

THE UNIVERSITY OF HULL

**Nationalism and Regional Integration Arrangements:
A Case Study of Indonesia and the ASEAN Free Trade Agreement**

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on

**Nationalism and Regional Integration Arrangements:
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This thesis analyses the relationship between Indonesian nationalism and ASEAN regional integration, with specific reference to the ASEAN Free Trade Agreement (AFTA). Traditionally, the relationship between nationalism and regionalism has most often been characterised as contentious. This thesis, however, challenges the argument that nationalism and regionalism cannot co-exist, and argues instead that the two ideologies can stand in a symbiotic relationship to each other. The relationship between nationalism and regionalism can be conflicting or mutually exclusive, but can also sometimes be mutually reinforcing. Therefore, nationalists today are not necessarily hostile to free trade and closer economic ties with other states.

In 1992, members of ASEAN agreed to closer economic integration through the formation of AFTA. In principle, this agreement was made to increase the international competitiveness of ASEAN industries and to make the Southeast Asian region an attractive investment location. This thesis analyses the contemporary attitude of Indonesians towards this trade agreement. During the signing of this trade agreement, little opposition was expressed by Indonesian domestic actors because within Indonesian politics at the time Indonesian foreign economic policy was the business of the President, the Ministry of Foreign Affairs, the military, and a handful of members of the academic

community. The wave of democratisation that emerged as a result of the economic crisis of 1997 allowed for the greater involvement of domestic actors in determining Indonesian foreign economic policy. Although the majority of the Indonesian political elite remain supportive of AFTA, some Indonesian pressure groups, particularly non-governmental organisations (NGOs) and civil society organisations (CSOs), have expressed their scepticism. Despite this, scepticism about AFTA is not a result of increased nationalist sentiment in Indonesia, but is due instead to the lack of proper information disseminated to these pressure groups.

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List of Abbreviations

ABAC	ASEAN Business Advisory Council
ABMI	Asian Bond Market Initiative
AC	ASEAN Community
ACCICG	AFTA-CER CEP Implementation and Co-ordination Group
ADB	Asian Development Bank
AEC	ASEAN Economic Community
AEM	ASEAN Economic Ministerial Meeting
AFMM	ASEAN Finance Minister Meeting
AFTA	ASEAN Free Trade Agreement / Area
AI	Amnesty International
AIA	ASEAN Investment Area
AIC	ASEAN Industrial Complementation
AICO	ASEAN Industrial Co-operation
AIELTF	ASEAN – India Economic Linkages Task Force
AIJV	ASEAN Industrial Joint Venture
AIP	ASEAN Industrial Project
ALADI	Asociación Latinoamericana de Integración (Association of Latin American Integration)
AMF	Asian Monetary Fund
AMM	ASEAN Ministerial Meeting
APA	ASEAN People’s Assembly
APEC	Asia-Pacific Economic Co-operation
APINDO	Asosiasi Pengusaha Indonesia (Indonesian Business Association)
APT	ASEAN plus Three
ARF	ASEAN Regional Forum
ASA	Association of Southeast Asia
ASA	ASEAN Swap Arrangement
ASC	ASEAN Security Community
ASCC	ASEAN Socio-Cultural Community
ASCU	ASEAN Surveillance Co-ordinating Unit
ASEAN	Association of Southeast Asian Nations
ASEAN-CCI	ASEAN Chambers of Commerce and Industry
ASEAN-ISIS	ASEAN Institute of Strategic and International Studies
ASEAN-PTA	ASEAN Preferential Trading Arrangement
ASEM	Asia – Europe Meeting
ASP	ASEAN Surveillance Process
ASPAC	Asia and Pacific Council
ATF	ASEAN Tourism Forum
BAFTA	Baltic Free Trade Area
BAKIN	Badan Koordinasi Intelijen Negara (State Intelligence Co-ordinating Agency)
BAPPENAS	Badan Perencanaan Pembangunan Nasional (National

