BMUN LXXII

HISTORICAL ASSOCIATION OF SOUTHEAST ASIAN NATIONS

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LETTER FROM THE CHAIR

Hello, delegates!

My name is Darren Lee and I will be your Head Chair for BMUN 72's Historical Association of Southeast Asian Nations. I am currently a fourth year at Berkeley, majoring in Business Administration. I have always had a growing interest in international politics and relations having grown up between Australia and Indonesia, sparking my interest in MUN. This will be my third year in BMUN and my fifth year in MUN altogether. Some of my favorite things to do outside of BMUN are swimming, late night drives, and waking up at 5 am to watch Formula 1. I can't wait to meet you all in committee! With me on the dais this year are Su-Ann and Tanay, my wonderful Vice Chairs.

Su-Ann is a senior at Cal studying Electrical Engineering & Computer Sciences and Bioengineering. In her free time, she watches over kittens at Berkeley Humane, teaches on the Machine Structures course staff, falls off bouldering walls, and plays video games until 3 AM. She is from Vancouver (BC, not WA!) and this will be her ninth year of MUN. She looks forward to guiding you through the intricacies of Southeast Asia in the 20th century, and cannot wait to see all of your ideas come into fruition during the conference in March.

Tanay is a freshman at UC Berkeley majoring in Cognitive Science & Computer Science. He is from San Ramon, CA, which is about thirty minutes away from the Berkeley campus. This will be his fifth year doing Model United Nations. Some things he enjoys doing are playing basketball, watching football, and going on late night drives with his friends. He looks forward to meeting you all during the conference and seeing what creative ideas you all present!

Best,

Darren Lee
Head Chair of HASEAN
Email: dlee@bmun.org

TOPIC A: THE 1997 ASIAN FINANCIAL CRISIS

KEY DEFINITIONS

Gross domestic product (GDP) = market value of all final goods and services in an economy in a given time

GDP per capita = GDP per individual in the population

Budget deficits = government spending is greater than its revenue that is usually generated from taxes

Exchange rate = value of one currency in the value of another currency

Fixed-but-adjustable exchange rate = exchange rate fixed against a foreign currency but has the ability to be readjusted based on market conditions

Floating exchange rate = exchange rate where a country's currency is determined by the supply and demand of other currencies

Devaluation = reduction in the value of a currency

Appreciation = increase in the value of a currency

Service economy = industrialized economies with prevalent service sectors such as financial services, distribution in supply chains, product design etc.

Central bank = institution that manages the currency and monetary policy of a country

Double taxation = Taxes being paid twice such as how businesses are taxed for making a good and then consumers are taxed again when they pay for the good

Inflation = rise in the prices of goods and services

Debt to GDP ratio = comparison of government debt to government's relative size

Foreign reserves = assets held by a central bank that is valued in a foreign currency

Mortgages = loan to buy a property

Liquidity trap = after a certain rate of interest and decreasing confidence in the market , everyone prefers holding cash rather than holding onto debt

Discount rate = interest rate the central bank charges commercial banks and other financial institutions for short-term loans

TOPIC BACKGROUND

The 1997 Asian Financial Crisis marked a period of severe economic downturn for several Asian economies, many of which such as Thailand, Indonesia, Malaysia and the Philippines had tremendous economic growth rates prior to the crisis. A financial crisis occurs when there is a significant disruption in the normal functions of a financial system from a wide variety of reasons such as lack of foreign investor confidence in local financial markets, inadequate regulatory oversight leading to corruption, vulnerabilities within a banking system, and external shocks to name a few. From this the crisis leads to recessions, increased unemployment, and widespread financial turmoil.

The 1997 Asian Financial Crisis itself impacted the social, political, and economic status quo within the borders of these respective countries and highlighted the interconnectedness of financial systems, as well as the vulnerable depreciation of currency from external shocks. The crisis that began from Thailand's excessive lending by Thai banks for real estate and other projects funded by short-term foreign capital would later create foreign investor uncertainty in the Thai market. This subsequently led to the depreciation of the Thai Baht currency and had a knock on effect for the rest of investor confidence in Southeast Asia.

The Association of Southeast Asian Nations (ASEAN), as an intergovernmental organization, is in a unique position to foster regional cooperation and integration among member states, creating an avenue for joint policy coordination within the region that supports economic stability. This committee will begin on July 2, 1997 after Thailand announced the float of the Thai Baht and its subsequent call for financial assistance from the International Monetary Fund (IMF). This date marks the start of what is now called the Tom Yam Kung Crisis. As members of ASEAN, your responsibility will be to address the Asian Financial Crisis on a regional scale following the Tom Yam Kung Crisis by ensuring coordinated economic, social and political measures are taken to establish stability within the region and to introduce safeguards to prevent such crises from occurring again.

