeast Asian Affairs 2006* (Singapore: ISAS Publication, 2006), pp. 111-118.

<sup>158</sup> "What Thaksin had done wrong -Summary of Council for National Security's "White Paper" detailing Thaksin's alleged wrongdoings", *The Nation*, November 22 2006.

<sup>159</sup> Amy Kazmin, "Political Turmoil in Thailand Fuels Doubts About Government's Future" *Washington Post Foreign Service*, June 21 2008, p. A11.

<sup>160</sup> Verghese Mathews, "Cambodia: Positioning for 2008" in Dingh and Salazar (Eds.) *Southeast Asian Affairs 2006*, pp. 73-87.

<sup>161</sup> Jane Hutchison, "Pressure on Policy in the Philippines" in Garry Rodan, Kevin Hewison, Richard Robison (Eds.) *The Political Economy of South-East Asia -An Introduction* (Oxford: Oxford University Press, 1999), pp. 79-83.

displays vulnerability. In addition to the domestic political turmoil, the state has been in conflict with a Maoist rebellion headed by the New People's Army. During recent years the conflict has intensified due to the military's aim to quell the insurgency by 2010, as well as an escalation in rebel activities. Military sources assert that the number of rebels is on an all-time low due to successful operations undertaken by the military.<sup>162</sup> Still, it seems too early to proclaim a winner given that the rebellion has been enduring since 1969. The development scenario in 2018-2028 will be affected by the state's efforts to end the conflict. Attempts to suppress the rebels by military means along with inadequacy in addressing social and economic issues will decrease the human security in areas affected by the conflict, increasing the discontent and, in the long-term, support for anti-government movements.<sup>163</sup>

#### *Scenarios 2018-2028*

**Probable:** Vietnam and Laos will exhibit the same political development path as other Southeast Asian countries such as Indonesia and become increasingly liberal if not fully democratic. Myanmar will have adopted the provisions of its constitution but the military will still have a dominant role in the country. All will display periods of social unrest as they undergo both political and economic changes. There will be a new generation of leaderships brought up in the liberalizing economies and growing political consciousness of the 1990s and 2000s. Accordingly, Indonesia, Thailand, and Philippines will develop stronger political institutions and successfully decrease military influence in politics. This will stabilize the governing process and help develop human and social security, which decreases domestic conflicts. Cambodia is likely to move along the same path but to a lesser extent due to its undeveloped state.

**Plausible:** Myanmar becomes an increasing anomaly in Southeast Asia. While other states continue to adopt and consolidate political reforms, social and ethnic unrest in Myanmar causes the junta to cancel the general election in 2010 and derail the roadmap as it justifies its continued hold on power. In Cambodia, Thailand, and Indonesia the development of civil institutions is curbed by

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<sup>162</sup> "NPAs down to 5,700", *ABS-CBN News online*, January 7 2008, <<http://www.abs-cbnnews.com/storypage.aspx?StoryId=104670>> (accessed on June 15 2008).

<sup>163</sup> Carlos H. Conde, "Fear of a Communist Rebellion Is Growing in the Philippines" *New York Times*, January 4 2004.

dominating interests with occasional military intervention in domestic politics. The Philippines will move toward authoritarianism and the increase of military influence over domestic politics due to political crisis and the escalation of domestic conflicts.

**Possible:** Increasing economic modernization in Vietnam and Lao PDR leads to increased political awareness and demands that threaten to overturn ineffective communist regimes that lead to political violence. Continued economic mismanagement by the regime in Myanmar results in new tensions and also cracks within the military with ensuing political instability that has negative ramifications on ethnic stability. Increasingly, political and social tensions fuel domestic conflicts in much of Southeast Asia leading to the return of authoritarianism in Thailand and Cambodia. In Indonesia and Philippines, the inability to develop political institutions and conflict management lead to the further exacerbation of domestic conflict.

#### *Key issues to Watch*

Roadmap to Democracy; Generational Changes of Leadership; Regime Change; Political Reforms; Political Protests

### **Development in Religious and Ethnic Conflicts**

Most of the Southeast Asian countries have experienced attempts by different regions and ethnic groups to reach various levels of autonomy. In Indonesia, Philippines, and Thailand, Muslim separatists have rebelled against the central power – a struggle which in many cases has continued for decades, with variable levels of intensity. Indonesia has suffered in particular from ethnic and religious violence due to its heterogeneous religious and ethnic composition. The sometimes harsh counter-insurgency measures carried out in the Indonesian archipelago have also served to further exacerbate conflicts. In other countries, with the exception of Myanmar, ethnic and religious issues are less salient as potential catalysts for serious instability although tensions still exist.

#### *Continental Southeast Asia*

Ethnic minorities in Myanmar account for approximately one third of the country's population of 56 million. Ever since the country received independence in 1948 ethnic insurgency has become a dominant feature in the country's borderlands. One of the most important developments since the mid-

1990s, however, has been the negotiation of ceasefires between the government and ethnic minorities, with sixteen main groups participating as of 2007.<sup>164</sup> Although the government is still opposed by many ethnically and politically based groups that have not yet signed ceasefire agreements, conflict in the borderlands does not exhibit the same level of intensity as twenty years ago. Myanmar therefore displays a relative stability as a result of these accords with groups involved in the roadmap process (although there are notable exceptions, such as the Karen National Union).

Myanmar's integration with the rapidly growing neighboring economies may also have a mitigating effect on borderland grievances. Furthermore, there are signs of a battle fatigue among ethnic groups with a new generation of younger leaders more enamored of peace than continued conflict. This said, the situation still remains fragile and the growing narcotics trade (particularly in methamphetamines) has also brought a severely destabilizing element of criminalization into the conflicts. The drug trade also finances armed struggles and increases these groups' firepower which, in turn, could lead to an intensification of conflicts. Other factors to account for are the lack of post-conflict peacebuilding measures which may lead groups to reengage in armed struggle if the roadmap process falls apart. Ethnic minorities, in particular, may be disinclined to approve with the idea of the unitary state as defined in the roadmap. The situation therefore exhibits much uncertainty and the more positive scenarios are contingent on political progress, inclusion of groups excluded from the roadmap process, and effective disarmament.

Vietnam and Cambodia display less ethnic divisions with ethnic minority groups making up only an estimated 4 percent and 13-14 percent of the population, respectively.<sup>165</sup> It is therefore unlikely that significant inter-religious tensions will develop. However, Vietnam and Cambodia are still worried about a possible political mobilization of the growing number of Christians in both countries which also has led to religious persecution of these groups.. In Lao PDR, meanwhile, the main ethnic minority concerns the Hmong hill tribe

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<sup>164</sup> Smith, "Ethnic Challenges and Border Politics in Myanmar/Burma" in Guo ( Ed.) *Myanmar-Burma Challenges and Perspectives*, pp.37-38 and pp. 64-65.

<sup>165</sup> ADB, *Health and Education Needs of Ethnic Minorities in the Greater Mekong Subregion* (Manila: ADB, 2001), Chapter 2, "The Status of Ethnic Minorities," <[http://www.adb.org/Documents/Studies/Health\\_Education\\_GMS/chap\\_02.pdf](http://www.adb.org/Documents/Studies/Health_Education_GMS/chap_02.pdf)> (accessed on June 14 2008).

(numbering around 300,000) living predominantly in the north of the country. Backed by the U.S. as an anticommunist force in both Vietnam and Laos in the 1960s and 1970s, they were persecuted when the communists came to power. Sporadic bombings have in recent years been blamed on ethnic Hmong, but there is little evidence to link them. More revealingly, the surrender of around 2,000 armed Hmong together with their families between June 2005 and May 2007 indicate that the insurgency has been considerably, and possibly terminally, weakened.<sup>166</sup>

Malaysia, meanwhile, exhibits tense inter-community relations that cut across both ethnic and religious lines between Malay Muslims, Christians, Hindus, Buddhists, and others. These are mainly related to socio-economic grievances and in spite of the fact that relations have been relatively stable during fifty years of independence, the last few years have seen worrying indicators of increased tensions. Much will depend on the government's ability to redress grievances and adjust the legacy of affirmative action in an equitable manner without stoking tensions.<sup>167</sup>

Thailand, in turn, is both confronted with security threats spilling over from Myanmar as well as indigenous separatists. The latter have been struggling for independence since the 1960s in the three most southern provinces of Thailand: Pattani, Yala, and Narathiwat—all dominated by a Malay Muslim population. The conflict has its roots in religion as well as socio-economic grievances, since these provinces belong to the poorer parts of the country and the unemployment and crime rates are high.<sup>168</sup> After a period of peace and stability in the 1990s, the uprising revived in 2001. Attacks were targeted mostly against symbols of government authorities and Buddhist-Thai culture. Old formations like Patani United Liberation Organization (PULO), The National Revolutionary Front

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<sup>166</sup> Brian McCartan, "The Wrong Way to End a Secret War", *Asia Times Online*, June 13 2008, <[http://www.atimes.com/atimes/Southeast\\_Asia/JF13Ae01.html](http://www.atimes.com/atimes/Southeast_Asia/JF13Ae01.html)> (accessed on June 14 2008).

<sup>167</sup> Affirmative action policies grant the ethnic Malay majority economic and educational privileges; this has increasingly been contested by ethnic Chinese and Indians worried also about the increase in influence of Islam in daily life. In November 2007, ethnic Indians protested against discrimination which the Malaysian government quelled with the use of force, see "Malaysian Elections Underscore Ethnic Tension", February 29, 2008, <<http://www.gallup.com/poll/104662/Malaysian-Election-Underscore-Ethnic-Tension.aspx>> (accessed on June 14 2008).

<sup>168</sup> Tony Cheng "Analysis: Thailand's Muslim divide", *BBC News*, April 29 2004, <<http://news.bbc.co.uk/2/hi/asia-pacific/3668785.stm>> (accessed on June 14 2008).

(Barisan Revolusi Nasional-Coordinate, BRN-C) which appeared in the 1960s and younger groupings like the Islamic Mujahidin Movement of Patani (Gerakan Mujahidin Islam Patani, GIMP) who emerged in the mid-1990s have been accused of the conflict's escalation. There is a fear that the prolonged violence in the region would eventually draw the likes of Al-Qaeda and Jemaah Islamiah into this conflict. In 2004, the violence escalated in the region to an unprecedented level. The intensification of the conflict has to some extent been linked to harsher measures by the government to stabilize the region.<sup>169</sup> Currently, there are six insurgent groups operating in the region, and while there have been some signs of partial coordination among the groups, it remains unclear who is leading and attempting to coordinate the insurgent activities.

The Thai military interim government offered, with some assistance from the UN, to hold peace talks with the insurgence groups in September 2006; in 2007 Malaysia offered to mediate between the parties; however both initiatives were refused by the south. The governments of Sweden and Germany offered to facilitate talks between the parties in 2006, nevertheless the initiatives failed (refused by the Thai government). When analyzing prospects of possible conflict resolution opportunities, one of the main problems is to identify the relevant representative of the Malay Muslim community in the future peace talks. As proved in negotiations facilitated by former Malaysian Prime Minister Mahathir Mohamad in 2005, exile leaders from older insurgency groups, including PULO, have little influence over current developments and the new generation of insurgence leaders.<sup>170</sup> A problem is that schools used for linguistic and cultural assimilation of the Muslim minority communities are seen as main symbols of the Thai state.<sup>171</sup> Hence, structural changes within the state educational system and measures addressing the language issues need to be included and adopted in peace talks if the scenario is to look any different during the next decade.

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<sup>169</sup> Zachary Abuza "A Breakdown of Southern Thailand's Insurgent Groups" *Terrorism Monitor* 4, 17, (Jamestown Foundation) (September 8 2006), pp 3-6.

<sup>170</sup> Neil J. Melvin "Conflict in Sothern Thailand: Islamism, Violence and the State in the Patani Insurgency", SIPRI Policy Paper No. 20, September 2007, p. 35.

<sup>171</sup> *Ibid*, p. 10.

## Indonesia

The province of Aceh is a stronghold for Islam, and demands for the establishment of an Islamic state ruled by Sharia law has set the province on a collision course with the government in Jakarta.<sup>172</sup> Religious/ideological issues are a central aspect of the conflict in Aceh, but there is also an economic dimension based on wealth in natural resources, which have benefited primarily the Indonesian state while Aceh remains relatively poor.<sup>173</sup> The behavior of the Indonesian forces responsible for combating the insurgency has also been a key driver behind the growing alienation of and reinforcement of identity issues among the population vis-à-vis the Indonesian state. The first peace initiative failed as both sides abrogated the Cessation of Hostilities Agreement (CoHA) in 2003 and returned to military operations.<sup>174</sup> In December 2004, Aceh province was among the regions most affected by the tsunami disaster. The dire humanitarian situation led to immediate attention of the world community while international donors sponsored conflict resolution initiatives. In 2005, the Finnish based NGO, the Crisis Management Initiative (CMI), chaired by former Finnish President Martti Ahtisaari, facilitated peace talks between the Indonesian government and the Free Aceh Movement, Gerkan Aceh Merdeka (GAM). The talks led to the signing of a Memorandum of Understanding in August 2005 in which the province was given more autonomy. A provincial election was also held the same year to choose a governor in Aceh, which was won by a GAM leader.<sup>175</sup> However, questions are still being raised whether GAM will strive for independence or if they will settle for autonomy, and if other elements in Aceh will revive the armed struggle. The Aceh peace process represents an important example of a relatively successful peace process in the Southeast Asian context. It remains to be seen whether the former GAM combatants will be fully re-integrated into the society, if the provisions of

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<sup>172</sup> After independence from the Dutch at the end of World War II the Indonesian government stated that the ideological base for Indonesia would be the Pancasila and not Islam.

<sup>173</sup> Colin Brown, *A Short History of Indonesia -The Unlikely Nation*, (Allen & Unwin, 2003), pp. 239-242.

<sup>174</sup> It was predominantly lack of confidence on both sides and only a few signs of commitment to the peace process that caused failure of the negotiations facilitated by Henri Dunant Center (HDC), a Swiss NGO.

<sup>175</sup> "Former rebel wins Aceh election", *Taipei Times*, December 13 2006, <<http://www.taipetimes.com/News/world/archives/2006/12/13/2003340253>> (accessed on June 14 2008).

autonomy will be included in the Indonesian constitution, and most importantly, whether confidence between GAM and the Indonesian government will be gradually enhanced.

Besides the conflict in Aceh, new religious-driven conflicts have also erupted on the island of Sulawesi and on the Moluccas Islands in the Indonesian archipelago. This was also the site of frequent clashes between Christians and Muslim in the early 2000s.<sup>176</sup> A similar conflict, although not religiously driven, has taken place on Papua (Irian Jaya) where the Free Papua Movement, Organisasi Papua Merdeka (OPM), is engaged in a struggle for independence. Like in the Aceh conflict, there have been large economic incentives involved as the mine in Freetown has predominantly benefited Indonesia. The Indonesian government and military have resorted to force in dealing with the conflict but attempts to bring peace have not yet been successful.<sup>177 178</sup>

Instead, the use of military means to handle domestic conflicts has in most cases worsened the situation and fanned discontent in provinces seeking independence. The predominance of military solutions is partly explained by the strong position of the military in Indonesian society, and its self-image as the guardian of the nation, but a strong state philosophy of nationalism may also partly explain this phenomenon. A further explanation could be the government's reluctance in giving into demands for autonomy or start negotiating with separatists which, in turn, could unleash additional conflicts.<sup>179</sup> On the basis of these factors, it seems unlikely that the situation will improve dramatically in the foreseeable future.

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<sup>176</sup> "Analysis: What provoked Moluccas violence?", *BBC News*, January 8 2000, <<http://news.bbc.co.uk/2/hi/asia-pacific/595473.stm>> (accessed on June 14 2008); "Analysis: Roots of Sulawesi conflict", *BBC News*, December 202001, <<http://news.bbc.co.uk/2/hi/asia-pacific/1719964.stm>> (accessed on June 14 2008),

<sup>177</sup> Jane Perlez and Raymond Bonner "Below a Mountain of Wealth, a River of Waste", *New York Times*, December 27 2005, <[http://www.nytimes.com/2005/12/27/international/asia/27gold.html?\\_r=1&oref=slogin](http://www.nytimes.com/2005/12/27/international/asia/27gold.html?_r=1&oref=slogin)> (accessed on June 5 2008).

<sup>178</sup> Neles Tebay "Turning Papua into land of peace" *Jakarta Post.com*, June 27 2008, <<http://old.thejakartapost.com/Outlook2008/polo8b.asp>> (accessed on June 30 2008).

<sup>179</sup> Brown, *A Short History of Indonesia*, pp. 212-218, 237, 242.