	Development Planning Agency)
BBC	Brand to Brand Complementation
BDNI	Bank Dagang Negara Indonesia (National Trading Bank of Indonesia)
BI	Bank Indonesia (Central Bank of Indonesia)
BIMP-EAGA	Brunei Darussalam, Indonesia, Malaysia, the Philippines East ASEAN Growth Area
BOIT	Board of Investment of Thailand
BORSUMY	Borneo – Sumatra Company
BPPMA	Badan Pertimbangan Penanaman Modal Asiang (Foreign Capital Investment Advisory Board)
BSA	Bilateral Swap Arrangement
BULOG	Badan Urusan Logistik (State Logistic Agency)
CACM	Central American Common Market
CARICOM	Caribbean Community and Common Market
CEAO	Communauté Economique de L’Afrique de L’Ouest (Economic Community of West Africa)
CEEAC	Communauté Economique des Etats de L’Afrique Centrale (Economic Community of Central African States)
CEP	Closer Economic Partnership
CEPGL	Commonauté Economique des Pays de Grands Lacs (Economic Community of the Great Lakes Countries)
CEPP	Comprehensive Economic Partnership Programme
CEPT	Common Effective Preferential Tariff
CER	Closer Economic Relations
CET	Common External Tariffs
CGI	Consultative Group on Indonesia
CICP	Cambodian Institute for Co-operation and Peace
CIDES	Centre for Information and Development Studies
CMEA	Council of Mutual Economic Assistance (also known as COMECON)
COMESA	Common Market of Eastern and Southern Africa
CSIS	Centre for Strategic and International Studies
CSOs	Civil Society Organisations
CUSFTA	Canada – US Free Trade Agreement
DEPPERINDAG	Departemen Industri dan Perdagangan (Ministry of Industry and Trade)
DOM	Daerah Operasi Militer (Military Operation Area)
DPOD	Dewan Perimbangan Otonomi Daerah (Fiscal Balance Committee of Provincial Autonomy)
DPR	Dewan Perwakilan Rakyat (People’s Representative Assembly)
EAEC	East Asian Economic Caucus
EAEG	East Asian Economic Group
EAFTA	East Asian Free Trade Area
EAI	Enterprise for ASEAN Initiative
EAlA	East Asian Investment Area

EAMF	East Asian Monetary Fund
EASG	East Asian Study Group
EAVG	East Asian Vision Group
EC	European Community
ECAFE	Economic Commission for Asia and the Far East
ECLA	Economic Commission on Latin America
ECOWAS	Economic Community of West African States
ECSC	European Coal and Steel Community
EFTA	European Free Trade Association
EU	European Union
FEP	Foreign Economic Policy
FNPBI	Front Nasional Perjuangan Buruh Indonesia (Front National for the Indonesian Labour Struggle)
FPTA	Full Preferential Trading Arrangement
FSPSI	Federasi Serikat Pekerja Seluruh Indonesia (Federation of Indonesian Workers Union)
FTA	Free Trade Area
FTAA	Free Trade Area of the Americas
GAM	Gerakan Aceh Merdeka (Aceh Freedom Movement)
GATT	General Agreement on Tariffs and Trade
GDR	German Democratic Republic
GEL	General Exception List
GOLKAR	Golongan Karya (Functional Group)
GSP	General System of Preferences
GT	Growth Triangle
HPA	Hanoi Plan of Action
HST	Hegemonic Stability Theory
IBRA	Indonesian Banking Restructuring Agency
ICMI	Ikatan Cendekiawan Muslim Indonesia (Association of Indonesian Muslim Intellectuals)
IEI	International Economic Integration
IGGI	Inter-Governmental Group on Indonesia
IIA	Initial Investment Approval
IIR	Institute for International Relations (Vietnam)
IKINI	Ikatan Importir Nasional Indonesia (Indonesian National Association of Importers)
IL	Inclusion List
IMF	International Monetary Fund
IMT-GT	Indonesia, Malaysia, Thailand Growth Triangle
INDEF	Institute for Development of Economic and Finance
INFID	International Financial Development
Internatio	Internationale Credie en Handelsvereniging (International Credit and Trading Association)
IOs	International Organisations
IOCU	International Organisation of Consumers Union
IPE	International Political Economy