The 1997 Asian Financial Crisis led to recessions across the region, millions of jobs lost, social unrest and a decline in foreign investor confidence in the region that would continue for decades to come. The goal of this topic is to learn about the factors that lead to a financial crisis and the measures that can be taken to avoid or mitigate its impact as it happens. As such, Topic A will be the first topic discussed in committee with Topic B being the latter topic that will take an in-depth look into the social and political unrest resulting from the Asian Financial Crisis in Indonesia.

HISTORICAL AND CURRENT CONTEXT

At the end of the 20th century, numerous political and economic events took place throughout Asia and Southeast Asia that created uncertainty among foreign investors around whether to continue to invest in this economically rich and fast growing region of the world. While the committee will be focusing on ASEAN and regional coordination within Southeast Asia, it is important to understand the impact that political and economic events across Asia had on the perception of foreign investor confidence at the time.

Asian Economic Miracle

After the Second World War (WW2), up to a third of the world's population lived in colonies or territories that were dependent on colonial powers. The United Nations, founded in 1945, outlined in its charter the principle of self-determination, advocating for member states to pursue decolonization in the best interest of the inhabitants of such territories. With this put into place, more than two dozen states in Asia achieved independence from their colonial rulers, which has drastically changed the pattern of international relations and trade in the region. Some of these new countries possessed significant natural resources, but were heavily exploited during their period of colonial rule. Additionally, the colonizing states had drawn up arbitrary borders that divided ethnic and linguistic groups and set the foundation for states lacking a geographic, linguistic, ethnic, or political affinity (Decolonization).

Despite many countries in Asia encountering post-independence struggles, four notable economies known as the Four Tigers have managed to grow by substantial amounts, earning reputations as developed countries. These Tigers are: Hong Kong, Singapore, Taiwan and South Korea which all experienced tremendous economic growth in the latter half of the 20th century. This newly emerged growth was accomplished through a mixture of export-oriented policies and rapid development policies. In the 1950s, Hong Kong adopted an export policy focused on clothing, electronics, and plastics; this policy proved to be successful and was soon followed by South Korea and Taiwan. Singapore meanwhile set up industrial estates that aimed to bring in foreign investment through tax incentives. These economic policies, in addition to their stable political environments, created a climate for increased foreign investment and trade and became a model for other developing nations. Foreign investors through international banks would then begin issuing lenient loans into developing nations across Southeast Asia hoping to catch on its economic growth in its early stage (Skousen, Mark).

China Manufacturing Boom

Following the cultural revolution in the 1960s, the Chinese Communist Party brought about a significant increase in investment by encouraging foreign firms to sign contracts for the construction of major facilities and industries such as steel, oil, and chemical. The investment into industrial sectors moved the country away from total reliance on agricultural production. Furthermore, China's largest coastal cities were assigned roles as economic development zones in which foreign firms with advanced technology were allowed access to China's economy and the Chinese government's planning and direct control over industry and businesses was reduced. While this is the summary of events that have allowed China to become the "world's factory", there are many other nuances that enabled its economic boom.

Firstly, China had flexible labor policies where it did not outlaw the lack of a minimum wage, the use of child labor, long shifts, unethical methods of compensation, and safety non-compliance. Additionally, the Chinese Central Bank has been active in maintaining the low exchange rate of the Chinese yuan through buying US dollars and selling yuans, making the economy's exports ever more competitively priced in the global economy. The last of many other factors was its export tax policy, which removed double taxation on exported goods. In other words, goods made in China were not taxed when they were exported from China nor when they arrived as imports from a foreign state, keeping costs low and attracting investors and companies to China. These elements allowed China to emerge as a new global powerhouse that had changed the landscape of trade and export oriented policies in Asia shifting the 4 Tigers to transition into service oriented economies instead of manufacturing ones. Proven economic and political stability would thus result in increased foreign investor confidence and support into the financial systems of the 4 Tigers, cementing their roles as international investment hubs, particularly as gateways to investment into surrounding emerging markets across Southeast Asia that had the potential to follow suit (Bajpai, Prableen).

Handover of Hong Kong

This mountain of foreign investor confidence, however, would slowly start to dissipate with the unknown status of the special administrative region of Hong Kong, a newly integrated, yet autonomous region of the People's Republic of China. Hong Kong, while not part of Southeast Asia, marked itself as one of the few locations in Asia that could serve as a hub, middleman, and center for economic trade and financial markets between Western markets such as the United States and the United Kingdom and other markets across East and Southeast Asia. Hong Kong's economic prevalence also served as a gateway to markets such as Vietnam and China and concern over the region became ever more prevalent as it transitioned from being a sovereign state of the British empire to one ultimately intended to being fully integrated into China.