### *Philippines*

Mindanao is a large island in the south of the Philippine archipelago, with a majority Muslim population in this otherwise Catholic country. Several separatist movements have been active on the island. The MNLF (Moro National Liberation Front), for instance, was formed in late 1960s and pursued an armed struggle until 1996 when a peace agreement with the government in Manila was reached. In 1998, a splinter group of MNLF – the Moro Islamic Liberation Front (MILF) – took over as the main opponent to the government. Although the MILF is driven more by religious factors than the MNLF, it would be wrong to conflate them with other religiously driven militant movements such as the Abu Syyaf Group (ASG) and Jemaah Islamiyah (JI).<sup>180</sup> The ASG is the most radical group on Mindanao but it has so far failed to take control over the island. An observable trend during the last few years is a radicalization and criminalization of the Mindanao conflict while ASG also has been involved in terrorist activity outside Mindanao. Indeed, the increasingly criminal leanings of ASG have today rendered its main orientation and motives unclear.<sup>181</sup> The reported increase in methamphetamine production on Mindanao also indicates that narcotics may finance large parts of the insurgency groups' operational work.<sup>182</sup> The reported collusion between different Islamic radical groups in Southeast Asia and their connections to Al-Qaeda is another alarming trend.<sup>183</sup> On Mindanao itself, U.S. security operations have met with some success in countering these elements but concerns have also been raised that these operations have failed to distinguish counter-terrorism from other insurgencies in Mindanao. This is a worrying development since it may give

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<sup>180</sup> Salvatore Schiavo-Campo and Mary Judd "The Mindanao Conflict in the Philippines: Roots, Costs, and Potential Peace Dividend" Social Development Papers – Conflict Prevention & Reconstruction, No. 24, World Bank, February 2005.

<sup>181</sup> Tamara Makarenko "Terrorism and Transnational Organized Crime" in Paul J. Smith (Ed.), *Terrorism and Violence in Southeast Asia – Transnational Challenges to State and Regional Stability* (New York: M.E Sharpe, 2005), pp. 182-183.

<sup>182</sup> UNODC, *World Drug Report 2007*, (New York: United Nations Publications, 2007), pp. 129.

<sup>183</sup> U.S. Department of the Treasury, Press Release, Treasury Designates Three Key Terrorist Financiers, October 10 2007 <<http://www.ustreas.gov/press/releases/hp598.htm>> (accessed on June 3 2008).

Jihadi extremists a popular base among mass-based movements and thus further hampering the potentials of a negotiated peace.<sup>184</sup>

A newer threat to stability, outside designated conflict areas like Mindanao and Aceh, is posed by the formation of Jemaah Islamiyah (JI). The organization was established in the mid-1990s and is constituent of a network of Islamic radicals throughout Southeast Asia. The organization has been associated with Al-Qaeda and receives both support and training from them. JI became infamous with the Bali attacks in 2002 but the network has carried out bombings towards a large number of targets. In addition to bombing Christian churches in late 1990's JI has been involved in conflicts between Muslims and Christians in the Indonesian archipelago on islands such as Jolo. The ability to divide activities and presence among the Southeast Asian states has made it hard for national law-enforcement agencies to suppress the entire network. Although recent actions have illustrated how the use of police and law enforcement have been more successful in countering JI compared to military measures, there are still several obstacles impeding an efficient response. The overall poor state of security forces and lack of cooperation between law-enforcement agencies in Southeast Asia will be particularly troubling in fighting international terrorism in the region.<sup>185</sup>

#### *Scenarios 2018-2028*

**Probable:** Existing ethnic/religious conflicts will not disappear completely from Southeast Asia while heavy-handed tactics will continue to be employed with an additional lack of clear distinction between counter-insurgency and counter-terrorism. The Aceh peace process will mature while a negotiated settlement will be found in Southern Thailand. A comprehensive peace agreement will elude Mindanao which displays greater complexities. While the religious component will stoke increased inter-community tensions, conflicts will center

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<sup>184</sup> International Crisis Group, "The Philippines Counterinsurgency vs. Counter-terrorism in Mindanao", May 14 2008,

<[http://www.crisisgroup.org/library/documents/asia/south\\_east\\_asia/152\\_counterinsurgency\\_vs\\_counter\\_terrorism\\_in\\_mindanao.pdf](http://www.crisisgroup.org/library/documents/asia/south_east_asia/152_counterinsurgency_vs_counter_terrorism_in_mindanao.pdf)> (accessed on June 14 2008).

<sup>185</sup> International Crisis Group "Jemaah Islamiyah's Current Status" Asia Briefing N°63, May 3 2007; Bill Guerin, "New Terrorism Front opens in Indonesia", *Asia Times*, March 14 2007; Michael Vatikiotis "Rights and Wrong of Asia's War on Terror," *Asia Times*, April 6 2007.

on socioeconomic grievances, and insurgencies will increasingly be marked more by other incentive structures and increasing criminalization.

**Plausible:** Ethnic insurgencies diminish as the gains of economic growth are equitably distributed and peace processes become more successful. As states become more politically inclusive and representative, ethnic groups are coopted into political processes. Governments in the region manage to coordinate their anti-terrorism policies, leading to the successful suppression of insurgency activities.

**Possible:** As the roadmap in Myanmar falters, ethnic armed struggle increases with renewed intensity after a period of relative calm. This will have ramifications for neighboring states, causing them to clamp down harder on ethnic and religious insurgencies. The Thai insurgency remains unresolved and spreads to the capital Bangkok resulting in more hard-line measures from the government. A war of attrition develops, spilling over into northern Malaysian territory causing bilateral tensions between the two countries.

#### *Key Issues to Watch*

Ethnic Insurgencies; Religious Extremism; Peace Processes; Criminalization of Conflict; Counter-terrorism vs. Counter-insurgency; Jemaah Islamiyah (JI).

### **Military Development**

From a security and military point of view the region can be seen as two areas with different challenges. One group is constituted by the large island nations, Philippines and Indonesia, while the other group comprises the “mainland” nations such as Thailand, Cambodia, and Vietnam.

The armed forces of the island nations are mainly geared toward internal security and counter insurgency, which in the Indonesian case means a relatively large fleet of landing craft and patrol vessels suited for operations in the Indonesian archipelago. The around 10 available frigates have a quite substantial anti-ship capacity with their Exocet and Harpoon missiles. What limits the usefulness of this force is the near impossibility to provide the ships with any air cover due to the very weak fighter component in the Indonesian

Air Force.<sup>186</sup> This latter problem might be solved within the next 5-10 years as Indonesia is negotiating with India to buy some 44 SU-30 MKI.<sup>187</sup> Also the Army and Air force could be considered as “light” forces mainly geared toward domestic use. In the Philippine case this still more pronounced as the country lacks both surface combatants and fighter planes. Both countries presently have and will probably continue to have internal security problems. Their present day military organizations would have great problems if they had to take on an external threat, or to assert territorial rights, against a determined opponent. The latter problem could arise when it comes to the disputed islands in the South China Sea. The purchase of two Kilo-636 submarines from Russia should be seen as a way to address this problem.<sup>188</sup>

Both China and the U.S. have an interest in having good military relations with the Philippines and Indonesia as they, together, form a barrier when it comes to sea lanes in and out of the South China Sea. This fact is not just important when it comes to commercial shipping but perhaps even more so when it comes to containing Chinese submarine movements (for the U.S.) and to keep hostile naval forces out (for China).

Three of the mainland countries, Thailand, Cambodia, and Vietnam, face a totally different set of challenges, much of it a legacy of the Indo China conflicts during the last century. The Vietnam War, Vietnam’s invasion of Cambodia, and China’s punitive action against Vietnam created mutual mistrust and also a distrust of China (in the case of Vietnam).

Thailand, although having to devote many resources to counter-insurgency operations in its southern provinces, is also maintaining a quite large organization suited for other tasks. It has one aircraft carrier, some 20 surface combatants, some 165 combat aircraft (50 F16) and is planning to buy 12 JAS-39 Gripen (6 already ordered).<sup>189</sup> The army consists of some 200,000 personnel and is fairly well equipped, considering possible opponents. One reason for Thailand investing quite large resources in its armed forces is the earlier, and perhaps to some extent still existing, need to balance Vietnam’s military dominance in the region. The other states in the area, Laos and Cambodia, are militarily weak

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<sup>186</sup> International Institute for Strategic Studies, *The Military Balance 2008*, (London: IISS, 2008), pp. 382-383.

<sup>187</sup> *Ibid*, p. 365.

<sup>188</sup> *Ibid*, p. 365.

<sup>189</sup> *Ibid*, pp. 406-407.

with small military organizations equipped with mainly obsolete Soviet materiel.

Vietnam is by numbers the militarily strongest nation in the region. Although having some 1300 tanks, 3000 artillery pieces, 11 surface combatants, and some 200 combat planes its supremacy might be somewhat hollow. Most of the equipment is of Soviet make and is long overdue for replacement, such as the 140 Mig-21 fighters, the Tarantul corvettes with SS-N-2 missiles, and the 850 T54/55 tanks etc.<sup>190</sup> Probably regarding China as the main potential threat and seeing the rapid modernization of the Chinese armed forces is a serious concern in Hanoi. Quite radical changes in Vietnam's security policy cannot be ruled out, one possible option being to forge closer ties with the U.S. and U.S. allies in and around the region. Another option might be to re-establish the old ties with Russia; this although seems less likely as today's Russia in no way has, or will ever have, the same military capabilities the Soviet Union once had. Besides, Russian technology will in the future have no significant edge over Chinese technology. The option to accept Chinese economic and military supremacy in the region should not be ruled out. Historically, a peaceful co-existence with China has been the "Vietnamese Model."

Malaysia and Singapore, who are somewhat on the sidelines when it comes to the security problems of their northern neighbors, view each other with a certain degree of caution. In the case of Singapore there is also a degree of vigilance with regards to Indonesia although military to military relations are recognized as being healthy. The main problems the countries have at the moment is to maintain stability and enhance security in the Malacca Straits as well as a means to assert their own sovereignty. Both countries (Malaysia and Singapore) have for quite a long time run ambitious modernizations programs. Malaysia has for example bought F18 Hornets and SU-30MKM fighters, Meko corvettes, and Scorpene submarines.<sup>191</sup> Singapore, with the most modern and probably best trained forces in the region, has lately purchased Leopard 2 tanks, 6 frigates (French LaFayette class), and 2 Västergötland submarines.<sup>192</sup>

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<sup>190</sup> *Ibid*, pp. 408-409.

<sup>191</sup> *Ibid*, pp. 393-394.

<sup>192</sup> *Ibid*, pp. 401- 402.

**Table 3.** Military expenditure in constant (2005) US\$ m/ Military expenditure as percentage of gross domestic product

	2004 US\$ million	2005 US\$ million	2006 US\$ million	2003 % of GDP	2004 % of GDP	2005 % of GDP
Cambodia	109	110	114	2	1.8	-
Indonesia	[3655]	[3410]	[3695]	1.3	[1.4]	[1.2]
Lao PDR	-	-	-	-	-	-
Malaysia	2917	3120	2996	2.8	2.4	2.4
Myanmar	-	-	-	-	-	-
Philippines	857	865	901	1	.9	.9
Singapore	5147	5468	5868	5.1	4.7	4.7
Thailand	2003	2018	2045	1.3	1.2	1.1
Vietnam	-	-	-	-	-	-

[...] = Estimated; (-) = Unknown

Source: SIPRI

Taken altogether the region has the potential for incidents, where military forces might be engaged, although the probability for larger armed conflicts seems low. In the longer run the big problem all the countries will have to handle is the challenges that will arise from China's growing economic and military power (and also the U.S. reactions to that).

#### Scenarios 2018-2028

**Probable:** The island nations (Indonesia and the Philippines will probably strengthen their military ties with the U.S. (and Japan). The modernization of their military forces will be accelerated mainly to create a capability to uphold their interests in the South China Sea. On the continent, the present trend with a gradual modernization of the military in all countries will probably continue. A continued balance of powers, without any country becoming dominant, is most likely. Southeast Asian countries will have to learn to accommodate the rise of the Chinese navy and to seek reassurance as to the role and intention of

China in Southeast Asia. Vietnam will face big problems modernizing its large forces.

**Plausible:** Internal unrest, especially in Indonesia and the Philippines (in Indonesia combined with Moslem opposition to cooperation with the U.S.) leads to “opting out” from the great power balancing game and concentrating on internal security. On the mainland there is an increased co-operation between most countries enabling them to be “neutral” or able stand up to pressure from the great powers with interests in the region.

**Possible:** Lack of U.S. credibility leads to an adaptation to Chinese interests. The region may undergo a period of uncertainty and tension as the countries are forced to align their interests with either of China or the U.S..

#### *Key Issues to Watch*

U.S. relations with Indonesia and the Philippines, internal unrest and Moslem radicalism, Vietnam’s relations with neighbors and the U.S., military co-operation in the region.

### **Geopolitical Development**

Southeast Asia is pivotal for many external actors much due to the geography that has made Southeast Asia central for maritime transport. The sea-lanes of communication are for example the very artery for energy and trade transport to Japan, China, (including Taiwan) as well as South Korea. Moreover, the Strait of Malacca has, as mentioned earlier, become a choke point for heavy transports due to very narrow passes which also has made the region vulnerable. The interest of stabilizing the region to keep the sea-lanes open, at a minimum, has increased immensely due to this reason alone although full control remains a distant goal.

The position between two of the regional economic, political, and military powerhouses—India and China—has made the relatively affluent region even more crucial in geopolitical terms. Both actors see increasingly important benefits in creating a military presence in the region, and potentially at the expense of a U.S. military force that is seen as having less of an interest in the region under George W. Bush. In the management of relations between the various external powers, ASEAN will have a significant role to play firstly, as a means to consolidate the interests and negotiating position of the Southeast

Asian member states, but also as forum for managing the relations between the various external actors by being able to set the agenda and influence the decision-making process. ASEAN has a number of initiatives to manage relations with its Asian neighbors as well as the U.S. and Europe

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<i>Key ASEAN Regional Initiatives</i>	<i>Members</i>
ASEAN Regional Forum (Started in 1994)	ASEAN member states, Australia, Bangladesh, Canada, the People's Republic of China, the European Union, India, Japan, North Korea, South Korea, Mongolia, New Zealand, Pakistan, Papua New Guinea, Russia, Timor-Leste, United States, and Sri Lanka.
Asia-Europe Meeting (Started in 1996)	EU and the ASEAN Plus Three grouping
ASEAN Plus Three (Started in 1997)	The ASEAN member states, plus the People's Republic of China, Japan, and South Korea
East Asian Summit (Started in 2005)	ASEAN member states, China, Japan, South Korea, India, Australia, and New Zealand. Russia was a guest at the first summit and has applied for membership.

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### *China*

Southeast Asia has become one of the most prioritized regions for China:<sup>193</sup> firstly, due to outstanding maritime disputes in the South China Sea and the Tonkin Bay and border conflicts along its long border with Southeast Asia;

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<sup>193</sup> Swanström, *Foreign Devils, Dictatorship or Institutional Control: China's Foreign Policy Towards Southeast Asia*; Robert Sutter, *Chinese Foreign Relations* (Plymouth: Rowman & Littlefield Publishers, 2008).

secondly, for China's long-term attempt to avoid being encircled by hostile powers, as it was during the Cold War when ASEAN was oriented toward the West and the communist states leaned toward the Soviet Union; thirdly for economic cooperation and the Chinese economic interaction with the Southeast Asian states that has grown very substantial with a Free Trade Agreement expected to be fully implemented by 2010; fourthly, China displays a determination to stabilize its partners in the region and prevent any destabilizing regime changes, a conviction that it shares with most Southeast Asian states. Finally, China is directly interested in preventing India and Russia from establishing a strong presence in the region and trying to minimize the U.S. influence in the region.

China has methodically attempted to improve its relations with all Southeast Asian states, both through investments and responsible economic behavior, as it showed in the financial crisis in the late 1990s, as well as through strengthening its soft power in the region. Due to China's non-intervention policy it has earned respect in the Southeast Asian region, especially in less democratically-oriented states such as Myanmar. It is evident that China's soft power has increased significantly over time and today the majority of the Southeast Asian states view China as a vitally important partner, and a partner that they can trust; a change that is a significant improvement from a decade ago when China was feared by the majority of the states in the region. It is not likely that this honeymoon will continue as China's power in the region grows, but as of today China is often seen as a role model and a country to turn to in event of crises. There has been some interest from China in establishing a military presence in the region, albeit not necessarily overtly in the short-term. It has reportedly established civilian research bases in the Coco islands, a move that has been interpreted as a military move oriented against India. Myanmar and China have flatly denied this, but it seems evident that China would like to establish a military base in the region over time to improve transport security, repairs and intelligence operations.<sup>194</sup> China moreover could improve the transport links overland should maritime lanes become threatened by external actors.

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<sup>194</sup> John Feffer, "A Stable Myanmar to Benefit India, China," *Dawn*, January 19 2008, <<http://www.dawn.com/2008/01/19/int9.htm>> (accessed on June 15 2008).

