

## ECONOMIC IMPACT OF TERRORISM ON THE SOUTHEAST ASIAN REGION<sup>1</sup>

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### Introduction

The most important sea-lane of communication (SLOC) in the Southeast Asian region is the Straits of Malacca, the main passage between the Indian Ocean and the South China Sea. It is 600 miles long and 300 miles wide on its western side. The length of the Singapore Straits, which connects Malacca with the South China Sea, is 75 miles, with an overall width of less than 12 miles. The Malacca and Singapore Straits provides the artery through which a significant proportion of global trade is conducted. Some 50,000 ship movements carrying as much as one quarter of the world's commerce and half the world's oil pass through these Straits each year.

The second SLOC is the wider and deeper Lombok. It is less congested than the Straits of Malacca, is quite often used as an alternative passage and is considered a safer route.

The third SLOC is the 50-mile long Straits of Sunda, another alternative to Malacca. Because the currents are strong and the depth of the water is limited, deep draft ships do not use these straits. The largest SLOC is the South China Sea. It stretches 1,800 nautical miles from Sumatra to Taiwan and is home to four principal island groups and three major zones of

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petroleum exploration. Regional and global powers, in terms of regional maritime security stability and seaborne trade, consider the Straits of Malacca and the South China Sea to be the most important, and the Straits of Malacca are one of the busiest routes in the world.

Maritime transport in these SLOCs is divided into three major categories: dry bulk (dominated by iron ore, grain and coal); liquid bulk (dominated by crude oil and petroleum products); and general cargo (dominated by containers). Tonnage via Malacca and Spratly Islands is dominated by liquid bulk such as crude oil and liquid natural gas, with dry bulk (mostly coal and iron ore) in second place. Coal from Australia and Iron ore from India, as well as crude oil and liquid gas originating in Malaysia and Indonesia; determine the directions of the flow. Container movements originate largely from China and Taiwan, though increasingly, products from Thailand, Indonesia, Malaysia and Vietnam are occupying container space.

International sea-lanes through Southeast Asia are important to the economic and political well being of billions of people throughout the world. The commercial and strategic significance of the Southeast Asian sea lanes requires little elaboration. The sea is a major source of food for the region, and the sea-lanes are the lifeline of East Asian economies heavily dependent on unimpeded access to raw materials and market and investment opportunities throughout the region. All countries have depended on the free passage of goods across the seas, and the majority of Asian Pacific countries, with their export-oriented economic structure, have depended even more on maritime transportation. An uninterrupted and secure flow of shipping is critical to survival and prosperity of regional countries.

South Asia is also a stakeholder in trade passing through these waters, as the South Asian countries depend on these waterways to access all Asian and Pacific Rim destinations including the western coast of North America. Security of these waters is therefore of paramount economic importance to all these countries.

### **Issues of Maritime Security**

Issues of maritime security arise from several different threat perceptions and are outlined below:-

## Terrorism

Several Southeast Asian guerrilla and terrorist groups possess substantial maritime capabilities. Since 2000, Al-Qaida, the Moro Islamic Liberation Front, the Abu Sayyaff Group, Jemaah Islamiyah, the Kumpulan Militan Malaysia, the Gerakan Aceh Merdeka, and Laskar Jihad have all been suspected of planning or executing maritime attacks. Other groups have used the sea to transport weapons, move forces, and raise funds. The most successful has been Abu Sayyaff, which has conducted dozens of successful maritime operations in the southern Philippines, metropolitan Manila, and East Malaysia.

There is also the question of greater vulnerability of ports as compared to the security of airports. While airport security has been enhanced considerably, sea-ports remain vulnerable. Increasing containerization of trade also means that goods transported by sea do not undergo the kind of physical checks that air freights undergo. Bulk and liquid cargo also have the problem of rerouting, leading to the difficulty in tracing origins and destinations of sea cargo.

## Marine Crime and Piracy

Transnational maritime crime involves such economically motivated activity as piracy, smuggling, and illegal migration. Transnational maritime crime has substantial security ramifications. It is costly in human terms and is a major drain on national resources. Furthermore, it has a synergetic effect that exacerbates interstate conflict and non-state political violence. Illegal migration fuels tension between several countries. Transnational maritime crime provides terrorist and guerrilla groups the means to move weapons and personnel, raise funds, and recruit new members. Islamist terrorists are believed to maintain routes in the Celebes Sea to move operatives, explosives, and firearms between Indonesia, Malaysia, and the Philippines.