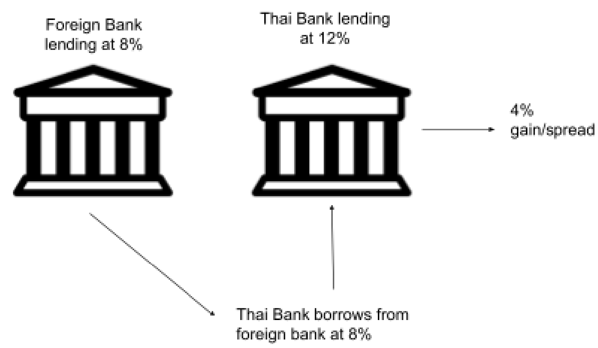
On July 1st 1997, after Hong Kong's 99-year lease with the United Kingdom ended, the state began its transition into becoming a sovereign part of the People's Republic of China through its status as a special administrative region—a system notably quoted as "one country, two systems". However, this process had actually begun 13 years early, detailed through a lengthy agreement by both governments to allow Hong Kong to be an autonomous state except for matters concerning its defense or foreign relations. Additionally, Hong Kong would be permitted to issue its own passports, social laws, and economic systems (such as the Hong Kong dollar) for a duration of 50 years after the 1997 handover year, in essence allowing Hong Kong citizens to have rights and freedoms beyond those in China. The handover process, nonetheless, was met with much skepticism as Western leaders continuously pressured China to respect Hong Kong's economic and political freedom, while China itself restricted access of their own citizens to the region to reduce the emigration of Chinese citizens to Hong Kong—an area with a gross domestic product (GDP) per capita 40 times that of China. With the troubling and unknown future of the region and its relationship with China and the global economy, Hong Kong's new yet debatable freedom as an economic hub in Asia became a beacon that would start a wave of foreign uncertainty in the region (Handover of Hong Kong).

Impact on Southeast Asia

Before the 1997 Asian Financial Crisis, Southeast Asian countries exhibited rapid economic growth, with the exception of Myanmar that had isolationist policies that discouraged foreign investment and trade. Although each country was under varying levels of political and social rule, they nonetheless worked towards growing exporting industries to foreign trade partners. From an authoritarian regime in Indonesia to Vietnam's transition to open market economy to the Philippines's transition out of an authoritarian regime, it can be seen that, while political systems had varying degrees of growth, economically the region was of high interest to foreign partners. Economic events such as the Asian Economic Miracle featuring the Four Tigers of Asia and China's emergence as an industrial manufacturing powerhouse all had an impact that triggered this surge in economic growth in Southeast Asia. The Four Tigers of Asia highlighted the ability for countries in Asia to economically compete with the likes of Western economies even in industries such as financial services, while China emphasized the human capital and manufacturing opportunities across East and Southeast Asia. Yet as seen from the uncertainty from the handover of Hong Kong, the tremendous confidence from foreign investors in the growth and stability of the region could quickly turn the other way. These are not the only notable economic and political events of the region during this time period and delegates are encouraged to look into other events that could explain their state's current economic and political landscape prior and during the Asian financial crisis.

Tom Yam Kung Crisis

The Thai economy experienced a period of high economic growth brought by the country's emphasis on exports for many years until 1996, when its growth in exports dropped from 24.82% to 1.9%. Beyond this, the country also relaxed many restrictions on its financial institutions and banks. In other words, banks could inadequately assess risks as well as take impractical loans out from the international community. As a result, more than 40 financial institutions were approved and opened through the 90s, expanding the reach of the nation's financial markets to the global economy and increasing the inflow of borrowed funds from foreign institutions for domestic investment. Thai banks borrowed and used such foreign funds to loan to infrastructure projects throughout Thailand, using high Thai interest rates for a quick profit (Understanding the Asian Financial Crisis).



The diagram above summarizes the exchange, where in essence, Thai banks built up lots of debt from an overreliance on foreign loans that they subsequently loaned out themselves. This created an environment where the banks' repayment of loans to international institutions became reliant on investor confidence in Thailand. In other words, if no one sought loans from a Thai bank, the Thai bank would slowly lose its ability to pay back its loans from foreign institutions. The Thai economy did fix its exchange rate, which created the false impression of the stability of these inflows. But due to this imbalance of debt from excessive borrowing and the banking sector's inadequate assessment of risk and credit, which resulted in high investment in the real estate market that proved to be not as profitable as expected, investors started pulling out and Thai banks slowly began declaring bankruptcy. On July 2, 1997, the Tom Yam Kung Crisis began with the Thai government announcing that the Thai baht would seek an IMF bailout and adopt a floating exchange rate. The Thai baht would subsequently lose over half its value in the span of a year. Additionally, this would mark the start of the Asian Financial Crisis with investors across the region observing the rapid depreciation of the Thai baht and the IMF bailout request as a signal to pull investments out of surrounding Southeast Asian countries. This, in turn, triggered those countries to experience their own rapid depreciation of their local currencies. As investors across Asia began pulling out of their investments, this led to devalued exchange rates, drops in stock prices, inflation, and increased debt to GDP ratios in an effort to stabilize the economy triggering recessions across the region.