### *India*

India is an emerging regional power whose influence and relationship with Southeast Asia is growing rapidly. Compared to China, Southeast Asian countries have a less wary attitude toward India's presence in the region. India became a Sectoral Dialogue Partner with ASEAN in 1992 and a Full Dialogue partner in 1996. The first ever ASEAN-Indian summit took place in 2002 reflecting the importance with which Southeast Asian member states regard India, as the latter tries to increase trade and political influence in the Southeast Asian region. India's engagement with Southeast Asia is based on the following: First, India has initiated a "Look East" Policy as it develops its economy and ASEAN is recognized as being crucial to India's economic, political, and strategic standing in Asia, especially as a major trade and investment partner. A free trade deal between the two is expected to be signed in 2008. In 2005, bilateral trade between India and ASEAN was US\$23 billion with Indian exports at US\$8 billion. The Indian government estimates that exports to ASEAN could reach US\$22 billion by 2012.<sup>195</sup> Second, the Indians have also stated how Myanmar's entry into ASEAN means that India has a closer geographical link with ASEAN member states, particularly with regards to efforts to engage and coax the Myanmar regime back into the fold of the international community. Third, another area in which India's interests converge with ASEAN is the issue of sea lane security in the Indian Ocean. Like China, it is concerned with being vulnerable to any disruption in sea traffic.

### *United States*

The United States remains the most important external actor in Southeast Asia both in terms of trade, and as a security provider. ASEAN-U.S. celebrated its 30 year anniversary in 2007 though there has not been an ASEAN-U.S. summit to date, compared to China, Japan and South Korea who have sought to step up engagement with the ASEAN member states through the ASEAN Plus Three initiative. An explanation could be that the U.S. accords more importance to Asia-Pacific Economic Cooperation (APEC) and considers its engagement with

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<sup>195</sup> "ASEAN says expects India free trade deal by 2008," *Reuters*, August 28 2007, <<http://www.hindustantimes.com/StoryPage/StoryPage.aspx?id=a4aod414-4b94-44b2-adf5-243945572b91&&Headline=ASEAN+expects+India+free+trade+deal+by+2008>> (accessed on June 15 2008).

the Southeast Asian countries within the APEC context. Nevertheless, some analysts think that the U.S. is not paying sufficient attention to the Southeast Asia region and that it should bolster its engagement, considering the rise of China in East Asia; otherwise, it risks losing its dominant position in the region in the coming decades.

The U.S. has a mixed relationship with the Southeast Asian member states although the overall relationship is recognized as being one of “friendship and cooperation.” While being an integral part of Southeast Asia’s economic and security strategy, including fighting the war in Vietnam against the communists, the history of engagement in the region has at times been controversial; for instance, the role that the U.S. played in the rise and fall of the Suharto regime in Indonesia. The role of the U.S. military in providing assistance to Indonesia in the aftermath of the Tsunami certainly helped to soften the U.S.’s public image among the general population in the region, especially following the Iraq War. Over the years, the U.S. has also provided the ASEAN member states with various development and technical assistance, and made considerable trade investments in the region. An exception is U.S. relations with Myanmar. The U.S. government has taken a strong stance against the Myanmar regime while the latter is fearful that the U.S. is trying to overthrow the regime.

From a security perspective, the U.S. is recognized as an off-shore balancer and seen as an important counter-weight to China. The Pacific Command in Honolulu and the various hub-and-spoke agreements with ASEAN member states have helped institutionalize the U.S.’ security relations with the region.<sup>196</sup> The U.S. relationship with the governments in the region is positive, especially since the U.S. has pursued a strategy of helping the Southeast Asian countries help themselves in combating terrorism.<sup>197</sup>

### *Europe*

The ASEAN-EU relationship began in 1977, just over 30 years ago. Today, EU relations with Southeast Asian countries are primarily in the form of trade and

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<sup>196</sup> “Bolstering U.S.-ASEAN Cooperation,” *Japan Times*, March 6 2008 <<http://search.japantimes.co.jp/cgi-bin/eo20080306a2.html>> (accessed on June 12 2008).

<sup>197</sup> “The State of US-ASEAN Relations,” see website of East West Center, <<http://www.eastwestcenter.org/news-center/east-west-wire/the-state-of-us-asean-relations/>> (accessed on June 26 2008).

people-to-people ties. The EU's strategic engagement of ASEAN member states is limited and the EU is said to be slow in recognizing the recovery of Southeast Asia following the 1997 Asian Financial Crisis. The EU relationship with ASEAN and the member states has also been hampered by disagreement over the approach toward Myanmar, and that has impeded the development of closer political ties between the two regions. A free trade agreement is currently being negotiated but it has run into trouble because of huge discrepancies between the ASEAN economies and the political problems in Myanmar.<sup>198</sup> Between 2000-2007, the EU committed €80 million for regional programs in Southeast Asia.<sup>199</sup> Outside of trade, the EU has sought to make itself relevant in Southeast Asia through pursuing further cooperation in the fields of energy, the environment, transport infrastructure development, good governance issues, combating HIV/AIDS, narcotics, money laundering, and maritime security issues, as well as sharing expertise and experience on the issue of ASEAN integration. Finally, the EU's very presence in Southeast Asia helps to maintain Southeast Asia's open and inclusive regional security architecture.

### *Australia*

Australia as a regional actor has been moving back and forward over time and has at times been negative, especially in terms of harsh policy toward immigration and what has been perceived as a white policy in Southeast Asia. In particular, it has had a volatile relationship with Malaysia and Indonesia. Following the 2002 Bali bombings where 88 Australians died, Prime Minister John Howard's declaration that the Australian government is prepared to launch military strikes against terrorists in Southeast Asia did not go down well with the Southeast Asian governments, especially Malaysia.

Since relations were established between Australia and ASEAN in 1974, the relationship was by and large dominated by development assistance during the 1970s, followed by trade interests in the 1980s. The ASEAN-Australian-New

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<sup>198</sup> "Obstacles to EU-Asean FTA," *The Nation*, June 13 2008, <[http://www.bilaterals.org/article.php?id\\_article=12418](http://www.bilaterals.org/article.php?id_article=12418)> (accessed on June 26 2008).

<sup>199</sup> "EU-ASEAN: increasing engagement with South East Asia," EU Press Release, June 13 2007, <<http://europa.eu/rapid/pressReleasesAction.do?reference=IP/07/319&format=HTML&aged=o&language=EN&guiLanguage=en>> (accessed on June 10 2008).

Zealand Free Trade Agreement (AANZFTA) is drawing to a conclusion and this will result in drawing Australia closer with Southeast Asian countries.

In recent years, Australia has increasingly sought to engage Southeast Asia in terms of security cooperation. In 2005, Australia finally signed the Treaty of Amity and Cooperation, the ASEAN non-aggression pact 15 years after it first balked at signing the accord when it started seeking closer ties with ASEAN.<sup>200</sup> This was only after ASEAN made it a key condition for joining the inaugural East Asian Summit. Australia signed the document as it wanted to be a founder member where it felt it could exert more influence. An area where Australia has been extremely keen to cooperate with ASEAN on is anti-terrorism, and ASEAN's anti-terrorism accord with Australia is a major step forward in Australia's security engagement with the region.

### *Japan*

Japan's foremost role in Southeast Asia is as an economic partner (An FTA is being negotiated) as well as a development aid provider. However, increasingly there will be a growing national perception of a need to protect SLOCs and then especially in terms of Southeast Asia. From a strategic point of view, Japan is mindful of the in-roads that China has made into Southeast Asia. In response, Japan has sought to ensure that Chinese penetration is not at Japan's expense.

In 2006, the Japanese Ministry of Foreign Affairs (MOFA) raised a new policy idea called the Arc of Freedom and Prosperity as a new pillar of Japanese diplomacy which would encompass the entire Eurasian continent, including Southeast Asia. It is value-oriented in wanting to promote democracy and economic freedom and Japan had sought to include India, the U.S., and Australia as partners in this new diplomatic approach. However, the issue has been shelved since Abe stepped down as Prime Minister.

Nonetheless, it underlines Japan's attempt to play a more active diplomatic and strategic role in Asian security. During Abe's time in office, another significant development was the upgrade of the Defense Agency to ministry level. With regards to Southeast Asia, Japan's involvement will largely be in the area of maritime security cooperation, especially on the Malacca Strait with close

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<sup>200</sup> "Australia signs ASEAN friendship pact," *China Daily*, December 10 2005, <[http://www.chinadaily.com.cn/english/doc/2005-12/10/content\\_502343.htm](http://www.chinadaily.com.cn/english/doc/2005-12/10/content_502343.htm)> (accessed on June 12 2008).

cooperation with the three littoral states, Singapore, Malaysia, and Indonesia, to combat piracy and improve navigation safety. Japanese Coast Guard vessels (from the Maritime Safety Agency) have patrolled Southeast Asian seas and participated in joint exercises with civilian maritime counterparts in Southeast Asia. It should be pointed out that Japanese maritime involvement in Southeast Asia is civilian in nature. The Self-Defense Force has not yet been involved in patrolling activities other than disaster relief.<sup>201</sup>

Japan has played a constructive part in helping to set up and develop a multilateral maritime regime in Southeast Asia. It proposed the creation of the Regional Cooperation Agreement on Combating Piracy and Armed Robbery against Ships in Asia (ReCAAP). The agreement was finalized in November 2004 and came into force in September 2006. The sixteen countries include Bangladesh, Brunei Darussalam, Cambodia, the People's Republic of China, India, Indonesia, Japan, South Korea, Lao PDR, Malaysia, Myanmar, the Philippines, Singapore, Sri Lanka, Thailand, and Vietnam.

### *Russia*

At present, Southeast Asia does not have any strong ties with Russia. Instead, normal and friendly relations are slowly developing between Russia and the Southeast Asian countries. However, current Russian presence and influence in the region is limited, and can be said to be the least engaged of the external actors discussed here. The first ASEAN-Russia Summit was held in 2005 and Russia took part in the 2005 inaugural East Asia Summit as a guest.

Despite limited engagement, Southeast Asian countries recognize the importance of Russia as a great power in terms of military might, its natural resources wealth, its permanent membership at the United Nations Security Council, and its status as a nuclear power. In the Asian context, Russia's closer relations with China and India also cannot be dismissed. However, at this moment, Russia neither poses a threat nor works as a substantial contributor to the peace and stability of Southeast Asia. Knowledge of each other remains low although it is expected to grow in the coming years.

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<sup>201</sup> Yoichiro Sato, *Southeast Asia Receptiveness to Japanese Maritime Security Cooperation*, Asia-Pacific Center for Security Studies, September 2007, <<http://www.apcss.org/Publications/Maritime%20security%20cooperation%20Japan-SE%20Asia%20Sato.pdf>> (accessed on April 13 2008).

*Scenarios 2018-2028*

**Probable:** Southeast Asian countries recognize the need to consolidate as a region in order to better manage its relations with external actors. However, it still has a difficult time doing so because of internal disagreement over the pace and manner in which this is done. Considering the economic weight of China, Japan, and South Korea, Northeast Asia will become the economic engine for East Asia and its economic gravitas will pull the Southeast Asian countries increasingly northwards. The Indian and Australian markets will also become increasingly intertwined with East Asia's. By then a "greater East Asia" (consisting of ASEAN, China, Japan, South Korea, India, Australia, and the U.S.) may be in formation bounded by complex interdependence. Security cooperation will develop at a slower pace, in part because so many actors are involved, but also because ASEAN's consensus based decision-making style hampers efficiency. Nonetheless, ASEAN would be the focus of attention as a balancer among the various external actors. The U.S. will continue to remain the de facto security provider in Southeast Asia but the region may see a growing number of multilateral security cooperation arrangements involving external actors as a burden sharing arrangement is developed.

**Plausible:** ASEAN and its neighboring countries will develop closer economically and a greater "East Asian economic region" (involving ASEAN, China, Japan, South Korea, India, Australia, and the U.S.) will emerge. However, security relations will develop at a much slower pace. From a security point of view, there is greater acceptance of the need to cooperate and to get stakeholders involved to address security issues together but cooperation would take place on an ad hoc case-by-case basis and in many cases, too little, too late because of disagreements.

**Possible:** China as a rising power seeks to play a larger role in Southeast Asia by attempting to improve bilateral relations with certain key countries with an aim to challenge the U.S. in Asia. The other external actors would seek to contain China's influence and an unhealthy competition of zero-sum courtship will develop in the region. ASEAN member states will publically declare that they oppose such rivalry and would not take sides. But individually, the Southeast Asian countries will have made their own preferences as to who they would prefer to align with, although they would continue to hedge their choices.

### *Key Issues to Watch*

Growing economic integration; breakdown of the consensus style of decision-making in ASEAN leading to stalemate; growing calls for greater multilateral engagement and burden sharing, Great Power competition.

### **Conclusions**

In a region as dynamic and diverse as Southeast Asia accurate projections of future developments are difficult to arrive at with any great certainty. Indeed, the region finds itself on the cusp of portentous change, and in facing manifold challenges, a complex set of variables and the interaction among them will determine how Southeast Asia will look like in 2018-2028. This notwithstanding, a historical perspective might also provide some clues on future trajectories.

Looking back at Southeast Asia in 1988, the region stood on the brink of change with the end of the Cold War. And indeed while there have been significant events in the two decades since, such as the collapse of Suharto's regime in Indonesia, the Asian Financial Crisis in 1997-1998, and the creation of a new nation in the form of Timor-Leste, an observer twenty years would still be able to identify many similarities with the situation today: authoritarian regimes remain in countries such as Vietnam, Lao PDR, and Brunei while large-scale protests in Myanmar in August-September 2007 awoke memories of previous anti-government demonstrations against the same incumbent regime twenty years previously. Other countries, meanwhile, also display the continued presence of the military in many aspects of politics, economics, and society. Before the military coup in Thailand in September 2006, the last time the country had found itself under military rule was in 1991-92; in the intervening period five successful elections had taken place leading to assumptions that the consolidation of a more stable, democratic, and transparent political system was firmly underway. On a regional level, ASEAN has failed to increase intra-regional trade to its full potential, and is criticized by many in the West for its inefficacy and seemingly entrenched policy of non-interference—particularly in regard to Myanmar. And ethnic and religious conflicts, though waxing and waning as in the lifecycle of any conflict, and, in some areas, displaying new extremist jihadi elements, display many of the same underlying, unresolved grievances—whether socioeconomic and/or separatist—since the foundation of independence for Myanmar. Is it also possible to conceive therefore, in looking to ten to twenty years in the future, that Myanmar will continue to be ruled by

a repressive military government; that Vietnam and Lao PDR will cling steadfastly to their communist ideologies; that ASEAN will still fail to display much needed regional mechanisms; and that one will still be talking for example of insurgency in Southern Thailand in twenty years time? At the same time as striking continuities have pervaded the region over the last twenty years, important shifts, as this chapter has explored, are also underway indicative of changes to come.

Authoritarian regimes have introduced tentative political reforms that may be further driven by generational changes of leadership, increasing political consciousness, and global integration; even in Myanmar a roadmap to democracy is at least recognized by its leaders as the only long-term path for the country. Vietnam has opened up its economy to a degree that was not expected. Other countries such as Indonesia have tried to separate the military from politics, indicating a democratic political development that will be hard to be undone. Furthermore, after the disaster of the Asian Financial Crisis, many countries are witnessing strong economic growth rates. Bordered by the rapidly growing power economies of India and China, this will also have implications for the entire political economy of the region. As far as ASEAN is concerned (outlined in further detail in the introduction), there are increasing signs of a willingness to deepen integration of member states with a regional market and increased economic cooperation a key objective by 2015. However, this will not inevitably lead to military and security cooperation that will develop much slower. Other positive factors demonstrate that there is no looming demographic crisis, such as will increasingly afflict countries such as Russia, Japan, or in Europe, and that there are seemingly few indicators pointing toward large-scale military conflict between the states of Southeast Asia despite that a few border disputes have not been settled.

While this all portends positive scenarios for the region in 2018-2028, it is inescapable to conclude that key vestiges and continuities from the past, the interrelationship between the various issues outlined in this study, but also unexpected events and reactions to trends will all in combination determine the region's future, and thus complicate predictions of a linear development.

It is clear that Southeast Asia faces enormous challenges over the next decade in terms of promoting and sustaining economic growth, combating ever-increasing environmental issues at the same time as implementing necessary political reforms. The fact that many of the countries of the region face so many of these

development challenges at the same time is indicative of both a dynamism but also fears that should changes be halted or mismanaged, negative developments and instability could result. Furthermore, as many of these issues are interrelated, governments will have to juggle and deal with these in an even-handed manner. For example, failures to devise adequate policies to redress uneven economic development create regional disparities which, in turn, could serve to exacerbate ethnic and social divides. Similarly, the lack of sustainable development affects some groups more than others, serving to further magnify existing, but also creating new, cleavages in society. Therefore, one cannot separate developments in ethnic conflict for instance from developments in the environment and economy. Should problems worsen there will be tendency among the governments to recourse to harsher authoritarian measures and military rule, and while this may arrest temporary instability, in the long term even more serious repercussions may arise. It could be argued that the challenges faced would be difficult for any modernized Western country to deal with; the fact that most countries in Southeast Asia exhibit weak or ineffective governance rooted in anti-colonial legacies and dealing with decade-long challenges of counter-insurgency makes them ill-equipped or lacking necessary experience in tackling new challenges such as environmental management and urbanization, to name but a few. Accordingly, the ability to adapt or not will be a key determinant of future development and here ASEAN will play a pivotal role.