IR	International Relations
ISDS	Institute for Strategic and Development Studies (Philippines)
ISI	Import Substitution Industry
ISIS	Institute for Strategic and International Studies (Singapore)
ISIS	Institute for Security and International Studies (Thailand)
ITWG	Interim Technical Working Group
JSE	Jakarta Stock Exchange
KADIN	Kamar Dagang dan Industri Indonesia (Indonesian Chambers of Commerce and Industry)
KLIK	Kajian Layanan Informasi untuk Kedaulatan Rakyat (Civic and Information Studies)
KOMNAS-HAM	Komisi Nasional untuk Hak-Hak Asasi Manusia (National Commission for Human Rights)
KPPOD	Komite Pemantauan Pelaksanaan Otonomi Daerah (Regional Autonomy Watch)
KUKMI	Kerukunan Usahawan Kecil dan Menengah Indonesia (Indonesian Society for Small and Medium Scale Entrepreneurs)
LAFTA	Latin American Free Agreement / Area
LDCs	Less Developed Countries
LEAD	Leadership for Environmental and Development
LIPI	Lembaga Ilmu Pengetahuan Indonesia (Indonesian Institute for Sciences)
LoI	Letter of Intent
Malphindo	Malaysia, the Philippines, and Indonesia
MCEDSEA	Ministerial Conference on Economic Development in Southeast Asia
MERCOSUR	Mercado Común del Sur (Southern Cone Common Market Agreement)
MFA	Ministry of Foreign Affairs
MHA	Ministry of Home Affairs
MoC-SMEs	Ministry of Co-operative, Small and Medium Enterprises
MoF	Ministry of Finance
MoJ	Ministry of Justice
MoP	Margin of Preference
MoU	Memorandum of Understanding
MPR	Majelis Permusyawaratan Rakyat (House of Representatives)
NAFTA	North American Free Trade Area / Agreement
NAM	Non-Aligned Movement
NEFOS	New Emerging Forces
Nekolim	Neo-colonialism, Colonialism, and Imperialism
NEP	New Economic Policy
NGOs	Non-Governmental Organisations
NIEs	Newly Industrialised Countries
NRA	New Regionalism Approach
NRT	New Regionalism Theory
OCAs	Optimum Currency Areas

OECD	Organisation for Economic Co-operation and Development
OLDEFOS	Old Established Forces
OPEC	Organisation of Petroleum Exporting Countries
OPSUS	Operasi Khusus (Special Operation)
PAN	Partai Amanat Nasional (National Mandate Party)
PANI	Pesticide Action Network Indonesia
PBB	Partai Bulan Bintang (Crescent Moon and Star Party)
PDI-P	Partai Demokrasi Indonesia untuk Perjuangan (Indonesia Democratic Party for Struggle)
PEC	Pacific Economic Co-operation
PEKSI	Persatuan Eksportir Indonesia (Union of Indonesian Exporters)
PERDA	Peraturan Daerah (Provincial Regulations)
PERTAMINA	Perusahaan Pertambangan Minyak dan Gas Bumi Negara (Indonesian Gas and Oil Company)
PIFs	Pacific Island Forums
PK	Partai Keadilan (Justice Party)
PKB	Partai Kebangkitan Bangsa (National Awakening Party)
PKI	Partai Komunis Indonesia (Indonesian Communist Party)
PPP	Partai Persatuan Pembangunan (United Development Party)
PPTA	Partial Preferential Trade Arrangement
PSI	Partai Sosialis Indonesia (Indonesian Socialist Party)
PTA	Preferential Trade Arrangement
PTPM	Panitia Teknis Penanaman Modal (Technical Committee on Investment)
PUPUK	Perkumpulan untuk Peningkatan Usaha Kecil (Association for the Advancement of Small Businesses)
REI	Regional Economic Integration
RIA	Regional Integration Arrangement
RIIA	Royal Institute of International Affairs
RIS	Regional Integration Strategy
Rp.	Rupiah (Indonesian currency)
RTAs	Regional Trade Agreements
RTIA	Regional Trade Investment Area
RUSI	Republic United States of Indonesia
SAARC	South Asian Association for Regional Co-operation
SACU	South African Custom Union
SADC	South African Development Co-ordination Conference
SAFTA	South Asian Free Trade Area
SAPTA	South Asian Preferential Trade Arrangement
SEACEN	Southeast Asian Central Banks
SEATO	Southeast Asian Treaty Organisation
SEOM	Senior Official Meeting
SIIA	Singapore Institute of International Affairs
SIJORI	Singapore, Johor, Riau (Growth Triangle)
SL	Sensitive List
SMEs	Small and Medium Sized Enterprises