Although this synopsis only introduces the events and political/economic landscape leading up to the Asian Financial Crisis, we highly recommend looking in detail at a timeline of the Asian Financial Crisis and the events that followed in each Member State. The "Timeline Of The Crash" by Frontline PBS is a great resource to understand the position of Member States and the series of global events that occurred after the Tom Yam Kung Crisis. Resources like it can also provide context for what delegates should be aiming for in their solutions and agendas during committee (Timeline Of The Crash).

PAST ASEAN AND OTHER INTERNATIONAL ACTION AND RESPONSE

Association of Southeast Asian Nations (ASEAN)

In December 1995, ASEAN met for its fifth summit to sign the Bangkok Summit Declaration of 1995, with the main pillars of the agenda being economic and political cooperation, and a joint front for representation at other external conferences—otherwise known as external relations. It notably included a commitment by all member states to the Agenda for Greater Economic Integration, which would remove all quantitative restrictions and non-tariff barriers by 1996 and harmonize trade between partners in the region of Southeast Asia, along with the possible establishment of an ASEAN patent and trademark system. It was also agreed upon that negotiations on market access and discussion of services sectors and supply chains would occur at the next summit in 1998. Finally, the declaration ended with a commitment to the role of ASEAN as an intergovernmental organization that facilitates dialogue between partners on the basis of mutual benefit and in the spirit of goodwill and partnership. ASEAN has been praised for its ability to foster peace in a region filled with religious, ethnic, and historical grudges and uneven levels of development. Nevertheless, the organization has also been criticized for its consensus-driven approach in which all members must agree, and as such, events such as armed conflict and human rights violations have the potential to be sidestepped (Bangkok Summit Declaration of 1995 Bangkok).

Asia Pacific Economic Cooperation (APEC)

APEC is an intergovernmental organization consisting of Australia, Brunei, Canada, Indonesia, Japan, South Korea, Malaysia, New Zealand, the Philippines, Singapore, Thailand, the United States, Chile, China, Hong Kong, Mexico, Papua New Guinea, and Taiwan with the secretariat of the Association of Southeast Asian Nations (ASEAN) maintaining observer status for APEC's annual summits. In 1994, APEC strived to achieve free-trade by 2010 for its developed economies and 2020 for its developing economies. Since then, it has met each year to implement APEC's goals of liberalizing trade and investment in the Asia-Pacific region and sustained economic and technological cooperation. APEC, however, has been criticized for its lack of authority, where although unanimity is needed for decisions to be passed, such decisions are not binding for member states (Asia-Pacific Economic Cooperation).

CASE STUDIES

Mexican Peso Crisis

The ratification of the North American Free Trade Agreement (NAFTA) in 1994 by Canada, Mexico, and the United States created a trading bloc dedicated to removing barriers to trade and investment between the three countries. As a result, investor interest and capital moving into Mexico increased. However, this occurred in the same year that Mexico hosted a presidential election, which later resulted in the assassination of presidential candidate Luis Donaldo Colosio. This had a domino effect where Mexican assets that were previously of interest became more risky to invest in. To mitigate this, the Mexican Central Bank committed itself to pegging the Mexican peso to the U.S. dollar, which led to an overvalued peso and decreasing foreign reserves. With an ever-increasing trade deficit, the Mexican Central Bank let the peso float and due to increased uncertainty, investors began to pull out. Inflation skyrocketed, and the International Monetary Fund (IMF) was called in to bail out the Mexican Central Bank with a USD 17.8 billion package in addition to over USD 30 billion being supplied by other nations. The details of the package required Mexico to achieve the two goals established below:

> i) the reduction in the external current account deficit (debt to financial accounts outside of Mexico) from 8% of GDP in 1994 to 4% of GDP in 1995, and to 3–3½ % of GDP in 1996;
>
> (ii) a lowering of the annualized rate of inflation to around 9% in the fourth quarter of 1995, from more than 30% in the first quarter of the year (Press Release: IMF).

Although Mexico experienced a recession in its first year of its IMF package, the economy eventually stabilized. However, this came with drastic effects, such as a significant drop in wages and employment, increased poverty in urban areas, and thousands of loans and mortgages defaulting resulting in thousands of homes being repossessed. Although it created instability with its creation, NAFTA served to eliminate or reduce barriers to trade and investment to ensure the growth of employment and economic activity and the protection of the environment. As such, NAFTA allowed for Mexico to have increased exports into its North American trading partners where the average rate of growth of Mexican exports to the United States was more than ten percentage points higher after 1994 than in 1991–93 (Holzer, Harry J., et al).