Piracy may have a nexus with terrorism. Security officials have suggested that terrorists might work with pirates or adopt their techniques. A case in point was the March 2003 hijacking of the chemical tanker *Dewi Madrim*, during which pirates wielding assault rifles and VHF radios disabled the ship's radio and took over the helm for about half an hour before kidnapping the captain and first officer for ransom. What looked like just another act of piracy may in fact have been, as many observers have suggested, a training run for a future terrorist mission.

### **Reported Piracy and Sea Robbery Attacks in Southeast Asia**

	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>	<b>1999</b>	<b>1998</b>
Global Attacks	445	370	335	469	300	202
Attacks in Southeast Asia	189	170	170	257	167	99

#### Damage to Marine Environment

Although less frequently discussed, damage done to the marine environment and tropical reefs, oil spills, overexploitation of fisheries, etc., have also impacted Southeast Asian security. For example, the destruction of reefs and overexploitation of fishing groups are contributing to Indonesian poverty and exacerbating domestic violence. Similarly, guerrillas in the southern Philippines have targeted foreign trawlers because these are seen as holding unfair technical advantages in the race to harvest fish from traditional Moro fishing grounds. The impact of natural calamities such as the tsunami that struck these seas in December 2004 could well be exacerbated by the damage done to the marine environment. Entire communities of fishing villages were decimated by the tsunami.

#### Territorial Issues

In recent years states have been increasingly willing to allow infringement upon or qualification of their sovereignty for the sake of improved maritime security. Perhaps most significantly, in 1998 Malaysia and Indonesia requested the ICJ to arbitrate the ownership of Litigan and Sipadan Islands, and in 2002 Indonesia accepted a ruling in favor of Malaysia.

Today, all extra regional powers involved in Southeast Asian maritime affairs have aligned their interests toward maritime security cooperation, especially in protecting navigation in strategic sea-lanes from transnational threats. Most important among these powers are the United States, Japan, and China. Australia and India, two large neighbors with substantial navies, have also demonstrated commitment to maritime security cooperation in Southeast Asia. This convergence of interests not only removes inhibitors previously at play but also encourages new cooperation.

India also has become increasingly involved in Southeast Asian maritime security, as part of its reinvigorated activism in the wider Asia-Pacific region and its “Look East” policy, aimed at

strengthening its influence in Southeast Asia. As seen above, in 2002 the Indian and U.S. navies worked together to ensure the safe transit of high-value units through the Straits of Malacca. In 2003 a Singapore-India agreement to improve maritime and counterterrorism cooperation resulted in the planning for joint exercises on sea-lane control, and the first Indian exercise in Singaporean waters. Shortly after the previously described Indonesia-Malaysia-Singapore coordinated trilateral patrols of the Straits of Malacca began, India raised the possibility of participating and contributing to the operations and exercises.

### Economic Issues

Financial losses from pirate attacks are estimated to run into the billions of dollars. An OECD report estimated that the overall cost of a major terrorist attack on shipping in a strategic location would likely be measured in the tens of billions of dollars. Oil accounts for half of Asia's energy consumption. Japan imports 98 per cent of its oil, and by 2020, China's oil consumption will nearly double its present consumption. Much of that oil will transit through the narrow straits of Southeast Asia. Oil tankers are an especially juicy target; in addition to disrupting energy supplies to and from the region, a single well-placed attack on a large tanker could block a chokepoint like the Strait of Malacca altogether, throwing the entire shipping industry into chaos.

In contemporary times, the Straits of Malacca has assumed critical maritime significance because of the very large volume of trade transactions. The World Bank has predicted that by 2020, seven of the world's top ten economies would be China, India, Indonesia, Japan, South Korea, Taiwan and Thailand, and those in Europe – France and Germany. The size of the Chinese economy is expected to be about 40 per cent larger than that of the United States. Asia in particular has become the focal point of world interest as Asian economies grow at an astonishing rate in comparison to those of the West. Besides, 60 per cent of the world's population lives in Asia. Asia also produces 50 percent of the world's Gross Domestic Product. This is expected to grow to 75 per cent over the next ten years.

The Indian economy has been growing at an impressive rate of 6.5 per cent. In the second quarter of 2005, India has recorded an impressive 8.1 per cent growth. During 2003-2004, merchandise goods exports were valued at US\$ 63.5 billion, recording a growth rate of 20.4 percent in dollar terms. They are likely to cross US\$ 80 billion in 2005-2006. Asia and Oceania

accounted for nearly 46 percent of India's exports. Exports to China registered a growth rate of 49.8 per cent and China and Hong Kong together accounted for about 10 percent of India's exports. Similarly, imports by India from the Asia Pacific countries have seen an impressive rise.