Finally, and on a more positive note, the authors believe that also much good can come out of the negatives. For example, in spite of the devastation wreaked by the 2004 Tsunami, it also helped spur the concluding of a peace agreement in Aceh; this scarcely would have been predicted before the event happened. It also helped toward improving natural disaster management with important implications for strengthening institutions and capacity. In addition, many transnational and particularly non-traditional security threats such as climate change, trafficking of humans and drugs, and piracy necessitate closer and more effective regional cooperation, a trend which is likely to increase as states of the region become increasingly aware of and respond to the security and development challenges in what may be termed as the start of a post-post Cold War era.

# Chapter 3: Southwest Asia

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## Introduction

The strategic location of southwestern Asia (here defined as Iran, Pakistan, and Afghanistan) at the crossroads of South Asia, the Middle East, and Central Asia has been both a blessing and a curse for the regional countries. For the last 1500 years, and up to the nineteenth century, Persians, Arabs, and Turks contested the territory of this region only to be replaced by the colonial conquests of the British and Russian Empires. Russia and Britain, in turn, fought for strategic supremacy for a hundred years during the nineteenth and early twentieth century in what Rudyard Kipling termed the “great game”. Likewise, the USSR made Afghanistan one of the primary frontlines in the Cold War.

The driving factors behind attempts to dominate southwest Asia have related both to geo-politics and geo-economics. Access to energy and mineral resources in Central Asia and the warm water ports in the Persian Gulf and Indian Ocean is a vital strategic interest for the neighboring powers, particularly China, Russia, and India. Similarly, Afghanistan is dependent on both Pakistan and Iran to access ports in the Indian Ocean and the Persian Gulf. Pakistan, in turn, is dependent on a stable Afghanistan to access Central Asia.

Apart from being a potential nexus for trade, transport, and energy transit, this region has today also become a nexus for a booming drug trade, extremism, and some of the world’s largest refugee flows. Skyrocketing population growths, political instability, and troubled economies are also features shared by all southwest Asian countries. These factors, ostensibly internal to the region, could all backlash and spread far beyond this region.

This report aims to provide a background of some of the most pressing issues facing the southwest Asian region and outline scenarios for 2018-2028. Since the

development in this region partly will be determined by external events it is useful to envision the geographical focus of this report as constituent of three concentric circles (with a descending degree of emphasis). The first of these consists of Iran and Pakistan. The second consists of these two countries plus Afghanistan. The third is made up of these three countries plus the Persian Gulf countries, Central Asia, India, China, Russia, the U.S., and other less important actors but which nevertheless will play a role, eg. Japan.

This study argues that a decade from now, the southwest Asian region either could be a regional time-bomb, a regional pivot, or something in between. Each scenario is dependent on whether these three countries are able to cooperate and create economic development, or if continued conflict will undermine their advantageous position of being in the center of continental trade flows in energy and goods. They are also dependent on peaceful inter-ethnic relations and strong state institutions. Capital accumulation by the state is necessary to provide for security and human development, which, in turn, only will come through economic development and expansion of the private sector.

Forecasting what this region will look like in 2018-2028 is bound to be tentative and the history of the southwest Asian region has been far from linear. A defining feature throughout the history of the southwest Asian region is nevertheless that when private sector activity has flourished and when borders and cross-border opportunities have opened, the region has also prospered. Conversely, when outside powers have intervened, colonized, and imposed ideologies alien to the local population, much of the vibrant entrepreneurship of this region has been thwarted. In order to understand the different development scenarios, their catalysts, and whether the present state of affairs was predictable one or two decades ago, it is useful to review the regional events starting from the late 1970s when the modern turbulence started.

#### *1979, 1991, 2001 – Tectonic Shifts*

The political, economic, and strategic landscape of the southwest Asian region has been tectonically shifted at the turn of each of the last three decades. The main events responsible for these shifts in the regional landscape are the revolution in Iran in 1979 and the Soviet invasion of Afghanistan the same year; the disintegration of the USSR in 1991; and the aftermath of September 11,

2001.<sup>202</sup> To this should be added the exogenous factor of globalization which gradually has opened up the southwest Asian region throughout these decades. Though each of these turning points seemingly has primarily geopolitical implications, the consequences for economic, political, ethnic, and demographic developments have been no less profound.

For example, whereas the 1979 revolution in Iran challenged the balance of power in the Persian Gulf and Eurasia and ultimately culminated in an eight-year long armed confrontation with Iraq, it also led to a massive baby-boom, nationalism, and a populist war economy with deep impact on today's Iran. Similarly, whereas the intervention of the USSR in Afghanistan in 1979 had the effect of a convergence of interests between the U.S., Iran, Pakistan, and Saudi Arabia in containing communist expansion, their support for various shady ethnic and religious factions in this decade-long conflict led to a fragmentation in the Pakistan-Afghanistan region which persists until today.

The foreign powers' support to various warlords is also to a substantial degree what sustained the civil war in Afghanistan, which devastated the country throughout the 1990s. The support extended from Saudi Arabia and Pakistan to Pashtun-dominated groups in Afghanistan, most prominently the Taliban but earlier the Hizb-e-Islami of Gulbuddin Hekmatyar, raised deep suspicions among the Iranians who supported rival Shi'ite groups, such as the Hazaras, as well as the Sunni but culturally Persian Northern Alliance. Since the support for many of the warlords among Afghanistan's neighboring states have been relatively constant throughout the past decades and reflect their ethnic bonds, their support of various factions in the civil war was relatively predictable.

An unintended effect of Iran's ideological missions in the wider region in the 1980s was nevertheless an economy on the verge of collapse after only a decade. Handling the consequences of these would also prove difficult for President Ali Akbar Rafsanjani and the Ayatollah Khomeini's successor, Ayatollah Khamene'i. To promote economic development and prevent the Iranian economy from collapsing, the Iranian clergy grudgingly accepted to abandon the previously embraced import-substitution-industrialization (ISI) strategy in favor of an export-oriented industrialization during the 1990s. Iran also had to

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<sup>202</sup> For a good review of Iran-Pakistan relations and their interaction in Afghanistan, see Shah Alam, "Iran-Pakistan Relations: Political and Strategic Relations," *Strategic Analysis*, 28, 4 (2004).

transition to an economy adaptive to the world's growing energy needs and Tehran's newfound role as a supplier of these. An indication of the poor economic development from the mid 1970s to 2001 is that of an average negative growth rate of -0.6 annually.<sup>203</sup> Afghanistan's economy was in an even worse shape as a consequence of the 1990s' Civil War which, in turn, was an effect of Soviet expansionism in the 1980s.

Pakistan enjoyed a more favorable economic development during the 1980s but suffered from a severe debt burden, corruption, and mismanagement under the civilian governments of Nawaz Sharif and Benazir Bhutto in the 1990s. Economic growth averaged only 1.1 percent annually during this decade. Pakistan was forced to a similar economic restructuring in this time period, although it took until the end of the decade for any substantial reforms to be initiated. The demographic dividends which Iran and Pakistan entered into in the 1990s also failed to generate any major momentum in lifting both countries out of the third world and into the second.

Notwithstanding, both the Iranian and Pakistani political climate improved somewhat during this period. The death of Ayatollah Khomeini in Iran in 1988 and of General Zia Ul-Haque in Pakistan 1989 led to moderation in both countries, while the economic liberalization in Iran, which started in the early 1990s, also was accompanied by a corresponding push for reforms. That this would occur in the aftermath of both General Zia's and Khomeini's military and revolutionary stronghold was not entirely unpredictable in the early 1990s; state survival mandated substantial reforms in the economy and public sector.

The end of the Cold War and the victory of capitalism also put increasing pressure on the self-imposed isolation of Iran. These demands for reform culminated with the election of reformist President Mohammed Khatami in 1997 but was severely set back in the early 2000s when the hard-liners regained momentum. Pakistan, for its part, experienced its best military ruler so far following General Pervez Musharraf's coup in 1999.<sup>204</sup> His persona would also prove to have a decisive impact on events unfolding in the region two years later, in the aftermath of September 11.

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<sup>203</sup> UNDP, *Human Development Report*, 2007.

<sup>204</sup> Three military coups have taken place since 1947. The first of these was conducted by General Ayub Khan in 1958, the second by General Zia-ul-Haq in 1977, and the third by General Musharraf in 1999.

The ouster of the Taliban government in Afghanistan in 2001 redefined the strategic landscape yet again, and opened new vistas for the regional powers, let alone for the Afghan people. In this process, most neighboring countries started to appreciate the importance of Afghanistan's stabilization instead of viewing it solely through the prism of a geopolitical vacuum and zero-sum politics of influence. Another remarkable consequence of 9/11, and one of the most surprising developments in the past decade, was Musharraf's strategic redirection of the Pakistani state; from a state supporting Jihadists and viewing them as an indispensable tool in their foreign policy to a state waging a domestic war on them. Faced with the decision to either continue supporting the Taliban or fight them, Pakistani president Musharraf opted for the second option.

The events which plagued the southwest Asian region throughout the 1980s and 1990s will continue to haunt the leaderships of these countries up until 2018 and beyond. The similarities as regards inter-ethnic tensions, weak state institutions, and Islamic radicalism between the 1980s, 1990s, and 2000s, are striking. Notwithstanding, in the midst of this series of negative events over the past three decades a glimpse of hope has emerged; indeed, the primary defining feature of this region in the coming years may not necessarily be Islamic radicalism or excessively bad governance.

Instead, improved relations between India and Pakistan, Iran and Pakistan, China and India, Iran and Saudi Arabia, and Afghanistan and its neighbors together with an increasing interdependence across southwest Asia and high growth rates have now led to a strategic thinking which is informed more by potential economic gains from cooperation than previously. Increased solidarity among the southwest Asian countries was also displayed when Pakistan literally was struck by a tectonic shift in the 2005 earthquake. Afghanistan donated US\$500,000 in disaster relief, helicopters, and medicines while Iran pledged foodstuffs, blankets, medicines and tents.

Thus whereas the pre-1979 period was characterized by a polarization among the Asian countries along ideological lines, and the post-1979 period by containment of the Soviet Union, the first years of the twenty-first century seem to be characterized more by liberal interdependence. All these surrounding powers, which all also have undergone significant liberalization measures, are starting to connect infrastructure to each other and are building unprecedented trading ties. All states in the region also seem to realize that the key to growth lies in

regional cooperation and trade and transit with neighbors and that the Silk Road legacy is one of the primary drivers in their economies. This stands out as perhaps the most surprising, and indeed positive, development over the past decade.

As noted by Pakistan's President Pervez Musharraf in his memoir, "the 21st century will be driven by geoeconomics more than by geostrategy or geopolitics. Relations between countries are based on economic bonds - interaction in trade, joint ventures and investment".<sup>205</sup> A chief driver of this trend is the growing need for energy in India, Pakistan, and China while the bulk of the world's energy supplies are found in the Caspian Sea region, the Middle East and Russia. This has led to significant complementarity between the Eurasian economies.

Today, Asia consumes much more gulf oil than North America, while Chinese goods and investments flood the region. This has not only led to the development of a "maritime Silk Road" stretching along the Rimland of the southeastern Eurasian continent but also to the initiation of overland strategic corridors between these regions to diversify supply routes away from such chokepoints as the Malacca Straits. China's rapid economic development has also led it to prioritize developing its backward western provinces, which necessitates interaction and access to markets and port facilities in Iran and Pakistan, potentially also via Afghanistan.<sup>206</sup>

If this observation is correct, the southwest Asian region may serve as one of the primary link and transit regions connecting South Asia and the Persian Gulf with East Asia which may fuel development and provide it with its 21<sup>st</sup> century life-blood. This is not to say that it will be the main center of gravity in Eurasian geo-politics, but it is to say that it may give the region potentials unseen throughout the past three decades.<sup>207</sup>

On the other hand, it should also be acknowledged that extrapolating a post-Cold War "perpetual peace" from less than a decade of improved interstate relations would be to ignore the realities and historical record of international

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<sup>205</sup> Pervez Musharraf, *In the Line of Fire*, (London: Simon and Schuster, 2005), p. 308

<sup>206</sup> John Garver, *China and Iran: Ancient Partners in a post-Imperial World* (Seattle: University of Washington Press, 2006).

<sup>207</sup> See S. Frederick Starr, ed., *The New Silk Roads: Trade and Transportation in Greater Central Asia*, Washington: CACI & SRSP Joint Center, 2007.

politics.<sup>208</sup> The remaining deep-rooted distrust between states in the region combined with poor governance contribute to severe economic mismanagement and unfulfilled potentials. Added to this should be the constantly high risk of state fragmentation and inter-ethnic tensions: Pakistan faces a particular challenge given the ongoing strengthening of cross-border ethno-linguistic ties, while Punjabi domination over the country's affairs has created resentments from the other three provinces of the country, even if Musharraf's rule has sought to balance some of the excesses of the past. The 1971 secession of East Pakistan still looms in the Pakistani memory. A similar Balkanization in the southwest Asian region in the 21<sup>st</sup> century is a scenario which, though unlikely, cannot be precluded; history tells that burgeoning trade relations and healthy interstate relations could soon unravel. This said Pakistan has a strong state with both military and civilian institutions which almost certainly will prevent this from happening. Besides, the centrifugal forces are arguably not stronger now than a decade or two ago and the Karachi violence in 1980s as well as the Sindh riots put equal or even greater strains on Pakistan than the current turbulence.

Will this state of relations last until 2018-2028? In retrospect, few would in 1988 have predicted that regional trade relations would boom 20 years later and that the Cold War would end. It would perhaps have been equally difficult to predict the profound consequences of 9/11 and its positive impact on state-to-state relations in southwest Asia and among its neighbors in 1998. The period up until 2018 and beyond will likely demonstrate many similar contingencies and another tectonic shift will inescapably occur within the next two decades.

In what follows, a background and analysis will be given of the key issues that will determine the region's course up until 2018 and from 2018-2028. Scenarios will be given on the basis of both events in the past three decades and with concern to the situation today. The first sections will analyze issues of an economic and social nature; demographic development, economic development, developments in the energy sector, and ethnic relations. This will inform the assessment in the other areas, which also are less predictable, including: domestic political developments, military developments, and the geopolitical

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<sup>208</sup> See for instance John J. Mearsheimer, *The Tragedy of Great Power Politics* (New York, NY: Norton & Company, 2001) for a further elaboration of this argument.

situation. Each section will briefly outline probable, plausible, and possible scenarios for 2018-2028.

## Demographic Outlook

There are few constants and many variables when predicting the southwest Asian region over the next two decades. However, what can be foreseen with a high degree of certainty is the demographic development; this should therefore form the main backdrop in assessing the impact of the other drivers. Indeed, it is difficult to overestimate the extent to which the ballooning populations and their productive use steers southwest Asia's future course. Up until the 1990s, however, demography tended to be viewed more as a tool to realize great-power ambitions, adherence to Islamic values, and as a "power of plenty" than an instrument for sustainable economic development.

As a consequence, a period of extremely high fertility ensued from the end of the 1970s and throughout the 1980s. This laid the foundation for the population explosion that the region is currently experiencing. Estimates point to Pakistan's population topping 229 million by 2025<sup>209</sup> compared to a population of 169 million in 2007. Similarly, Iran's present population of around 67 million is expected to reach 88 million by 2025<sup>210</sup> while the Afghans will number 50.3 million at the first quarter of this century – almost doubling their current population of 30 million. However, while fertility rates in both Iran and Pakistan have decreased significantly (particularly in Iran) there are no indications of a similar trend in Afghanistan.<sup>211</sup> The question of how to feed, create employment, and sustain these bulging populations is still left unanswered.

It should be acknowledged that the southwest Asian countries could, if employment is created, all transform their current demographic burden and rapidly growing populations into assets. Both Iran and Pakistan find themselves

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<sup>209</sup> Sandra Yin, "Pakistan Still Falls Short of Millennium Development Goals for Infant and Maternal Health," Population Reference Bureau webpage: <<http://www.prb.org/Articles/2007/pakistan.aspx?p=1>> (accessed June 5 2008).

<sup>210</sup> Population Reference Bureau, Iran, <<http://www.prb.org/Countries/Iran.aspx>> (accessed on June 5 2008).

<sup>211</sup> The fertility rate is currently estimated at 6.3 per woman while the population growth rate stood at 2.67 percent in 2004. See WHO, *World Health Report 2003*, Health Systems Profile-Afghanistan, Health Status and Demographics, p. 13.

with declining dependency ratios and bulging working age populations which, in theory, could contribute positively to economic growth.<sup>212</sup> This “demographic dividend” is also expected to peak in both Iran and Pakistan around 2010 after which it will gradually decline over the next two decades.<sup>213</sup>

However, even if employment would be created and poverty rates were further reduced, the already institutionally weak states in the region would have a difficult time handling the additional pressure for state services, particularly in Pakistan and Afghanistan. As argued by Parag Khanna the demographic development “over the next twenty years [will be] unmanageable even for the military. Pakistan is becoming more like faltering, splintering Indonesia than Islamist democratic powerhouse Turkey.”<sup>214</sup> Thus one cannot exclude a scenario in which the state apparatus breaks down under the weight of the demographic colossus. Fracturing state institutions together with unemployment should therefore be conceived as the branching points which could generate a potential crisis. Any realistic scenarios on the impact of the demographic factor must therefore range from positive to grimly negative.