Japan's Lost Decade

As previously mentioned, Japan experienced its own period of economic triumph from the 1950s that continued on into 1990 with continuously increasing interest rates as Japanese banks became more interested in expansion rather than profit maximization. In fact, Japan's annual growth in GDP was continuously higher than that of the U.S. until its real estate bubble burst in late 1989. This continuous rise in the price of real estate assets due to high interest rates eventually resulted in a liquidity trap. A liquidity trap occurs when there is a lack of confidence in the market and consumers cash out their assets and hold on to them instead of investing it back into the market, so that even low interest rates will not trigger a rise in confidence. In addition to this liquidity trap, the Japanese stock market had also crashed, and in fear of financial institutions collapsing, the central bank bailed out these institutions. This was done through low discount rates that allowed for loans and credit from the central bank. As a result, unprofitable banks would be allowed to continuously postpone recognizing losses which further destabilize the economy. This allowed many companies to remain debt-heavy and sustain their inevitable fall. This led to a decade of economic stagnation in Japan during the 1990s, as banks in Japan continued to inject funds believing they were "too big to fail", postponing the recovery of the market (Japan's Lost Decade).

QUESTIONS TO CONSIDER

1. What united stance should ASEAN member states have during this economic crisis?

2. What economic policies and bailouts will serve the best interest of the region?

3. How can ASEAN member states converge closer towards the Asian Economic Miracles?

4. What other political and social implications will this economic crisis have on the region?

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TOPIC B: MAY 1998 INDONESIAN RIOTS

TOPIC BACKGROUND

The May 1998 Indonesian Riots marked a historical moment for Indonesia and was a turning point of social unrest. It was primarily motivated by the manipulation of state propaganda and local military activity to shift public dissatisfaction away from Suharto's authoritarian regime's handling of the Asian Financial Crisis, and instead towards Anti-Chinese sentiments that involved the lootings, killings and rapings of ethnic Chineses living in Indonesia at an unprecedented level. This moment would not only lead to the subsequent resignation of President Suharto after three decades of political rule, but also cause a Chinese-Indonesian diaspora and bring into question their future in Indonesian society. Hundreds of homes were looted, hundreds of Chinese-Indonesians migrated out, and hundreds of unsolved police cases were filed with the Indonesian government only acknowledging the incident 25 years after the riots. To that end, ASEAN, as an intergovernmental organization for the region, is in the position to facilitate dialogue and mediation within Indonesia and encourage adherence to democratic principles as established in its charter during this tragedy.

As mentioned in the introduction of Topic A's introduction, Topic B will be the latter topic discussed in committee. Delegates are to assume that the solutions discussed and passed in Topic A will not follow over to Topic B's discussion. As such, Topic B will start on May 16, 1998 following the end of Indonesian Riots during the first weeks of May 1998. Therefore, delegates are expected to follow their countries policies and agendas in real time until May 16, 1998.

HISTORICAL AND CURRENT CONTEXT

Dutch Colonial Rule

To begin, the island of Java encountered many European explorers prior to the Dutch's own exploration. However, the Dutch were the first to impose a trading monopoly upon the region. By 1596, the Dutch Empire sent its first expedition to Java, where it made a subsequent 400% profit upon its return. With an understanding of the incredible economic gains that could be made from trading goods from Java, it took action to control the region. First, the empire forced all competing Dutch trading companies to combine together into a singular unit called the United East Indies Company, more commonly known as the Dutch East Indies Company or Vereenigde Oost-Indische Compagnie (VOC) in 1602. This company was then granted a charter to conduct military and economic activities across Asia, such as trade treaties and the ability to wage war (Mohamad).

With the VOC came a superior military force that was designed to contribute to the VOC's monopolist role in trade across Asia. From this, the VOC informally began colonizing parts of Indonesia by establishing ports, trading hubs and factories across the state while capturing areas previously under Portuguese, British and Spanish rule. In addition to this, local leaders were pressured to conduct business solely with the company or risk a cut off of supplies. After the abolition of the VOC in 1796, the Dutch government officially gained control over Indonesia by claiming it as a Dutch colony. Indonesia became the possession of the Netherlands as the Dutch East Indies under the pretext of civilizing, modernizing, and the cultural synthesis of the "primitive" natives. However, the true motivations for this project were economic in nature. The Dutch perpetrated numerous atrocities against the Indonesians throughout centuries of colonial rule, including engaging in slavery, denying access to education, and treating the native population as second-class citizens. Independence advocates were imprisoned indefinitely. With the advent of World War II, the Dutch East Indies fell to the Japanese Empire 1942, ending Dutch rule temporarily and establishing, in its stead, a completely new environment for nationalist activity that was supported by the Japanese Empire. Notably, this nationalist activity involved Sukarno, a previously exiled independence activist, as a political puppet. By 1944, the Japanese Empire announced their intention to prepare Indonesia to become a self-governing independent state. Following the surrender of the Japanese Empire to the Allies in August 1945, Sukarno was pressured by local turmoil to proclaim Indonesia as an independent republic. On the 17th of August 1945, Sukarno declared Indonesia's independence (Mohamad).