TAC	Treaty of Amity and Co-operation
TEL	Temporary Exclusion List
TNCs	Transnational Corporations
UDEAC	Union Douanière et Economique de L’Afrique (Central African Custom and Economic Union)
UN	United Nations
UNCTAD	United Nations’ Conference on Trade and Development
UNDP	United Nations’ Development Programme
UNISOSDEM	Uni-Social Democrat
UPC	Urban Poor Consortium
UUPD	Undang-Undang Peraturan Daerah (Provincial Government Act)
UUPKPD	Undang-Undang Perimbangan Keuangan Pusat dan Daerah (Financial Balance between Central and Provincial Governments Act)
WAC	Western African Community
WEC	West-East Corridor (Mekong Basin Growth Triangle)
WTO	World Trade Organisation
YLKI	Yayasan Lembaga Konsumen Indonesia (Indonesian Consumers Organisation)

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Chapter 1: Introduction

1.1. Regional integration arrangements and nationalism: an initial comment

Nationalism and regional integration arrangements (RIA) are two major phenomena that have emerged during the twentieth century and the early part of the twenty-first. These two trends, however, do not exist in isolation from other prevailing developments, such as the emergence of ethnonationalism¹ and globalisation. Whilst many nation-states have surrendered part of their sovereignty, they still continue to promote nationalistic ideals as a means of protecting the interests of their citizens. The demise of the Cold War in the late 1980s further undermined the existence of nation-states through the rise of ethnonationalist movements throughout the world, demonstrated most notably by the breaking up of the former Soviet Union and, to cite another example, the emergence of East Timor as the youngest nation to exist on earth. Ethnonationalist movements have also developed in other parts of the world, but have yet to achieve independence (i.e. in Quebec and the Chechen Republic). The concurrent emergence of these trends during the latter part of the twentieth century has thrown up some interesting contradictions within global structures. Global capitalism continues to expand in search of more profitable ways for the production and the distribution of goods and services, leading to a more internationalised world economy. At the same time, nationalist economic policies are also prevalent in both developing and developed countries as a way of countering the

¹ In general, the term ethnonationalism refers to the promotion of self-determination of an ethno-nation (or ethnic-nation) within a nation-state. For Hechter and Levy (1979), ethnonationalist movements emerge as a result of regional claims to ethnic distinctiveness within a nation-state. Other alternative terms that are often used to describe ethnonationalism are ethno-regionalism, ethnic-nationalism and secessionist movements. A more detailed account of ethnonationalism will be provided in Chapter 2.

forces of globalisation and regionalisation. It is, therefore, possible to suggest that the world is becoming both a more integrated and a more fragmented place at the same time.

The emergence of regionalism, globalisation, and ethnonationalism has, nevertheless, challenged the existence of the established nation-state system. However, contemporary studies of regionalism, commonly known as the New Regionalism Theory (NRT) challenge the conventional argument that the relationship between these different concepts is contentious.² Instead of focusing upon the competing nature of these divergent forces, theorists in this line of study emphasise the commonality and complementarity within the relationship between these different forces. It is argued that most states take a nationalistic stance as a response towards the changes that occur as a result of global capitalism (Horsman and Marshall 1995: x). Regionalism also emerges as a response to the urgent need to find new ways of confronting global forces. As a mechanism for the achievement of a new world order, regionalism is useful to combat the negative impact of globalism, to minimise excessive control and abuse by the state, to achieve a desirable world order goals, and to strengthen the regional structures of governance (Falk 1999: 64). To date, regionalism is a phenomenon that is spreading throughout the world, in both developed and developing countries, as can be seen in the recent institutionalisation of many regional groupings in the world.

The pattern of the institutionalisation of RIAs at the global level is varied, and ranges from the highly institutionalised regionalism of Europe to the much looser

² Bjorn Hettne (1994) first coined the term *new regionalism* and later elaborated on this concept with Fredrick Söderbaum (see Hettne and Söderbaum 2000) to produce work on NRT. Further analyses of the theory will be provided in subsequent chapters.

form of regionalism seen in developing regions, such as Latin America, Africa, the Middle East, Southeast Asia, and the Asia-Pacific. This thesis focuses mainly on the Association of Southeast Asian Nations (ASEAN), a regional organisation that is composed of ten countries, namely Indonesia, Thailand, Malaysia, the Philippines, Singapore, Brunei, Vietnam, Myanmar, Laos and Cambodia. The region itself has been described as dynamic due to ‘a wide range of developmental settings and conditions both between and within states. These range from chaos and isolation ... to high development of technological and trade-driven economic development’ (Ulack and Leinbach 2000: 1). However, these diversities, coupled with strongly nationalistic foreign policies, have meant that the process of regionalisation in the Southeast Asian region has progressed slowly. Specific attention within this thesis will be given to Indonesians’ perspectives on their country’s involvement in ASEAN. The rest of this chapter will be devoted to outlining the structure and organisation of this thesis, describing its objectives and how this research can contribute to the study of international political economy.