In 2004, India also announced a comprehensive Foreign Trade Policy (FTP). The FTP takes an integrated view of the overall development of India's foreign trade and its primary objective is to double India's percentage share of global merchandise trade by 2009. Over 75 per cent of India's trade by volume and 75 per cent by value are seaborne. If one follows the direction of trade of India's exports and Asia Pacific imports from India, the above statistics are a clear indicator that much of the trade transit through the Straits of Malacca. Therefore, safety and security of these straits is vital for India's economic growth.

As regards energy requirements, 67 per cent of India's need is sourced from the Persian Gulf and 17 percent from West Africa. There is very little that is sourced from the Southeast Asian countries. However, keeping in mind the vulnerability of energy security, both in terms of sourcing and transportation, India may, in the future, look towards the Southeast Asian markets. Such supplies will have to transit through the Straits.

#### **India's Exports to Asia Pacific Countries (US\$ Million)**

<b>Country</b>	<b>2001-2002</b>	<b>2002-2003</b>	<b>2003-2004</b>	<b>Growth (%)</b>
China	755.99	1975.48	2959.22	49.80
Hong Kong	1921.23	2613.33	3250.32	24.37
Indonesia	423.86	751.65	996.33	32.55
Japan	1266.33	1864.03	1714.34	-8.03
South Korea	382.62	544.88	NA	42.41
Malaysia	669.94	634.51	NA	-5.29
Singapore	789.52	1421.58	2116.54	48.89
Thailand	503.65	600.42	NA	19.21
Chinese Taipei	299.48	460.53	NA	53.78
Philippines	201.71	423.89	NA	110.14
Total	36011.45	42734.57	NA	

Source: India's Foreign Trade Update, October 2004, Economic Division, Department of Commerce, Ministry of Commerce and industry, Government of India, New Delhi, p.38.

**India's Imports from Asia Pacific Countries (US\$ Million)**

<b>Country</b>	<b>2002-2003</b>	<b>2003-2004</b>	<b>Growth %</b>
China P.R	2792.04	4048.35	45.00
Hong Kong	972.59	1492.57	53.46
Indonesia	1380.87	2096.35	51.81
Japan	1836.33	2642.26	43.89
South Korea	1522.01	2453.57	61.21
Malaysia	1465.42	2045.20	39.56
Singapore	1434.81	2029.96	41.48
Thailand	379.00	608.96	60.68
Chinese Taipei	460.53	NA	53.78

Source: India's Foreign Trade Update, October 2004, Economic Division, Department of Commerce, Ministry of Commerce and industry, Government of India, New Delhi, p.51.

Regional maritime security cooperation has also been limited by a lack of resources. Not only have many of the Southeast Asian states faced challenges to their economic development, but also most of them possess sea territories disproportionately large with respect to their land areas and cannot properly patrol them. Only Singapore and Brunei, relatively wealthy states with modest territorial seas, are capable of adequately securing their maritime territories. This is one of the reasons states have generally given their own operations priority over international cooperation. Resource shortages were exacerbated by the Asian financial crisis of 1997, which caused several states, including Malaysia, Singapore, and Thailand, to delay plans to expand and improve their maritime capabilities. The effect was especially profound in Indonesia, where economic hardship and an American spare-parts embargo have so immobilized the national fleet that only an estimated 15 percent of Indonesia's naval and law enforcement ships can get under way at any one time.

In recent years, Southeast Asian economies have recovered, and the resources necessary to sustain the deployment, and in some cases even expand the capabilities, of maritime forces are again available. Since 2001, Malaysia, Singapore, the Philippines, and Thailand have all taken possession of new naval ships. Malaysia is committing the resources necessary to establish a new coast guard force to relieve its currently overburdened navy and maritime police. These trends are expected to accelerate in the near future, and regional governments are expected to double their expenditures on new naval ships by 2010. This is not to say that the problem of

resource shortages has been solved. Most significantly, in the state with the largest sea territory, the Indonesian maritime forces continue to suffer from a critical lack of resources and domestic military support to maintain and operate their ships. However, speaking generally of the region, economic recovery is encouraging improved maritime security cooperation.