Throughout 1946-1947, discussions between the Dutch finalized the transfer of sovereignty as the final solution to the conflict. However, differing interpretations over the state of Indonesia over its status as a republic or a federation led to a dead end. By July 1947, the Dutch attempted to settle matters by force, prolonging Indonesia's internal turmoil. Finally, in December, 1947, the Dutch were driven out and the Republic of the United States of Indonesia by December 1947 was established (Mohamad) (Tasevski, Olivia.) (Decolonization Of The Dutch East Indies/ Indonesia).

Sukarno's Old Order

A strong advocate for Indonesian independence, Sukarno notably spent periods in and out of Dutch jails and exile until the Japanese Empire invaded the Dutch East Indies, where he welcomed them as liberators. Throughout World War II, the Japanese Empire made Sukarno their chief adviser and propagandist. Through this, Sukarno pressured the Japanese to grant Indonesia its independence, a process ultimately accelerated by the Japanese surrender following the end of World War II. During his time as the first President of Indonesia that lasted 22 years from 1945 to 1967, Sukarno was noted for his lavish, extravagant lifestyle that involved polyamory and nightly soirees that made stabilization in the new state all the more difficult. It is important to note that Sukarno was not only seen as a figure of Indonesia's independence but also the current leadership of Indonesia in its post-independence state. As a result, this behavior created further dismay as his lifestyle was inaccessible and even taboo to many, yet became the center of attention both nationally and abroad. Nonetheless, with Sukarno's agenda of creating a national "Indonesian" identity, Sukarno removed opposing political parties and as such dismantled parliamentary democracy, destroyed free enterprise and established a dictatorship. Although Sukarno was never part of the Indonesian Communist Party, his shifting alignment from Non-Alignment Neutralism during the Cold War to one that was increasingly anti-Western and pro-Communist, in addition to the increasing economic turmoil, led to growing sentiment against his rule across the nation (Hanna).

Suharto's New Order

On September 30, 1965, a military coup organized by CIA-backed generals and mobilized by General Suharto shocked the state. Mass killings of suspected communists supporters and leftists were issued by paramilitary death squads and from that a revolutionary regime was established and Sukarno was obliged to delegate executive powers to Suharto after growing sentiment for his political demise. Suharto then established the "New Order" regime that relied on the help of American-educated economists to revive the economy. Exports of crucial Indonesian resources such as oil, gas, mineral and palm oil were used to support infrastructure and development projects and lead to a substantial increase in the standard of living for the state during Suharto's rule. Nevertheless, Suharto established a network of close allies and placed family members throughout key systems across the state and cracked down on any form of political criticism or disunity. This ultimately allowed him to have complete control over Indonesian politics and led to a continuous rule of over 30 years through vote rigging in legislative elections (Suharto | Indonesian Dictator & 2nd President).

The 1997 Indonesian legislative election in particular marked another period of continuous political crackdown. For instance, political intimidation in school systems was prevalent as teachers urged students who could vote to vote for Suharto with financial or social rewards for doing so and the risk of punishment for the opposite. Additionally, bribes and monetary support were also prevalent across the country, while supporters of non-Suharto candidates and parties were intimidated and discriminated against with campaign materials from these parties removed across the country. Ban on street protests were enacted and as 1998 began, Suharto was unanimously elected to serve another five-year term triggering increased social unrest in conjunction with the economic recession brought about by the Asian Financial Crisis. The Indonesian rupiah depreciated sharply with many banks in Indonesia collapsing, resulting in millions of Indonesians unable to access their savings and request loans, triggering instability in the region. As a result, rising unemployment and inflated food prices led to a fall in public confidence in the government's ability to turn the economy around. The May 1998 Riots were triggered by rampant political corruption, food shortages, mass unemployment and the inflation of previously state-subsidized goods such as gasoline and electricity and called for political reform through the resignation of President Suharto. However, what began as student protests would later develop into the looting of homes, markets, stores and shopping centers as security forces slowly moved protestors into Chinese communities. This was done so to shift the sentiment of protestors away from Suharto's political rule and instead onto the ethnic Chinese minority.

The Chinese Minority in Indonesia

Dutch Colonial Era, Batavia Massacre of 1740

From the pre-Dutch colonial era, Chinese merchants have been trading with Indonesia through the many trading hubs established on the island of Java. Through the VOC, Batavia in Java was selected as the one such trading hub. Here, trade between VOC with surrounding countries occurred. Notably, China was an important trade partner during this period. With the closer proximity that allowed for increased trade between the Dutch empire through the VOC and China, a wave of Chinese immigrants began setting up base in Batavia. These Chinese immigrants would later establish themselves as shopkeepers and traders in Batavia. However, local traders would also trade food with European settlers in exchange for Chinese slaves. From this, Batavia became a predominantly non-currency and exchange-based society. There was a lucrative illegal migration of Chinese slaves brought in from Chinese merchant ships traveling to and from Batavia. This demonstrates how the foundations of trade between the VOC and Batavia led to the rise of the Chinese population in Batavia as shopkeepers and traders, yet also resulted in an unprecedented side effect of Chinese slaves being transported to Batavia to balance such rise.