The most likely scenario up until 2018 is one in which economic growth is sustained, by energy incomes in Iran and the current upward economic trend in Pakistan, but where both governments fiercely struggle to keep up with employment creation. The following decade, up to 2028, is more uncertain since it will depend on the policies pursued in the preceding decade and how good both governments are in utilizing existing opportunities, reforming their labor

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<sup>212</sup> Durr-eNayab, “Demographic Dividend or Demographic Threat in Pakistan,” *PIDE Working papers 2006:10*, Pakistan Institute of Development Economics; Janet Larsen, “Iran's Birth Rate Plummeting at Record Pace: Success Provides a Model for Other Developing Countries,” Earth Policy Institute, website December 28 2001, <<http://www.earth-policy.org/Updates/Update4ss.htm>> (accessed on June 14 2008).

<sup>213</sup> Pakistan's demographic dividend started in the 1990s and peaked around 2005-2010. After 2010, it will gradually decline but remain high throughout the period 2018-2018 and up until 2045 when this generation exits working life. Iran is also undergoing a demographic dividend with rapid labor force growth since the 1990s which is predicted to last up until 2010. As a consequence of the 1980s baby boom, Iran has today one of the world's youngest populations with 50 per cent being below 25 years of age, see eNayab, “Demographic Dividend or Demographic Threat in Pakistan,”; Larsen, “Iran's Birth Rate Plummeting at Record Pace: Success Provides a Model for Other Developing Countries”.

<sup>214</sup> Parag Khanna, *The Second World* (New York: Random House, 2008), p. 114.

markets and economies, and making investments in human capital. The record on these investments in both countries is, however, mixed.<sup>215</sup>

The most optimistic scenario for Pakistan in the period 2018-2028 is one where economic growth rates are sustained, poverty rates further reduced, while the large human capital deficits remain. The demographic dividend may contribute to economic growth but it will fall below potential which, in turn, will have consequences for the period beyond 2028 as savings remain insufficient.

Iran, on the other hand, is in a more advantageous position due to a prioritization of the education and health sectors. If substantial political change comes in Iran during the next one or two decades, Western investments will pour into the economy and generate employment and growth. It is likely that much of the Iranian diaspora, which tends to be the well-educated strata, also will return once the current Iranian theocratic leadership is forced to step down. That said, Iran is currently moving in the opposite direction after the 2008 parliamentary election where the hard-liners and conservatives captured a majority of the seats. Ahmadinejad's ambitions to return Iran to "the days of the revolution" are equally troubling.

Indeed, Ahmadinejad recently stated that he had an ambition to reverse his country's fertility decline, claiming that Iran has the capacity "to handle 50 million more citizens".<sup>216</sup> Whether this is part of his ambitions to revive Khomeini's great-power ambitions and dreams of a "20 million army" or only populist rhetoric is difficult to know. It is clear, however, that demography may

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<sup>215</sup> The education budget in Pakistan remains low in spite of that half of the population remains illiterate. Iran has fared comparatively better than Pakistan and made education a priority. For example, from 1970 to 2000 school enrollment grew from 60 to 90 percent whereas female literacy rose from less than 25 percent in 1970 during the rule of the Shah to more than 70 percent in 2000. The male literacy rate grew from 48 percent to 84 percent during the same years. In Afghanistan, education has suffered from the wars that have plagued the country throughout the 1980s and 1990s and illiteracy among Afghans is expected to be as high as 49 percent for males and 79 percent for females (based on data from 2002), see: Janet Larsen, "Iran's Birth Rate Plummeting at Record Pace: Success Provides a Model for Other Developing Countries," Earth Policy Institute, website December 28 2001, <<http://www.earth-policy.org/Updates/Update4ss.htm>> In Iran, the average years of education have almost doubled for the generation born in the 1980s compared to those born 25 years earlier, see: Djavad Salehi-Isfahani and Daniel Egel, "Youth Exclusion in Iran: The State of Education, Employment and Family Formation," The Middle East Youth Initiative, Working paper, Wolfenshon Center for Development, Brookings (September 2007), p. 18.

<sup>216</sup> "Iranians Urged to Have More Kids," *Reuters*, October 22, 2006.

factor into Iran's ambition to dominate the region if political change does not occur in Iran.

Looking back on the region in the 1980s and 1990s, it is evident that massive youth bulges combined with high poverty rates increase the risk of being susceptible to indoctrination, alienation, and radicalism. Added to the demographic problem should also be the millions of Afghans that have taken refuge along the borders with Iran and Pakistan as conflict has devastated that country.<sup>217</sup> The narcotics trafficking stemming from the Afghan poppy fields has aggravated these problems, particularly among the refugee communities.<sup>218</sup> Adding southwest Asia's violent history to this, it should be clear that this is a dangerous development. The crises and lawlessness in both Pakistan and Afghanistan will likely worsen in pace with population growth while social tensions will increase correspondingly.

In conclusion, the demographic backdrop suggests that the southwest Asian states will face increasing pressure on state institutions in the period up until 2018 but that a low dependency ratio and upward economic trends will contribute to growth. The stakes will nevertheless be continually raised in the following decade when the dependency ratio increases. Buoyant economic growth, education, family planning, and improved income distribution are the only ways to meet these demands. The belated response from Tehran and Islamabad to this makes their policies in the coming decade all the more decisive.

#### *Scenarios 2018-2028*

**Probable:** The prospected population growth continues according to the abovementioned estimates in all three states. Investment in human capital increases slightly in Pakistan and remains high in Iran but fails to match labor

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<sup>217</sup> More than 4.8 million Afghans have returned to their home country since March 2002, many of which previously were hosted by Iran and Pakistan, but around 2.46 million Afghans still remain in Pakistan while 900,000 remain in Iran. Rhoda Margesson, "Afghan Refugees: Current Status and Future Prospects. CRS Report for Congress, January 26, 2007, p. 2.

<sup>218</sup> Around 86 percent of the world's heroin supply originates in Afghanistan; as much as 61 percent of these supplies are estimated to transit on the southwestern route via Iran while 20 percent are smuggled through Pakistan. Some estimates even put the number of heroin addicts in Iran and Pakistan to 3 million in each state. Communication with consultants for UNODC, Spring 2007.

market demands which, in turn, generate unemployment or inefficient allocation of labor. Both Pakistan and Iran fail to turn their demographic dividends into a corresponding level of economic growth which will reduce the level of savings. This in combination with weak state institutions will generate an economic crisis once this generation enters the dependency age around 2030-2045.

**Plausible:** Growing populations combined with a failure to develop rural areas and human capital contribute to widespread grievances and fragmentation. Refugee flows and brain drain continue to hamper the potentials of stability and stable growth rates. A deterioration of the situation in Afghanistan and failure to decrease poppy cultivation continues to undermine development efforts and leads to further disillusionment among the region's young population.

**Possible:** Continual GDP growth leads to a return of diaspora, investments in rural areas, and land-reforms. The regional governments become more successful in employment generation and are able to utilize their demographic dividends.

#### *Key Issues to Watch*

Investment in human capital; refugee flows; changes in fertility rates; rural-urban divide

### **Economic Development**

In an ideal world, Iran and Pakistan would follow the Southeast Asian miracle and tackle the demographic burden through export-driven growth, education, while simultaneously decreasing income disparities (for example through such measures as land reform). This was the recipe followed by the four Asian Tigers in their rapid industrialization from the 1960s to the 1990s. Yet Pakistan's feudal society, neglect of education and Iran's statist political economy have prevented a similar development.

The impetus of booming cross-continental trade has, however, made both Islamabad and Tehran aware of the opportunity costs in having an inhospitable investment climate and high tariffs. Growing trade volumes and FDI flows across southwest Asia have acted as one of the primary drivers of structural

reforms while those forces advocating integration into the global economy have been strengthened.<sup>219</sup>

The Pakistani government introduced a number of structural reform measures in the end of the 1990s and the 2000s under President Musharraf. As a result, Pakistan has seen growth rates hovering above 6 percent during 2004-2006, a significant increase compared to the annual 2 percent increase during the 1990s.<sup>220</sup> Unemployment has also been kept at a manageable level, around 6-8 percent from 2003-2007, although the interest on Pakistan's huge debt devour as much as 40 percent of the annual state budget. On the other hand, poverty rates were substantially lowered by 10,5 percentage points from 2001-2005 although income disparities widened.<sup>221</sup>

Similarly, Iran experienced low growth rates averaging only 2 percent annually during the 1990-2001 period, although these started picking up pace in the 2000s, reaching 7 percent in 2003 and around 4-5 percent 2004-2007. The Iranian government has however not been nearly as successful in generating

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<sup>219</sup> For example, trade between archenemies India and Pakistan is increasing steadily and bilateral trade has increased from \$161 million in 2001 to over \$1 billion in 2006. China's trade with Pakistan is showing similar dynamics with bilateral trade standing at \$4.26 billion in 2005 and \$5.26 billion in 2006. The volume of China-Iran trade increased from \$700 million in 1993, \$9.2 billion in 2005, to top \$20 billion in 2007 – making China the largest trading partner of Iran while India-Iran trade stood at \$1.6 billion in 2005. Likewise, the bilateral trade volume between China and India grew from \$200 million in the early 1990s to almost \$20 billion in 2005, to top \$37 billion in 2007. Pakistani exports to Afghanistan have grown from around \$25 million during the Taliban era to reach \$1.2 billion today. See: "Sino-Iran 2007 trade volume exceeds US\$20 bln," *China BusinessNews*, January 31 2008; K. Alan Kronstadt and Kenneth Katzman, "India-Iran Relations and U.S. Interests," CRS Report for Congress, August 2 2006; Marvin G. Weinbaum, "Afghanistan and Its Neighbors: An Ever Dangerous Neighborhood," United States Institute of Peace, June 2006 Special Report No. 162, p. 14; These expanding ties are also reflected in Foreign Direct Investments (FDI). For example, FDI in Pakistan reached a record high of \$4.5 billion in the first ten months of fiscal year 2006-2007, up \$1 billion from the previous year. In 2000, in comparison, FDI reached a modest \$463 million. Likewise, and in spite of sanctions, FDI in Iran reached \$7 billion for the first 10 months of 2006 and \$10.7 billion in 2007 while the level of FDI in Afghanistan remains uncertain. See: "Foreign Direct Investment in Pakistan set to cross \$5 billion," *Gulfnews*, May 17 2007; "The Foreign Direct Investment hits \$7 billion in Iran," *Iranmania*, October 18 2006; UNCTAD, World Investment Report 2007, <[http://www.unctad.org/sections/dite\\_dir/docs/wiro7\\_fs\\_af\\_en.pdf](http://www.unctad.org/sections/dite_dir/docs/wiro7_fs_af_en.pdf)> (accessed on June 14 2008).

<sup>220</sup> ADB, *Asia Development Outlook*, 2008, Pakistan chapter.

<sup>221</sup> *Ibid.*

employment despite having invested significantly in education and human capital.<sup>222</sup> On the positive side, Iran has a low external debt of around 7 percent of GDP at the same time as structural reform already has been initiated. Post-revolutionary Iran also has managed to lower poverty rates: from 40 percent before the revolution to 20 percent today.

However, that Iran has fared comparatively better than Pakistan in the post-Cold War period should not primarily account to the leadership; it is rather Iran's hydrocarbon reserves that have sustained the Iranian state budget for much of the 20<sup>th</sup> and 21<sup>st</sup> century. For example, rising oil prices during the present decade provided President Ahmadinejad's government with oil incomes exceeding US\$120 billion for budget years 2005-2006.<sup>223</sup> Still, Tehran barely breaks even, due to the large state expenditures on subsidies and inefficient state-owned companies. Hypothetically, falling oil prices in the next decade combined with growing domestic energy consumption (which reduces exports) could result in a major budget deficit bordering on economic collapse.

Taken together, Pakistan and Iran share many of the structural problems which impede the full of potential of their economies. Yet whereas Iran has used oil incomes to temporarily fill these deficits Pakistan has ended up in a vicious debt cycle. Although both Iran and Pakistan have managed to address growing wealth gaps, their results differ as regards employment creation and investment in human capital. Paradoxically, Iran has a highly skilled and educated workforce which remains underutilized due to waning foreign investments in non-hydrocarbon sectors. Pakistan, in contrast, is enjoying a high degree of foreign investments but has failed to develop the human capital necessary to take full advantage of it.<sup>224</sup> How will this play out over the next decades? And what are the main determinants for positive economic development?

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<sup>222</sup> In 2004, for instance, unemployment for males in the age group 20-24 stood at 22.2 percent while the equivalent figure for females amounted to 42.5 percent. Salehi-Isfahani and Egel, "Youth Exclusion in Iran: The State of Education, Employment and Family Formation," p. 24.

<sup>223</sup> See: "Squandered oil bonanza may bring down Iranian President," *The Times*, January 15 2008.

<sup>224</sup> Afghanistan has many more preconditions attached to economic development compared to Iran and Pakistan, most of which are beyond the scope of this report. Suffice to say, the security situation, the narcotics trade, poor infrastructure, and lack of human capital, all represent major obstacles to growth. Any forecast on Afghanistan's economic development is bound to remain tentative and will be dependent on Afghanistan's

Pakistan will likely remain an attractive market for investments in the next few years if the new civilian government is able to sustain the positive economic reforms initiated by Musharraf. The period up until 2018 is also likely to be characterized by maintenance of these reforms since many of the highest hurdles have already been surmounted. That said, despite the sound macro-economic policies of Pakistan, its future economic development will be dependent upon a number of complementary reforms and actions which, in turn, will determine the development up to 2018. These include primarily land reform, employment creation, and further investments into the Pakistani education sector – but also improved income distribution, particularly between Pakistan’s various ethnic groups. Countering social tensions through these actions will be the branching point preventing a so-called “ Hamas effect ” whereby radical Islamist groups take over the distribution of social services. Indeed, this is already happening in Pakistan’s thousands of privately funded Madrasahs.

Iran’s economic development in the next one or two decades, in turn, will depend much on whether it has managed the transition from ISI to export-led growth and been able to diversify its economy. The heavy dependence on oil incomes is unsustainable and shifting to industrialization and development of non-hydrocarbon sectors will require additional foreign investments which only will come with political change. The World Bank, for instance, concludes that Iran has all preconditions necessary to convert from a state-owned and oil-dependent economy to “ a modern developed economy—in little more than a generation ” if the reform process does not backtrack.<sup>225</sup> In a shorter timeframe, and to realize this, the most important issue to watch will be the relationship between unemployment, economic subsidies, and the ratio of energy production/consumption. This is also closely intertwined with political reforms.

When comparing the Khatami presidency 1997-2005 and Ahmadinejad’s incumbent administration, it stands clear that economic liberalization and

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stabilization which, in turn, to a large degree is dependent on the commitment displayed from the “ international community. ” Afghanistan has experienced high growth rates in the post-Taliban era. In 2004, they reached an astounding 29 percent although they have been significantly lowered since then to 7.5 percent in 2005 and 8 percent in 2006 and 2007, see: Central Intelligence Agency, *World Fact Book 2008* (Washington: CIA, 2008).

<sup>225</sup> World Bank, *Iran- Medium Term Framework for Transition, Converting Oil Wealth to Development: Economic Memorandum*, 2003, p. 28.

domestic political liberalization tend to go hand in hand. Whereas Khatami implemented a number of painful structural reforms (e.g. an oil stabilization fund, increase of non-hydrocarbon GDP, investment security laws), Ahmadinejad has undermined most of these by irresponsible fiscal/monetary policies and populist spending. Hence, the results of the 2009 presidential elections will be of major importance in determining Iran's future course.

If economic growth, structural reform, and export-industrialization can be achieved, economic development may act as the trigger for improvements in other sectors during the next two decades. Notwithstanding, they are far from a guarantee that the region will not spiral down in violence. The buoyant economic growth and economic prosperity preceding World War I, for instance, did not dissuade the European powers from invading each other. The stakes for conflict have been raised but irresponsible political leadership could easily reverse this.

#### *Scenarios 2018-2028*

**Probable:** The booming trade relations among the countries in East Asia, southwest Asia, and the Middle East will likely continue into this period. Both Pakistan and Iran will further their efforts to achieve structural reform and trade liberalization although with a continued high state intervention in their economies. Improved income-distribution, rural development, and political instability will continue to be the foremost challenges to regional development. China will face increasing competition in Iran's energy sector once serious political reforms are initiated in Iran, while Pakistan will continue to seek whatever partner in the international community that could help it address its many challenges. Economic issues will increase its salience in Pakistani strategic thinking while other more symbolic strategic issues, such as the status of Kashmir, will decrease. The Afghan economy will continue to be dependent on foreign aid but the government will gradually diminish the gap between aid and state accumulated revenues.