For example, according to some studies, Indonesia requires more than 300 vessels, large and small to protect its maritime space and resources, as well as plenty of port facilities, human resources and technology for that purpose. It has only about 115 vessels, and out of these there are only about 25 vessels that are operating at sea at a particular moment. Indonesia would require enormous resources to protect its maritime zones.

The controversy over the idea of U.S. participation in joint anti-piracy patrols in the Malacca Straits as part of the Regional Maritime Security Initiative (RMSI) highlighted the divergence of interests between Singapore and its neighbors. Singapore allowing US Customs Service officers to inspect US-bound containers in Singapore under the Container Security Initiative (CSI), and whether the costs of implementing the initiative are worthwhile are still to be made evident. Even if the direct cost is not viable, the indirect benefits are reported to be very high. Australia, US and Singapore also conducted their first joint exercise under Operation Saber. Singapore has thus become the only country receiving US patronage in maritime security issues. As a consequence, it is likely that in the future as well; other ports which are incapable of implementing the CSI might be forced to feed their cargo to Singapore. Singapore would then become the key hub for Southeast Asia. This is a likely advantage to Singapore under the CSI.

Maritime security concerns compete for attention with traditional military threats, guerrilla insurgencies, narcotics production, organized crime, and poverty; accordingly they have historically held rather low positions in the interest hierarchies of most Southeast Asian states, even those with large maritime territories, such as Indonesia and the Philippines.

### Cooperation Measures

Global cooperation is characterized by the accession of states to international conventions or other cooperative agreements of worldwide scale. Post 11 September, the United States has pushed for greater surveillance of the oceans, and the IMO convention of December 2002



chalked out a new, comprehensive security regime for international shipping. The most far reaching of these is the new International Ship and Port Security Facility Security Code (ISPS code). The code contains detailed security – related requirements for Governments, port authorities and shipping companies in a mandatory section (Part A), together with a series of guidelines on how to meet these guidelines in a second, non-mandatory section. In essence the Code takes the approach that ensuring the security of ships and port facilities is a risk management activity and that to determine what security measures are appropriate, an assessment of the risks must be made in each particular case. This puts additional burden on risk mitigation measures, including costs of marine insurance.

South East Asian states, with the exception of Singapore, will most likely be followers rather than leaders in the development of these measures, complying with initiatives that offer net advantages. Singapore, a relatively rich nation with a strong maritime outlook, a critical dependence on international trade, and a security strategy that relies heavily upon international cooperation, may lead the way.

Even when extra regional powers participate, a multilateral cooperative arrangement maybe considered regional if its goals are primarily regional. In South East Asia, the development of stronger multilateral arrangements for maritime security cooperation has received wide discursive endorsement. Such cooperation could come in the form of new multilateral agreements or be superimposed on an existing organization, such as ASEAN, ARF or APEC.

Bilateral agreements are most likely to be operationalized between states that have generally cooperative outlooks, are least distrustful of each other, and share security interests. A prototype would be the coordinated Malaysian-Thai border patrols. Recently, Singapore and Malaysia have conducted joint patrolling exercises.

If bilateral agreements are more likely than multilateral endeavors to produce operational cooperation, the most profitable form of future cooperation will be a synergetic network of bilateral arrangements. Because they are based on bilateral agreements, networked cooperation arrangements enable states to customize the most direct relationships so as to maximize value and minimize risk. The networks, however, also increase trust and understanding between all their members, thus reducing the costs of building further cooperative relationships. Such

networks would be informal at first, but once formalized would provide benefits to parallel those of multilateral arrangements.

## **Conclusion**

It is possible to draw certain clear directions from the trends. Firstly, maritime security in the South East Asian seas has to take note of the interests of stakeholders like India and the South Asian countries, who use these seas as a major trade route. These stakeholders have already evinced their interest and willingness by participating in joint security exercises and in strategic initiatives. Secondly, the issues of maritime security overarch issues of terrorism as well as trade and have to be handled holistically.

The costs of increased surveillance, risk mitigation, CSI and other measures may have to be viewed against the benefits of clearing the area of all these threats. Recent terrorist events, most recent Bali bombings, have highlighted the vulnerability of this region. Thirdly, it is clear that economic growth in Asia in the next two decades will outpace the rest of the world, and that commodities, fuel as well as finished products will overwhelmingly have to depend on these trade routes to integrate into world trade flows. Initiatives and co-operation, therefore, cannot be viewed through the narrow prism of immediate cost-benefits alone, but through a larger worldview of regional security.

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