The entrance of Chinese slaves posed several problems for Batavia. One such problem was the transport of diseases taking center stage in the realm of the environment. In the 1720s, this wave of Chinese immigration to Batavia led to the suspicion that they were responsible for the malaria outbreak. As the outbreak started, all blame was put on the Chinese as they were the most recent settlers. The Dutch, the European settlers, and the natives of Batavia began to develop a prejudice against the Chinese that led to a new saga of discrimination against the Chinese that continues to this day in modern-day Indonesia.

Starting 1727, Chinese settlers were taxed higher taxes than other residents. In the event that Chinese residents were unable to pay taxes, they would risk being expelled from Batavia. Later on, the VOC would expand on this policy by dealing with "mismanagement" of Chinese immigrants by seizing all goods owned by the Chinese as a means to deport the Chinese because they would be unable to pay the high taxes imposed on them. On October 5, 1740, expelled Chinese rebels started to attack Batavia and by October 9, 1740, the VOC declared that the city of Batavia must be wiped of all Chinese. Over two nights, houses were burned, and the VOC militia and the residents of Batavia began a rampage of murder, arson, and plunder. Those that survived set up camp in Glodok, a village outside the walls of Batavia that would later informally become Chinatown (Nurhadi, Nurhadi) (Setiono, Benny G) (Schwarz, Georg Leonhard).

The Question of Chinese-Indonesian Citizenship

After the Japanese Empire occupied Indonesia in 1942, ethnic Chinese were arrested and detained in the concentration camps with other European settlers. Chinese organizations were then disbanded and banned. By 1955, the People's Republic of China first Premier, Zhou Enlai declared that Chinese citizenship was jus sanguinis, which implies citizenship for those of that ethnicity from either parent. By 1958, all Chinese Indonesians had to choose between Chinese and Indonesian citizenship due to Indonesians being allowed only one citizenship. By May 1959, foreign nationals that included Chinese-Indonesians were revoked the right to trade in the rural areas of Indonesia leading to more migration out of the state (Cenci, Luther Cox.).

New Order & Malari Incident

After the 30th September Coup of 1965, the New Order instigated a series of Anti-Chinese laws, known collectively as the "Basic Policy for the Solution of the Chinese Problem". These policies essentially banned any expression of Chinese culture in addition to making Chinese-Indonesians second-class members of society. Chinese-Indonesians were halted from being admitted to any local university due to them not being recognized as "native" Indonesians; in addition, Chinese schools across the state were forced to close, a ban of Chinese-Indonesians from entering certain provinces was enforced, and Chinese residents were forced to change their names to Indonesian sounding names.

Chinese-Indonesians would then become scapegoat targets of both government and local residents. A case example to highlight this is the Malari Incident where, between 15-16 January 1974, the then Prime Minister of Japan, Kakuei Tanaka, visited Indonesia. Due to Japan's past history in colonizing Indonesia, his visit was met with resistance from protestors that rejected Indonesia continuing bilateral relations with Japan. These demonstrations would later centralize and turn into riots, arson and mass looting of Chinese-Indonesians owned stores in Glodok (Santosa, Bagus).

INTERNATIONAL ACTION AND RESPONSE

Indonesia 1998 IMF Liquidity Aid

As mentioned and discussed in the previous topic synopsis, the 1997 Asian Financial Crisis was largely influenced by the reliance of nations such as Thailand, Indonesia, South Korea and many others on short-term foreign loans. Once their inability to make payments was made apparent in 1997, international currency markets dropped Asian currencies for U.S. dollars. The IMF reacted to the Asian Financial Crisis by making loan arrangements so that countries could meet foreign debt payments as long as they adopt structural adjustment policies. However, Asian governments were running budget surpluses, meaning that the IMF's policies to cut spending instead led to greater poverty and inflation in the countries that were in need of much investment to trigger economic growth (Understanding the Asian Financial Crisis). In Indonesia's case, President Suharto signed three letters of intent with the IMF in exchange for USD 43 billion in aid. These agreements included closing banks that were owned by his social circle, establishing public emergency liquidity assistance stipends and establishing the Indonesian Bank Restructuring Agency (Press Release: IMF Approves Stand-By Credit for Indonesia). They were all a part of efforts from the IMF to reduce rampant corruption among Suharto and his partners.

East Timor

East Timor, a former Portuguese colony, became independent in 1974 following a coup in Portugal that triggered the decolonization of its former colonies, thus creating a destabilized government in the process. A year later, Indonesia would invade and annex the region within half a year. Indonesia was immediately condemned by the international community for its actions, yet the invasion was supported by superpowers such as Australia, the United States and Japan to name a few. Nevertheless, this invasion triggered an independence movement within the region as East Timorese were subjected to acts of genocide, torture, slavery and rape. The 1991 Santa Cruz Massacre highlights the severity of the tension in the area where more than 250 East Timorese pro-independence demonstrators were murdered in the Santa Cruz cemetery. From this point forward, the international community would condemn Indonesia for its human rights abuses in the area (East Timor).