**Plausible:** The reform process in Iran stalls and the theocratic system reproduces itself into 2018-2028 which, in turn, will lead to a continuation of economic isolation and economic mismanagement. Falling oil prices combined with rising domestic consumption of energy and decreased energy export incomes leads to a severe economic crisis. Continued political turbulence in Pakistan deters

investors and leads to capital flight while unemployment levels increase among Pakistan's rapidly growing population.

**Possible:** Failure of the regional governments to produce a climate conducive to foreign trade and transport leads to continued income inequalities and underdevelopment in rural areas. Structural reform efforts stall while viable market economies fail to develop.

#### *Key Issues to Watch*

Implementation of structural reforms; unemployment rates; development of private sector; development of bilateral trade and investments.

### **Energy Production and Transit**

It should be inferred from the discussion above that demography and economic development are inextricably intertwined. An intervening variable and common denominator of both is nonetheless that of energy. Booming populations and rapidly expanding economies have led to a corresponding increase in energy demand which, in turn, needs to be met if growth and employment creation are to be sustained. Since none of the southwest Asian countries are self-sufficient in all sectors of energy consumption there is a need for regional energy integration.

However, the cross-regional energy integration that can be discerned in the rest of the world does not apply to southwest Asia. This is mainly due to regional conflicts, most notably between India and Pakistan and the turbulence in Afghanistan, which have acted as barriers to energy cooperation across these regional divides. Tense ethnic relations along the border areas have also obstructed the construction of cross-border pipelines while many undeveloped fields also are located in conflict-ridden regions, including the Persian Gulf, Caspian Sea, Baluchistan, and oil-rich Iranian Khuzestan bordering Iraq.

Consequently, cooperation in the energy sector, both between South Asia and Iran, on the one hand, and South Asia and Central Asia, on the other, has been low despite the potentials involved.

This policy is unsustainable in the coming decades. For example, Pakistan's drive to substitute fuel oil for natural gas will lead to a six-fold increase in

natural gas demand up until 2018.<sup>226</sup> Integration is therefore expected during the next decade as the stakes for a continued paralysis are raised. This pertains particularly to the emerging industry of tanker-borne Liquefied Natural Gas (LNG) but onshore and offshore pipelines from Iran and the Persian Gulf are also viable options in bringing energy supplies both to India, and Pakistan. Moreover, Central Asian energy supplies, especially Turkmen gas, could help relieve the deficits in South Asia.

To relieve energy shortages, Pakistan has pushed for the construction of a Turkmenistan-Afghanistan-Pakistan-India pipeline or an Iran-Pakistan-India pipeline but both of these, and especially the former, are considered risky due to regional tensions and the volatile security situation in territories which both pipelines must traverse, as well as challenging engineering obstacles in both cases.<sup>227</sup> More spectacular under current circumstances is the interest of China and Iran to construct a pipeline across Afghanistan to avoid shipping through the vulnerable Straits of Hormuz and Malacca Straits.<sup>228</sup>

The southwest Asian region has also unused potential in acting as a transit hub for interregional energy flows between the Middle East and developing Asia. By 2030, the Middle East will account for over 40 percent of global oil supply and be the largest exporter of natural gas. Since the southwest Asian region is located in between the regions in which production and consumption, respectively, will grow most, much of this trade may center on the southwest Asian region.<sup>229</sup> With the second largest proven natural gas reserves in the world, Iran is also bound to be a key player in this emerging landscape while Turkmenistan's gas riches also are attractive for South Asia.

In the best case scenario, energy integration, increased energy efficiency, and abolishment of subsidies would occur. This would be accompanied with political

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<sup>226</sup> Natural gas demand will increase from 775 million cubic meter per day (mmcmd) to 4785 mmcmd from 2008-2018. In 2020, natural gas demand is expected to reach almost 5947 mmcmd, S. G. Pandian, "Energy Trade as a Confidence-building Measure between India and Pakistan: A Study of the Indo-Iran trans-Pakistan pipeline project," *Contemporary South Asia*, vol. 14, no. 3 (September 2005), p. 315.

<sup>227</sup> The discussion of a trans-Afghanistan pipeline has been circulating since the mid 1990s but both the Taliban and post-Taliban era have been marked by turbulence which have rendered it unfeasible. The uncertainty regarding the exact size of Turkmenistan's gas reserves have also acted as an impediment to construction.

<sup>228</sup> See, Khanna, *The Second World*, p. 230.

<sup>229</sup> International Energy Agency, *World Energy Outlook*, 2004, p. 279.

development and peaceful interstate relations. In the worst case scenario, conflicts erupt in the Persian Gulf which could trigger its own chain reaction – including a potential use of the Iranian oil-weapon.

Five factors are of particular importance in determining whether cross-border energy integration takes place: Iran's gas production; Turkmenistan's new strategic direction; the stabilization of Afghanistan; whether the Iran-Pakistan-Pipeline or Turkmenistan-Afghanistan-Pakistan-India pipeline is built; and separatism.

*Key factors determining Southwest Asia's potential as production/transit region 2018-2028*

Iran's gas production: The IEA's projection that the Middle East will supply 42 percent of global gas demand by 2030<sup>230</sup> depends much on whether Iran is able to free up gas for export, which, in turn, will be dependent on political developments, technological progress, and foreign investments. The International Energy Agency estimates that US\$165 billion of investments up to 2030 will be required to meet Iran's set production goals. Raising such money will require not only Asian but also western investments which are unlikely to be forthcoming unless political change occurs in Iran. The IEA's forecast may also seem optimistic considering that Iran, the lynchpin supplier, has a deficit of production and a high domestic consumption.<sup>231</sup> These will also worsen in pace with its rapid population growth. Some estimates even point to Iran's incomes on energy exports dropping to zero by 2015 due to these factors.<sup>232</sup> Flaring of natural gas combined with inefficient use and development also entails that Iran, having the world's second largest natural gas deposits, today is a net natural gas importer.

Turkmenistan's gas deposits and foreign policy: The former Turkmen President Niyazov presented a main stumbling block to foreign investments into Turkmenistan's gas sector. Following his death in 2006 and the appointment of

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<sup>230</sup> Middle Eastern gas production is expected to increase from around 14 percent of the world's total production in 2002 to around 42 percent in 2030, International Energy Agency, *World Energy Outlook*, 2004.

<sup>231</sup> "Tehran's Oil Dysfunction," Council on Foreign Relations, CFR Backgrounder <[http://www.cfr.org/publication/12625/tehrans\\_oil\\_disfunction.html](http://www.cfr.org/publication/12625/tehrans_oil_disfunction.html)>, (accessed on March 2 2007).

<sup>232</sup> Ibid.

his successor Gurbanguly Berdimukhammedov (which so far has demonstrated a will to transform Turkmenistan into a more “normal authoritarian state”)<sup>233</sup> the situation nevertheless looks brighter. Berdimukhammedov has also demonstrated a willingness to open up Turkmenistan’s gas industry to other actors than Russia. If the security situation in Afghanistan stabilizes and the reserves are not too far off the Turkmen government’s estimates, this may imply gas exports to South Asia in the 2020s. However, the parts of the Dauletabad field from which such exports would originate are not expected to be completed until 2018, which also makes it “a project for the future”.<sup>234</sup>

Stabilization of Afghanistan: That Afghanistan will stabilize is a big assumption but if it does, it will undoubtedly play a key role in the regional energy trade in the medium term and beyond 2018, both in terms of production, transit, and consumption. Afghanistan has an undeveloped hydropower potential which in the longer term could be exported to both Iran and Pakistan while Afghanistan also may act as a pivotal country in the regional natural gas transit trade.<sup>235</sup> Afghanistan also has substantial electricity import needs while energy security and expansion of the electricity grid is a vital part of reconstruction efforts and to provide a climate conducive to entrepreneurial activity.<sup>236</sup> Energy access is also the life-line for Afghanistan’s population which is set to double in the coming decades.

The Iran-Pakistan-India pipeline or Turkmenistan-Afghanistan-Pakistan-India pipeline? Both the prospective IPI and the TAPI pipeline are uncertain, but the near-term prospects are higher for the one routed from Iran. Although U.S. opposition and price disputes have delayed the IPI pipeline, it is nevertheless more likely that it will be in place by 2018. This is mainly because India seems

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<sup>233</sup> Svante E. Cornell, "Finding Balance: The Foreign Policies of Central Asia's States", in Ashley Tellis and Michael Wills, eds., *Strategic Asia 2007-08: Domestic Political Change and Grand Strategy* (Seattle: National Bureau of Asian Research, 2007).

<sup>234</sup> Stephen Blank, "Turkmenistan negotiates gas pipeline to India," *Eurasia Daily Monitor*, May 1 2008.

<sup>235</sup> Such a pipeline would also contribute invaluable funds to domestic capital accumulation for the Afghan government which, in turn, will strengthen its potential to govern the country. It has been estimated that transit revenues of around \$300 million annually will accrue the Afghan government if a trans-Afghanistan pipeline is built, see Nicklas Norling and Niklas Swanström, "The Virtues and Potential Gains of Continental Trade in Eurasia," *Asian Survey* (May-June 2007).

<sup>236</sup> William Byrd and Martin Raiser, "Economic Cooperation in the Wider Central Asia Region," *World Bank Working Paper No. 75*, 2006, pp. 23-24.

intent on continuing negotiations on the pipeline in spite of U.S. protests while the domestic situation in Iran likely will have improved in the next 5-10 years. The turbulence in Afghanistan combined with the slow development of the Dauletabad field also cast doubt on the pipeline routed from Turkmenistan. Should the U.S.-promoted pipeline from Turkmenistan be built and the American pressures on India to discontinue negotiations on IPI succeed, this is nonetheless certain to unleash a Russo-Iranian counter-reaction. Not only would such a development remove a vital export market for Iran but also critical Turkmen supplies for Russia's domestic consumption and re-export to Europe, for which Russia is increasingly dependent on Central Asian supplies. In view of the fact that Russia and Iran combined control 42 percent of the world's gas reserves, it would act as a further stimulant to cartel-like behavior. (A surplus cost which in the end would be borne by European consumers due to the EU's overreliance on Russian gas).

Separatism: The targeting of energy installations by separatist and terrorist groups may be a development with important economic and strategic implications. For instance, Baluchi separatists have targeted Pakistan's Gwadar port and energy infrastructure in this province to such an extent that some analysts have questioned whether the Chinese will continue using it.<sup>237</sup> In 2005, there were 187 bomb blasts, 275 rocket attacks, 36 attacks on electricity-transmission lines, eight attacks on gas pipelines, and 19 explosions on railway lines in Baluchistan killing at least 182 civilians and 26 security personnel.<sup>238</sup> The secession of Baluchistan or escalated civil war there, albeit unlikely during the next decade, would remove not only a vital source of Pakistan's energy reserves but also jeopardize China's use of Pakistan as an energy and trade corridor. Similar separatist movements exist in Iran's oil-rich Khuzestan region and the Kurdish-populated regions.

#### *Scenarios 2018-2028*

**Probable:** Cross-regional energy integration of the southwest Asian region occurs, at least in the electricity and hydropower sector. The Iran-Pakistan-India gas pipeline is built by 2018 but Iran faces considerable difficulties in sustaining a rapidly growing domestic consumption which will lead to frequent

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<sup>237</sup> Elizabeth Mills, "Pakistan's Port in Troubled Waters," *Asia Times*, August 9 2006.

<sup>238</sup> *Ibid.*

supply disruptions (similar to those occurring between Iran and Turkey today). This problem will exacerbate with a rapidly growing population and the current trend of colder winters. Turkmenistan is found to hold substantial gas reserves, with growing competition for the transportation of the newly developed gas fields' yield between China and Russia, Europe and South Asia being unable to seriously compete for it.

**Plausible:** Iran fails to raise the investments necessary to meet its production set goals while Turkmenistan's gas reserves are significantly smaller than declared by Ashgabat. A predicted decline in Russian gas production leads to a deficit in global gas production. An increasingly authoritarian Russia and unreformed Iran form a gas cartel to increase their leverage.

**Possible:** Severe instability and/or military confrontation in the Persian Gulf lead regional actors to consider overland pipelines to a higher price and threshold than earlier, possibly across Afghanistan.

#### *Key Issues to Watch*

Relations in the Persian Gulf; developments in Iraq; Iran's gas production; the stability in various parts of Afghanistan; the Russia-Iran proposed gas cartel; technological developments in extraction, the LNG, and pipeline sectors.

#### **Ethnic Relations**

The one factor which could most drastically shift the tectonics of southwest Asia in the next two decades is state fragmentation. Both centrifugal and centripetal forces are exerted at the national and regional levels to splinter particularly Pakistan and Afghanistan, with similar tendencies in Iran gathering strength. However, in difference to Iran whose borders have remained close to intact since the 16-17<sup>th</sup> century, Pakistan already lost half of its territory with the 1972 secession of East Pakistan (now Bangladesh) while Punjabi domination over the minority populations in Sindh, Baluchistan, and the Northwest Frontier Province has been a violent source of grievances. Similar tensions exist in Afghanistan between the dominant southern Pashtuns and the non-Pashtun ethnic minorities.

Rapid population growth, poor economic development, and inequitable distribution of energy revenues have all contributed to such discontent. In addition, rural development has lagged far behind, particularly in Afghanistan

and Pakistan, while refugee flows have further destabilized Afghanistan's borders with Iran and Pakistan. Attempts to modernize the tribal areas have also been fiercely resisted. Extension of electricity grids, for instance, is seen more as a vehicle for foreign domination than preconditions for entrepreneurial activity.

Less unrest has been seen among Iran's minority populations, but the trend has been toward growing unease among Iran's non-Persian populations (which constitute roughly half its population) with what it increasingly perceived as Persian rule. Separatist movements exist, and have been growing in public support, among the Arabs in the oil-rich Khuzestan region in the Southwestern areas bordering Iraq; an ethnic Baluch and Sunni resistance movement in Sistan-Baluchistan; among the Kurds; as well as among the substantial ethnic Azerbaijani Turkish population in the northwest. The latter group, due to its sheer size, has the most significant potential to affect Iran's future, even though it has traditionally been well-integrated. Whereas the internal ethnic tensions in Iran appear to pale in comparison to the grievances expressed in Afghanistan and Pakistan, the trend in Iran has been the opposite of that in Pakistan – toward growing ethnic discord. While none of the ethnic groups in Iran (with the possible exception of the Kurds) have demonstrated widespread support for secessionist ideas voiced by fringe nationalist movements,<sup>239</sup> the main risk for Iran is that its politics following an eventual collapse of the theocratic regime would degenerate along ethnic lines. While not a likely prospect, it is definitely possible.

Regionally, trans-border ethnicities also pose problems in preserving national unity. The Baluchis, for instance, are split between Pakistan, Iran and Afghanistan, while the Pashtuns are divided between Pakistan and Afghanistan. The Tajiks, in turn, populate a Persian-speaking belt stretching from Tajikistan in Central Asia through northern and central Afghanistan into Iran. These cross-border ties have led to a constant blame-game among the regional governments where Iran accuses Pakistan of fomenting unrest in Iranian Sistan-Baluchistan and vice versa in Pakistani Baluchistan.<sup>240</sup> These accusations have moderated in pace with improving bilateral relations, but still exist.

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<sup>239</sup> John R. Bradley, "Iran's Ethnic Tinderbox," *Washington Quarterly*, Vol. 30, No. 1 (Winter 2006/2007), p. 188.

<sup>240</sup> Weinbaum, "Afghanistan and Its Neighbors". p. 6.

On a wider regional level, all of the neighboring states have an interest in influencing which ethno-religious groups wield political power in this region. Saudi Arabia, for instance, actively promotes Wahhabism in Pakistan and has funded Madrasahs for this purpose as well as supporting militant Sunni groups. Turkey's primary interest lies with the Turkic-speaking populations of the region, while Iran has supported the cause of the Shi'ites and Persian (Dari)-speaking parts of the population in Afghanistan, as well as supported radical Shi'a groups in Pakistan. Southwest Asia's microcosm of Arabs, Turks, Persians, and Indo-Aryans, thus partly explains why these three states have suffered from external intervention into their domestic affairs.<sup>241</sup>

Will Pakistan and Afghanistan withstand all these pressures? On the one hand, one could argue that since almost all functioning nation-states of today have undergone a process of deportation, ethnic cleansing, minority discrimination, or other methods to homogenize the state, the dangers involved for the region's states are not to be underestimated.<sup>242</sup> The European experience is most illuminating on the often violent process of nation-state formation.

Certainly, the weakest state of the region, Afghanistan, is likely to remain weak and find the road to consolidating statehood long and arduous. Ethnic strife, warlordism, an inexistent central control, and poor economic development all speak in favor of continued governance problems. In addition, none of the largest ethnic groups (the Pashtuns, Uzbeks, Hazaras, and Turkmen) constitute a majority population able to exert control over the entire country while power-sharing has proved immensely difficult.

On the other hand, the deterministic nature of the "balkanization" argument – saying basically that all multi-ethnic states will dissolve – is problematic. Afghanistan has against all odds survived and seen its state borders intact since 1747. If Afghanistan survived the past 30 years without even a strong domestic movement arguing for the dissolution of the state; if the only successful secession in this region was the very specific example of Bangladesh; then we see absolutely no reason why the assumption should be that Afghanistan and Pakistan would be destined to failure. Moreover, rather than acting as a spoiler to state-building efforts in Afghanistan, the neighboring powers (together with

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<sup>241</sup> *Ibid.*

<sup>242</sup> For this argument, see Jerry Muller, "Us and them: the enduring power of ethnic nationalism," *Foreign Affairs*, (March-April, 2008).

the international coalition) today act more as the glue keeping the country together than wedges splitting it apart. Even if the bilateral relations between Afghanistan and Pakistan remain tense, none would like to see a disintegration which unavoidably would spill over into their own territory. Not to mention the heightened prospects of an independent Pashtunistan under Taliban rule that would result from such a turn of events.

As for Pakistan, warnings of its imminent demise as a state are repeatedly voiced, but have never come true. The secession of East Pakistan in 1971 was a very specific event, given the demographic and geographic realities of the situation. And although Sindhi, Baluchi, and Pashtun sub-nationalism has been a reality, none has seriously threatened Pakistan's existence as a state. Pakistan, specifically, has had ethnic issues that with the exception of the Bengali challenge have all been manageable. If the weak Pakistani state in the 1960s, 1970s, and 1980s, survived the separatist ambitions of the MQM, Sindhis, Baluchis, whose appetite had been wetted, the present day Pakistan with a much less ostentatious Punjabi domination has good chances of surviving and even gradually strengthening as a state. If anything, the Pakistani state has shown its ability to withstand separatist tendencies and sub-nationalism, and this force appears to have been contained by the state, and likely to remain so under all but the darkest scenarios.

Finally, the coinciding developments of threats of intra-state nature combined with increasing economic interdependence will likely lead to a more cautious approach in using ethnicity to undermine neighboring states in the next two decades. However, to compensate for this loss of state-backing it is likely that some ethnic/separatist groups join forces with extremist Islamist groups whose primary aims are more religious than territorial (or a mixture of both). Iranian Kurdish and Pakistani/Iranian Sunni Baluch nationalists, for instance, will likely align their strategies with those of Al Qaeda (and associated groups) in a similar way as Al Qaeda and the Taliban nurture on each other.

#### *Scenarios 2018-2028*

**Probable:** Separatist groups will continue to target the means by which the state seeks to unify countries. This relate primarily to attacks on infrastructure, workers, and foreign companies presence. The merger of the causes of extremist groups, foreign fighters, and local minority grievances could contribute to a stepped-up activity. Geo-economics will alter the calculus of regional powers

and moderate their ethnic/ideological affinities. State unity will be maintained in Pakistan whereas Afghanistan will improve central control slightly although remaining on the verge of ineffective statehood, especially with regards to the Pashtun community's attempts to control Afghan politics. Extremist groups will feed off the demographic bubble facing the region while the inadequate services provided by the state will increase the appeal of radical groups providing these. The rift between moderate Islam (and/or reformists) and radical political Islam will grow. The fluidity of the problem increases as smaller (yet more radical) groups are targeted by states. Connections among the non-Arab and Arab Muslim world grows.

**Plausible:** Pakistan will face a challenge in maintaining national unity in context of a growing population and increasing demand on the state for social services. Baluchi nationalism presents the most severe threat to the integrity of the state while regional actors, including India and Iran, will appreciate the importance with Pakistan's stability.

**Possible:** Balkanization of the region in which both Pakistan and Afghanistan disintegrates while neighboring regional powers scramble for territory.

### *Key Issues to Watch*

Political developments in Afghanistan and Pakistan; attacks on infrastructure; rural development; integration of minorities in political decision-making; inter-relations among separatist groups and international Jihadists.

## **Domestic Political Developments**

The domestic political development in the southwest Asian region is the most difficult to predict among the sectors reviewed herein. The potential outcomes also display a high level of variance and are largely dependent on whether modernist or Islamic orthodox forces will control state and legislative powers. Whereas the former supports industrialization and integration with the global economy (and neighbors) the latter advocate seclusion, ambitions to dominate the region through military/demographic means, and see state survival as subordinate to regime survival. Whereas modernists have tried to anchor their reforms to globalization and the world economy, orthodox forces have fiercely resisted such initiatives.

If Pakistan and Iran manage to implement structural reform of their economies and are able to take full advantage of their demographic dividends, it is highly likely that democratic development and the building of viable state institutions will follow. The prospects of a favorable political development is however higher in Iran than Pakistan during 2018-2028.

Although both states are victims to Islamic orthodoxy either in government (as in the case of Iran) and outside of (as in the case of Pakistan) and political mismanagement, the economy of Iran is as discussed earlier on a comparatively better footing while the country also has a more well-educated population.

### *Iran*

There is widespread discontent with Iran's theocratic leadership. A study leaked from Iran's interior ministry reveal that nearly 90 percent of the people are dissatisfied with the current government, 28 percent wants "fundamental changes", while 66 percent advocate "gradual reforms."<sup>243</sup> Another example that can be used to illustrate the rift between the Islamic state and the people is the secularism of the population. Only 25 percent of respondents in a recent survey responded that "religion played a large role in their lives" further underscoring the secular trend.<sup>244</sup>

The political transition and struggle have been particularly pronounced in the past two years. On the one hand, and since the defeat of reformist president Khatami in 2005, a re-strengthening of reformist and liberal forces can be observed.<sup>245</sup> On the other hand, a parallel radicalization of Iranian politics has also taken place in the past few years. Since Ahmadinejad assumed office in 2005, a militarization of the Iranian state and government can be discerned

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<sup>243</sup> See Nikki Keddie, *Modern Iran: Roots and Results of the Revolution* (New Haven & London: Yale University Press, 2006), pp. 282-283.

<sup>244</sup> Ali Ansari, *Confronting Iran* (London: Hurst and Co, 2005).

<sup>245</sup> This was manifested both in the local council elections in 2006, in which reformists scored victories, and through the appointment of officials with reformist leanings to important foreign policy advisory boards. The appointment of former Foreign Minister Kamal Kharazmi to head the Strategic Council for Foreign Relations is one such example. Moreover, former president Ali Akbar Rafsanjani has consolidated his powers within the Assembly of Experts and the Expediency Council at the expense of the hard-liners spearheaded by Ayatollah Mesbah-Yazdi. Mesbah-Yazdi is also widely regarded as protégé of Ahmadinejad.

while the Islamic Revolutionary Guard Corps (IRGC) has strengthened its influence within the political arena.

If the Iranian reform process is allowed to progress on its own terms, and if sustainable economic/energy policies can be pursued, it is likely that Iran will implement democratic reforms and improve governance by 2018. This transition is partly facilitated by the fact that Iran is one of the few states in the Middle Eastern region that has a democratic foundation with a republican division of powers and regular elections to parliament, president, and local councils.<sup>246</sup> However, even if few doubt that Iran eventually will move in a moderate direction, this process could potentially be violent.

An additional factor to take into consideration during the next decade is the failing health and advanced age of the Supreme Leader Ali Khamene'i, who at 71 years is the person wielding most power in Iran. His exit will inevitably lead to a power struggle before 2018, which also may thrust Iran either way. This power struggle will likely occur among the more reformist and traditionalist forces associated with former President Rafsanjani (who remains the second or third most powerful individual in Iran) and the hard-liners spearheaded by Ayatollah Mesbah-Yazdi and current president Mahmud Ahmadinejad.

What forces will come out on top of such a struggle is highly uncertain. If the transition occurs through peaceful means, Rafsanjani will probably secure the most powerful position in the Islamic Republic.<sup>247</sup> Indeed, it has been argued that he more or less already occupies the springboard to the position as Supreme Leader in his role as Chairman of the Assembly of Experts (the institution appointing and dismissing the Supreme Leader). If violent means are employed, the outcome is however far more uncertain.

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<sup>246</sup> This traces its roots to the days of the revolution when democratic forces fought and managed to sediment at least a semblance of a popularly elected parliament in the political system. This democratic current was nevertheless forcefully shattered by radical forces which imposed an authoritarian layer that currently sets the parameters of the Islamic Republic and the limits of parliamentary powers.

<sup>247</sup> It should be noted that Rafsanjani is himself 75 years so he will likely not last until 2018 but whether he manages to outlive Khamene'i is an important factor which will impact the future course of the Islamic Republic.

### *Pakistan*

The struggle between civilian governments and the army will likely continue well into the next decade. Support for this claim is best viewed in context of Pakistan's history. Of the five governments that have been elected into power since 1970 none has been voted out of power – instead, military coups have intervened due to the perceived, and often real, mismanagement.<sup>248</sup> The military will therefore continue to be a present force in the country's politics, both because of its dominance in the Pakistani economy and the political arena.

If the new Pakistani civilian government manages to continue the economic progress that has been achieved under Musharraf, build viable state (and especially educational) institutions, restore an independent judiciary, and cooperate with the new Army Chief Ashfaq Kayani, there are prospects for a favorable political development in Pakistan, which potentially continue up until 2018, even if the odds and history speak against such a development. That said, the main destabilizing factor in Pakistan's domestic politics in the next decade will not be civil-military relations but, as hinted at above, the threat of Islamic radicalism. While the military often is blamed for Pakistan's instability, such descriptions often omits the military's role as the country's sole source of unity and how it has filled that function since the country's birth in 1947. Although the military certainly has a large responsibility for Pakistan's problems, the complexity of these problems calls for a more nuanced approach in which the military is an integral part of the solution. The main issue determining the domestic political development in the foreseeable future is not the relations between the military and civilian politicians but whether these jointly can withstand the threat from militants.

### *Scenarios 2018-2028*

**Probable:** The succession struggle in Iran plays in the reformists favor: both as a result of popular support, demographic factors, and Rafsanjani's short but nevertheless decisive position as Supreme Leader. In the wake of Rafsanjani's liberalization come foreign investments and influences which overwhelm the remaining forces of the revolution. Iran's particular political system and inherent democratic traditions also allows for a relatively rapid democratization

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<sup>248</sup> K. Alan Kronstadt, "Pakistan's Domestic Political Developments," CRS Report for Congress, September 19 2005.

although it will take time to develop a party system and alter the structures of the political economy, including relations between the clergy and the people. Official Shi'a Islam will therefore continue to be a strong force in society despite the secular current prevalent in the population. As such, even if Iran is the country in the Middle East most likely to develop in the direction of Turkey, this does not occur before 2028.

Pakistan remains a fragile state in 2018 and the decade that follows. Even if the new Army Chief facilitated Pakistan's transition to democracy throughout the 2010s, the civilian leadership proved unable to perform much better than Musharraf's government 1999-2008 (even if a slightly higher degree of legitimacy in the Pakistani political system has been achieved). In Afghanistan, center-periphery relations continue to be the dominant factor in Afghanistan's domestic politics. A persistently weak Afghan state will continue to have problems in delivering services to the population beyond Kabul which results in continued strong decentralization tendencies.

**Plausible:** A "third revolution" occurs in Iran in which the theocracy is unseated by an increasingly discontent population. The aftermath of this revolution sees increasing ethnic polarization in Iranian politics, weakening central authority. The Pakistani state gradually strengthens as the state is able to gradually marginalize militant Islamists, and a Turkish-style understanding between the military and the political class develops, allowing for democracy within certain well-known parameters.

**Possible:** The succession struggle in Iran plays out in favor of hard-line forces who, through Ayatollah Mesbah-Yazdi, Ahmadinejad, and support among the IRGC manage to outmaneuver the reformist faction in a similar way as what occurred during the 1979 revolution. Preemptive strikes against Iran's nuclear facilities ahead of 2018 strengthen the hard-liners who rally support on this "aggression" from Western powers. Pakistan experiences instability resulting from the inability of the military and civilian politicians to find a Modus Vivendi and functional power-sharing, weakening Pakistan's ability to fight militancy.

### *Key Issues to Watch*

The distribution of powers in the clerical institutions in Iran; the extent of economic liberalization; developments in civil society; civil-military relations in Pakistan; center-periphery relations in Afghanistan.

## Military Development

### Iran

Iran's military is in a stage of transformation. Generally the equipment it has today has to be regarded as obsolete, much of it dating from the 1970s. This applies especially to heavier equipment such as aircraft, tanks and warships. The more modern weapons systems, procured after the Islamic Revolution (1979), are mainly of Russian origin, being systems like Mig-29 and Su-24 fighters, modern versions of T-72 tanks, Tor M-1 Surface-to-Air Missiles and Kilo class submarines.<sup>249</sup> When it comes to long range missiles and smaller ships, China has played an important role providing technology. Iran is making great efforts to become self-sufficient when it comes to weapons development and production. The technological level of the domestically produced systems is not yet on the level of the U.S. or Russia. Iran is presently in no position to fight a conventional war against the U.S..

Iran has two parallel military organizations – the ordinary military (Army, Navy and Air Force), with some 700,000 personnel put together, and the Islamic Revolution's Guards Corps (IRGC), numbering some 125,000 personnel, including an air and sea component. The IRGC is less heavily armed and also has the responsibility for the national guard style reserves, Basij, which on mobilization could number around 1,000,000.<sup>250</sup> Apart from being responsible for internal security it is also said to control the strategic Missile Forces.

The ongoing transformation process seems to go for four priorities:

- Modernizing and completing existing equipment to be able to handle contingencies that mainly involve neighboring states as Afghanistan, Iraq and Pakistan. This can be reflected in ongoing programs aiming at upgrading systems as tanks, fighters, acquiring laser guided artillery shells, etc.;
- Developing a threshold, in the near future, high enough to force a potential aggressor (read the U.S. and Israel) to either abstain from military action or to mount a prolonged air campaign before other assets

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<sup>249</sup> Exact figures regarding Iranian military equipment can be found on the Institute for National Security Studies Website, Jaffe Center for Strategic Studies, Tel Aviv University, <[www.inss.org.il/upload/\(FILE\)1198577424.pdf](http://www.inss.org.il/upload/(FILE)1198577424.pdf)>, (accessed on April 4 2008).

<sup>250</sup> International Institute for Strategic Studies, *The Military Balance 2008*, p 244

can be brought in to action, here the procurement of advanced Surface-to-Air missiles as S-300 PMU <sup>251</sup> from Russia and the development of advanced Anti Ship missiles/torpedoes as Hoot and Thaqeb fit in, the ambitious air-defense program also serves the purpose of protecting Iranian energy (and nuclear) installations to a certain degree;

- Creating asymmetric capabilities to create an incalculable (by the opponent) component on (or close to) Iranian territory in case of a conflict with primarily the U.S., the mainstay of this asymmetrical component is the IRGC, the acquisition of large numbers of shoulder-launched anti-aircraft missiles as Igla (SA-16) and mini-submarines of the Ghadir type also fit in to such a scheme;
- Developing systems that could have a strategic impact in the region, making Iran a regional great power, the Iranian space program, development of long range missiles and the alleged Iranian nuclear program play an important role in this scheme.

### *Pakistan*

The Pakistan military today faces two main problems; it has to balance India and it also has to handle internal unrest, the latter problem at the moment being closely connected with the war in Afghanistan. Concerning India it is obvious that Pakistan does not, and will not, have the economic resources needed to compete with India. The chosen solution is to have a reasonable high conventional threshold to meet limited contingencies and then have the nuclear option as the last deterrence. Close connections with China also play an important part in balancing India's military strength.

In the short term the ability to handle internal unrest probably has the highest priority. Judging from the problems that the Pakistani Army has it seems that earlier defense planning to a large extent has neglected to develop the right sort of forces and methods for this task. Pakistan is presently co-operating closely with the U.S. fighting the Taliban in Afghanistan and in Pakistan's border areas. The cooperation with the U.S. is not popular in Pakistan and has contributed to intensifying internal unrest in parts the country.

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<sup>251</sup> Institute for National Security Studies Website, <[www.inss.org.il/upload/\(FILE\)1198577424.pdf](http://www.inss.org.il/upload/(FILE)1198577424.pdf)>, (accessed on April 4 2008).

Apart from China, its main strategic partner, Pakistan also has close military connections with many Arab states and Turkey. During recent years Pakistan and Iran have started to cooperate in the military field.

The Pakistan Armed Forces today consist of some 600,000 active personnel, and another 500,000 in reserves.<sup>252</sup> The equipment of the Pakistan Armed Forces is fairly modern and is continuously upgraded. For example, the Air Force will receive new F-16 fighters to supplement and replace older planes of the same type currently in service. The JF-17, a fighter developed jointly with China, is presently being delivered to the squadrons. For the Army, the development of a new tank has started, the Al Khalid II, a MLRS system is being procured and the infantry is being modernized with the introduction of new personal equipment for the soldiers. The Navy has plans to replace its ageing frigates with new ships of Chinese origin, Jiangwei II destroyers, and also to complement its modern three Agosta-90 submarines with a number of state-of-the-art submarines, probably the German U-214 type.<sup>253</sup>

Pakistan also has a fairly large, 300,000-strong paramilitary organization with the task to meet both internal and external (border areas) threats.