CASE STUDIES

Bamboo Network

For more than 1500 years, Chinese merchants would travel to Southeast Asia in search of trading opportunities and wealth. Many were from the Southern coastal region of China that included the Hokkien, Teochew, Cantonese, Hakka and Hainanese. The Chinese, like many other merchants, were a minority in the region. Nevertheless, following the Chinese Civil War that set up the People's Republic of China in 1949, many Chinese refugees migrated to Southeast Asia leading to the "Bamboo Network," a term to describe family businesses run by overseas Chinese in Southeast Asia and their interconnected business alliances among the Chinese diaspora within the country. Following the People's Republic of China's economic reform in the 1980s, many Chinese diasporas in Southeast Asia connected with companies in Mainland China, allowing China to expand both economically and politically in the region (Weidenbaum, Murray). Bamboo Networks are notably flexible and adaptive, allowing for much room for expansion and as such the ability to form conglomerates that span various industries, from manufacturing to foods and beverages. This economic prosperity, however, can also draw scrutiny from indigenous locals who may perceive these conglomerates as exploitative of their local resources to the point where indigenously owned local businesses are unable to compete. Tensions may also escalate as locals see Chinese diaspora communities as non-natives and as such protests and social movements are formed to address this.

Malaysia and Singapore

Amidst the decolonization movement following World War II, the British relinquished control of the Malay Peninsula after over two centuries of colonial rule. The predominant ethnic group in the Malay Peninsula were the Malays, who were Muslim. On the other hand, over 70% of the population in Singapore, a neighboring island, were Chinese. While Singapore had the smallest land area in the region, it had the largest population and, most importantly, a Chinese population that was greater than the Malay population in Malaya. Adhering to racial lines and fearing that ethnic differences would prevent common citizenship, Britain granted independence to the Federation of Malaya, while Singapore became a Crown Colony (Kennard).

With a land area of only 734.3 km² and practically no natural resources, Singapore relied heavily upon trade to survive. However, facing an unemployment crisis, low literacy rates, and animosity towards the pervading British colonial government, Singapore desired a merger with Malaya to free itself of British rule, access the bountiful natural resources in the peninsula, and revive its economy through a shared market. Malaysia was initially averse to the merger due to concerns about the Chinese Singaporean population outnumbering the Malay; however, preventing the possibility of a communist Singapore as a neighbor during the Cold War era overruled those concerns. In 1963, the Federation of Malaysia was created from the union of the Federation of Malaya, and the Crown Colonies of Singapore, Sarawak, and North Borneo. From the start, the main political parties of Singapore and Malaysia—the People's Actions Party (PAP) and United Malays National Organisation (UMNO) respectively—clashed on economic, political, and most importantly, racial policies. The ruling UNMO, a nationalistic party based upon Malay supremacy, sought to impose policies that would favor the Malay population and establish financial and economic policies that would draw power away from Singapore. The PAP, on the other hand, wanted equal rights for all citizens regardless of race, and aimed to expand their candidacies to the mainland (Lim).

Tensions rapidly rose in response to the race affirming policies, conflicting political parties, and were further incited by the Federal government that accused the PAP of being against Malays. This culminated in a series of race riots in July of 1964 between Chinese and Malays across the country, resulting in 23 deaths and 454 injuries, and a curfew imposed upon the nation. Although Goodwill Committees and Peace Committees were established across the country to reduce tension, riots broke out again in September resulting in 13 deaths and 106 injuries (Racial Riots (1964 and 1969)). Ultimately, Singapore was expelled from the Federation of Malaysia as the government believed their differences to be irreconcilable, and became the Republic of Singapore. The expulsion of Singapore took with it the majority Chinese population, leaving a minority still in Malaysia. Still, to further protect the Malay population and reinforce the authority of the majority, the Malaysian government implemented a series of bumiputera—a term referring to the Malay and indigenous people on Sarawak and Borneo—policies granting special rights to people of those ethnicities. These ranged from racial quotas in favor of the majority in public education and government positions, to favorable political, economic and financial policies for bumiputera (Lockard). The bumiputera policies continue until today, and racial divides in the region as a result of the tensions and riots in the 1960s continue to greatly influence modern politics.

The UNMO remained in power in Malaysia until 2018; further, the current ruling political parties continue to stress the importance of the "special position of the Malays" within their manifestos and campaign for the "protection" of Malays to retain political sway (Mahathir). In Singapore, the PAP has remained the only party in governance since independence.

QUESTIONS TO CONSIDER

1. What social and economic implications will this event have on efforts to assimilate Chinese-Indonesians?

2. What role can the international community take in ensuring a smooth recovery from these political events?

3. What economic implications will the migration of Chinese-Indonesians have on the Indonesian economy?

4. To what extent can ASEAN offer humanitarian aid or any other forms of aid to Indonesia at this current time?

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