Pakistan's nuclear arsenal is believed to consist of some 60 warheads. There are two means to deliver them. By aircraft, F-16, or by surface-to-surface missiles. The missiles available are the *Ghauri* (range 135 and 2300 km) and the *Hatf-II* (300km).<sup>254</sup> The recent concerns about command, control and security, regarding the nuclear assets, seem to be largely unfounded.<sup>255</sup>

Although Pakistan's military doctrine and modernizing plans, the Armed Forces Development Program 2019 (AFFDP-2019), seem to give a firm basis for future developments, there are alternative scenarios that cannot be disregarded when looking some 10 to 20 years ahead.

The present development plans rest on the assumption that internal stability can be maintained without a radical re-definition of the tasks, for the armed forces. If that should turn out to be impossible a large part of the resources

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<sup>252</sup>See Pakistan Defence website at: <[www.defence.pk](http://www.defence.pk)>, (accessed on April 11, 2008).

<sup>253</sup> *Ibid.*

<sup>254</sup> Congressional Research Service (US), *Pakistan's Nuclear Weapons: Proliferation and Security Issues*, Order Code RL34248, updated January 14, 2008

<sup>255</sup> *Ibid.*; and Farhan Bokhari, "Pakistan's weapons are secure, declares Mullen," *Jane's Defence Weekly*, February 20 2008, p. 18.

earmarked for the modernization of especially the Navy and the Air Force will probably have to be re-directed to strengthen the Army. This would rule out Pakistan as an important player in the Indian Ocean and the Arabian Sea. In this case Pakistan's nuclear assets would be, more or less, the only means it would have to counter a perceived threat from India. Therefore, in this case Pakistan's nuclear program probably will be still more important than in today's situation. The threshold to use them would probably also become lower than today.

#### *Scenarios 2018-2028*

**Probable:** In the Iranian case the most probable scenario seems to be that it gradually continues to develop its conventional capacity in a way that makes it possible for Iran to intervene in neighboring countries. The capabilities to influence shipping in the Persian Gulf will be developed. Concerning the strategic assets, they will continuously be developed with the aim to create a deterrent with initially regional, and later global, reach. As far as Pakistan is concerned, the development of the Armed Forces will continue to aim at keeping a reasonably high conventional threshold against a threat from India. Pakistan will also continue to develop its nuclear capacity, both delivery means and warheads, to retain a credible deterrent.

**Plausible:** In both cases, Iran and Pakistan, economic development, increased interdependence and greater stability in the region as a whole leads to a decreased dependence on military means, changed threat perceptions. This could lead to a reduction in numbers and the development of quite small, high tech, organizations mainly suited for "peace operations" together with other countries. It is unlikely also in this benevolent scenario that they would give up their strategic deterrent.

**Possible:** Internal unrest, in both countries or in one of them, forces the country concerned to concentrate most of its available resources on internal security thereby hindering it to create a military that can influence happenings beyond its borders.

#### **Key Issues to Watch**

Increased regional economic co-operation and stability, internal unrest, control of nuclear assets, the development of space programs, extreme Moslem movements.

## **Geopolitical Development**

Economic developments in Iran, Afghanistan and Pakistan may seem to give opportunities for constructive engagement and lead to more peaceful relations in southwest Asia. There are of course reservations. Uneven economic development can contribute to domestic confrontations and a risk for disintegration of society as has recently happened in some parts of Pakistan. Unfulfilled and unrealistic expectations about rapidly improving economic conditions can lead to frustration and extremism, as in Afghanistan after the fall of Taliban. The lack of economic progress can lead to problems also in an authoritarian state, as in Iran – and economic growth can make a nation invest in military capabilities that can frighten other countries, as is the case with China today.

More importantly, economic conditions can not give a country or a region assurances about safety and stability, because factors such as religious confrontations, great power ambitions and ethnic strife can change the course of events. A chapter about geopolitical factors should reflect the risks and uncertainties and this section will therefore focus on other than economic factors.

### *Iraq and the United States*

All countries bordering on Iran are Muslim countries,<sup>256</sup> where the population mostly belongs to the Sunni school of Islam although Shiites form a majority in Iraq, Azerbaijan, and Iran itself. The thousand year old rift between the Sunni and Shiite schools has also been the cause for much violence and unrest. When Iraq attacked Iran in 1980, this factor was not so obvious, because Iraq has both Sunni and Shiite elements in its population and tried successfully to keep them together in a united front against Iran during the eight-year war. The Sunni-Shiite rift became more evident during the first Gulf War in 1991, however, and when the U.S. invaded Iraq in 2003 there was some anxiety that it might unleash the age-old tension in that country between the Shiites and the Sunnis. These warnings were disregarded, only to come true with a vengeance a few years later. Today, Iraq is a country divided along religious lines to the extent that it has been regarded as a threat on the other side of the border with Iran. After all, the U.S. presence has led to the Shiite majority of Iraq's population

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<sup>256</sup> Except for Armenia which is Christian.

coming to power and this power is now being threatened by Sunni resistance. If the U.S. forces were to withdraw in the near future, it would possibly mean that the Sunnis would try to take the power back, which seems to have been enough reason for the clergy leadership in Tehran to enter into negotiations with the U.S. about the future of Iraq.

A connection between events in Afghanistan and Iraq is quite evident, both in the U.S. debate about whether or not the troops shall be withdrawn and when Al Qaeda make their statements. That is likely to remain a fact for as long as the U.S. troops stay in the area, not least because their presence per se is a strong reason for the anti-U.S. feelings among the populations in both Afghanistan and Pakistan, as well as in Iraq. If the U.S. forces remain for a longer period, there is a growing risk for a radicalization in the region although this, of course, also is dependent on the form of U.S. engagement.

For the U.S. the question is not only about Iraq, Afghanistan, or Pakistan in isolation, as they are all interconnected and all decisions are likely to affect the entire region. They will, moreover, have an impact upon East Asia's and South Asia's supply of oil and gas from the Gulf, the global economy, the safety of the Sea-lanes of Communication in the Indian Ocean, and the American policy of containment of China.

#### *The Presence of Nuclear Weapons*

Pakistan possesses nuclear weapons since 1998, and ordinary Pakistanis are remarkably happy about this achievement. They generally do not have a critical view of the possibility that Iran may also obtain a nuclear weapon, but in private conversations there sometimes appears concern over the perspective that Shiite Iran could threaten Sunni Pakistan. When talking to westerners, they mostly insist that such a threat between Muslim nations is unthinkable. The same is true for other Muslim nationalities; they regard such ideas as blasphemous. However, articles have appeared in western media about the risk that the Saudi rulers would feel threatened by an Iranian nuclear bomb and react by trying to make one in secrecy as well as by the possibility that the Syrian rulers could do the same, with the conflict with Israel as the main reason.

#### *Southwest Asia-India-China*

Both Pakistan and Iran are much involved with both India and China in strategic matters. U.S. policy for India, in turn, aims at supporting "the world's

largest democracy” as an ally and a counter-force to increasing Chinese influence in Asia. This is both in order to contain China militarily and to keep the sea-lanes of communication from the Middle East to “democratic” countries in East Asia open. In spite of American needs for better relations with China because of the ever-increasing Sino-American trade, this policy is likely to remain unchanged as long as the U.S. is staying on as the world’s only global superpower and has interests as such.

China is responding to this policy by reinforcing its relations with India’s ideological adversary and enemy in several wars, namely Pakistan. China lacks direct access to the Indian Ocean and is building a great harbor in Gwadar on the Pakistani coast-line on the Ocean. It is also building a road for heavy trucks and considering a project for a railway to the Chinese province of Xinjiang. Moreover, China is helping Pakistan to build its next generation of jet fighters and other military equipment.

China is also trying to improve its relations with Iran in many ways. That Iran is an oil-exporting country is one obvious reason, and China has ignored the U.S. policy of sanctions against Iran and bought gas and oil fields there.

Pakistan, in turn, seems to be able to conclude a very important deal with Iran and India about a gas-pipeline from Iran via Pakistan to India. Even a Japanese company has chosen to ignore the consequences of the U.S. sanctions against Iran and bought a huge oil field in southern Iran. In this way Iran is gaining influence by economic means. This influence is likely to increase with the increasing scarcity of cheap oil.

#### *Southwest Asia, Russia and China*

Russia is struggling hard to continue preserving its position as a “hegemon” in Central Asia, presently mainly in order to remain in control over the flow of oil and especially natural gas from Central Asia. Iran, with its coastline on the Caspian Sea, is an important counterpart in this power game. Russia’s importance on the stage for world politics has been enhanced by threatening to vote in the Security Council against U.S. proposals for UN sanctions against Iran and by defending Iran’s positions internationally in certain cooperation with China. Iran is of importance to Russia as another great exporter of oil and gas. All these interests are long-term and not likely to change in the near future.

Russia and China cooperate in the Shanghai Cooperation organization to maintain their influence in Central Asia. Iran, Afghanistan and Pakistan are all invited as observers. SCO is being used as an instrument of countering an increasing U.S. influence in Central Asia and now possibly in southwest Asia as well, and Russia and China are likely to continue that policy.

There are, however, also competing interests between Russia and China in the region. Russia does not welcome China's growing influence as a buyer of Central Asian oil and gas and its efforts to create new and direct outlets that do not cross Russian territory.

Russia's strong bonds with India do not match China's strategic bonds with Pakistan and Russian deliveries of advanced weapons to India is a matter of concern for China, which is helping Pakistan to develop military hardware, and whose threat to India was given as the main reason for India's nuclear test explosions in 1998.

#### *Iran-India-United States*

India continues with some degree of success to enhance its connections with Iran, partly because India needs Iranian gas and oil and partly because India has great power ambitions and wants to use Iranian influence to its own advantage – or at least see to it that Iran does not turn against India, both on the regional and on the global level. India is making considerable efforts in this regard, and Iran appears to be quite receptive to this courtship. India's more specific interests in Iran are related to the strategic situation in the Indian Ocean, the need to keep the Sea Lanes of Communication (SLOC) to the Persian Gulf open, and to have an uninterrupted supply of oil and gas.

India has initiated a degree of maritime cooperation with the U.S. and is responding positively to invitations to play a police role together with the U.S. in the Indian Ocean. Whether the next U.S. president will continue the policy of courting India (as a balance to Chinese influence in Asia) at the same time as it tries to help preserve stability in Pakistan and fight the war on terrorism both from Pakistan and Afghanistan will mean a great deal to the strategic picture in South West Asia.

#### *A Long-term Global Perspective on Southwest Asia*

The rift between the Sunni and Shiite schools of Islam is unlikely to disappear and as long as the situation in Iraq is not under control, it can create a dangerous

situation in the Gulf and in Afghanistan and worsen the rift that already exists in Pakistan. That rift between Sunni and Shiite communities can basically only be mended by the Muslim nations.

Iran, in turn, may develop a nuclear weapon and unexpectedly announce its existence. If, as it seems today, the U.S. will find it dangerous to take preventive measures in such a situation or go to a preventive war, it is more likely to support the neighboring Sunni Muslim countries. A war or an armed conflict with Iran, possibly with Israel as an ally, would have serious consequences for the U.S., both economically and politically. It could mean the end of its status as the undisputed and sole global superpower and Washington is likely to try to avoid that as much as it can although such a turn of events cannot be ruled out.

Chinese and Russian ambitions to play a role in Afghanistan have limited success, given Russia's history in Afghanistan and China's lack of a history there. On the other hand, China's ambitions to have access to the Indian Ocean make for a closer relationship with Pakistan than it otherwise would like to have, given its wish for good relations with India. The Pakistani factor constitutes the main obstacle for further progress in the efforts to improve Sino-Indian relations about which the leaders of both countries often talk so eloquently, especially in the economic field.

Russia, on the other hand, has little interest in Pakistan but longstanding strategic relations with India and wants to continue playing that role.

In the longer perspective it seems to be self-damaging for India to continue the conflict over Kashmir with Pakistan, especially in the light of India's need for gas from Iran. If a deal about a pipeline can be reached and if that deal can lead to an end to the conflict with Pakistan, it has the potential of changing the strategic landscape of Southwest Asia. It could diminish the influence of the traditional great powers and enhance India's ambitions to become a great power in Southwest Asia.

#### *Scenarios 2018-2028*

**Probable:** The present slow-down in the global economy does not result in any recession world-wide up to 2018 and interdependence continues to increase both between India and China as well as between U.S. and China. This also facilitates better relations between the countries in southwest Asia. India makes

an agreement with Iran about gas supply via a pipeline through Pakistan, which facilitates further improvement of relations between Pakistan and India.

In a longer perspective, new threats to harmonious relations are posed by scarcity of oil, gas, water and food, but the globalization and economic interdependence facilitates the international cooperation needed to confront these problems.

**Plausible:** An economic recession has a moderately negative impact on the global economy up to 2018. Energy scarcity and high food prices create new problems in relations between countries worldwide and globalization slows down. India accepts nuclear technology for peaceful use from the U.S. in order to alleviate some of the worst problems in its energy supply. “Democracy” becomes an issue, since India is being matched by the U.S. as a champion against China over influence in Asia. Relations between India and Pakistan are not improved and the foreign military presence in Afghanistan and Pakistan tends to become long-lived. Suspicions remain between Iran and U.S..

**Possible:** An economic recession has a heavy impact on the global economy up until 2018. In the U.S., inflation and high costs for financing of the country’s loan-burden weaken both the capacity for warfare abroad and American political clout. U.S. troops leave Afghanistan, Pakistan and Iraq before 2018 and civil strife emerges in all three countries. India gets closer to Russia because of its role as the only reliable source of weapons supply while relations with China remain frosty.

#### *Key Issues to Watch*

India-U.S. relations; U.S. presence in Iraq and Afghanistan; strategic posturing in the Indian Ocean

#### **Conclusions**

A snapshot of Southwest Asia in 2008 would portray a grimly negative portrait. Iran, Pakistan, and Afghanistan all face severe governance crises while they simultaneously are becoming frontline states in the struggle against destructive criminal and Islamic forces. From this vantage point, it is tempting to conclude that the southwest Asian region is destined to failure.

On the other hand, a longer term evolutionary perspective suggests that the region is experiencing unprecedented prospects. Population growth has slowed

down considerably in both Pakistan and Iran compared to the 1980s, while economic structural reform also has been initiated in both countries. At the same time, inter-state relations have improved markedly between southwest Asia and its neighbors – much due to burgeoning trading ties and increased interdependence both within and across southwest Asia. While there are significant ethnic tensions remaining within the regional countries this study sees no reason of joining the chorus of reports predicting that these states will dissolve. Although it would be wrong to one-sidedly refute such a scenario it would be equally wrong to assume that the region is destined to failure. As this study has argued, both Pakistan and Afghanistan have faced far greater challenges to its territorial sovereignty in the past three decades than what it is experiencing today.

As regards extremism, Islamic militant forces are today being targeted rather than supported by the regional governments. Moreover, the reconstruction effort in Afghanistan has made significant progress to date – especially in terms of connecting this previously isolated and pivotal country to its neighbors.

The integration that is occurring between the southwest Asian countries and their neighbors is also indicative of a new thinking where a zero-sum politics of influence takes the backseat to potential economic gains. This study also identifies this particular aspect to be the main regional driver of political reforms, more responsible demographic planning, energy integration, and attempts to mitigate ethnic tensions. Economic liberalization and integration with neighbors is required to temper discontent and create economic growth. Though this is scarcely a guarantee for regional prosperity alone it is the sine qua non for such prosperity. Watching the state of entrepreneurial activity and economic development will thus be the key to understand southwest Asia's prospects. This should not be a contentious conclusion considering its proven success throughout the past two millennia.

But even if the southwest Asian region is harboring far more prospects than at any time during the past three decades there are still many variables involved that could derail this. Virtually all sectors reviewed herein contain potential branching points which could seriously setback the gains achieved thus far. These relate in particular to:

- 1) A failure to create employment and a continued neglect of education in Pakistan and Afghanistan is bound to backlash into an unprecedented demographic burden;

- 2) Economic and political development goes hand in hand. If protectionist and populist currents gain traction in the region this will have a uniformly negative impact on the region's prospects;
- 3) Unsustainable energy subsidies and failure to integrate regional energy grids will result in major energy shortages which, in turn, will adversely affect the economic development prospects;
- 4) The current tendency among regional countries to abstain from using ethnic groups to destabilize their neighbors is a remarkable development. Yet a resumption of this among any one of the regional states will likely trigger a negative spiral and chain-reaction;
- 5) All the regional countries are in sensitive electoral processes. Pakistan still muddles through its post 2008-election period while both Iran and Afghanistan have upcoming elections in 2009. Whether these will bring constructive or destructive forces into government is a key to regional developments in the next decade.
- 6) Acquisitions of military materiel in Iran and Pakistan will increase in pace with economic development which, in turn, will trigger neighbors to similar investments. This may not be a potential trigger of crisis per se but nevertheless raises the potential damage these weapons may cause.
- 7) China, India, Russia, Europe, and the United States are all playing key roles in shaping the regional strategic landscape. If any of these actors fail to realize the opportunity costs of undermining the regional countries, it will inescapably backfire on the overall cooperative climate in the region.