1.2. Objectives of the research

The main objective of this thesis is to analyse the dynamics of the relationship between nationalism and regionalism. In this context, the author proposes his main hypothesis that:

Indonesian Nationalism and ASEAN regionalism stand in a symbiotic relationship to one another

In the past, the relationship between nationalism and regionalism has most often been characterised as contentious because the former has exhibited no more than offensive and aggressive policies towards regionalism (Breully 1985). However, it is important to note that the relationship between the two can sometimes be mutually reinforcing, which means that they stand in a symbiotic relationship to one another. Regionalism today should not always be understood as an alternative to nationalism, but more as a supplement to protect the role of the state in an interdependent world (Palmer 1991; Axline 1994). To provide an empirical basis for this research, this thesis examines the case study of Indonesian nationalism and ASEAN regional integration, with specific reference to the ASEAN Free Trade Agreement (AFTA). Both Indonesia and ASEAN were chosen because, over the years, the former's development has been shaped by evidence of nationalism, and the latter a strong commitment towards regionalism.

Within the case study context, the thesis attempts to explore whether or not there is a shifting pattern of perceptions amongst Indonesian state and non-state actors³ towards regionalism in Southeast Asia. Initially, the author assumed that in recent years a shift has taken place from a traditionally strong nationalistic attitude to a more outward-looking orientation that has manifested itself in opting for a stronger

³ Non-state actors will henceforth be referred to as domestic actors and will include the business and academic communities, and pressure groups, such as civil society organisations (CSOs) and non-governmental organisations (NGOs). It is also important to make a distinction between CSOs and NGOs. According to the World Bank's (2000) Operational Directive 14.70, NGOs may be defined as 'myriad of different types of organizations. At its broadest, it includes all groupings of individuals that fall outside the public and for-profit sectors, whether legally constituted or informal, established or transient'. NGOs, therefore, are a diverse group, yet the term NGO is often used interchangeably with that of CSO, which normally 'includes all associations and networks between the family and the state except firms [that] NGOs cannot represent' (Edwards 2000: 7-8). More specifically, CSOs are 'the wide array of non-governmental and not-for-profit organisations that have a presence in public life, expressing the interests and values of their members or others, based on ethical, cultural, political, scientific, religious or philanthropic considerations' (World Bank website, accessed 2003). Whilst organisations such as Friends of the Earth and Amnesty International are examples of NGOs, trade unions and religious or cultural groups are some examples of CSOs.

RIA in the Southeast Asian region. In analysing further the contemporary attitude of Indonesian state and non-state actors towards ASEAN, it was necessary to establish and locate the variables that motivate such shifts in attitudes to occur. In this context, the author has observed three related determining factors comprising: first, the regional economic crisis of the late 1990s; second, shared ideas between Indonesian and other (Southeast) Asian countries' ruling elites and interest groups in pursuing a regional community formation; and, third, greater awareness amongst state and non-state actors of the positive contributions that a strengthened RIA may bring. These three factors are analysed in more detail below.

The first factor, the regional economic crisis has played a major role in opening the eyes of Indonesian domestic state and non-state actors about ASEAN regional integration. In contrast to the widely held assumption that ASEAN did little to deal with the regional economic crisis, the author contends that this was not the case. Amongst other things, delayed initiatives to eradicate the crisis came about largely as a result of the nature and structure of ASEAN as an organisation whose decisions and actions are dependent upon the consent of member countries. It was only logical that ASEAN member countries' reactions towards the economic crisis were to concentrate on domestic problems first before initiating any regional attempts to face the economic crisis. More recently, ASEAN and several other Northeast Asian countries have become more aware of this problem and are instigating plans to minimise the possibility of a future crisis. Some of these initiatives include serious discussions on further institutional, economic, and financial co-operation, which can be seen in the new ASEAN plus Three (APT), an attempt to expand regionalism to include not only the ten Southeast Asian countries, but Japan, South Korea and China

as well. As far as this particular initiative is concerned, discussions have included the possibility of the creation of an East Asian Free Trade Area (EAFTA) (Chung 2001: 397) and further financial co-operation under the 2000 Chiang Mai Initiative⁴ and the 2003 Asian Bond Market Initiative (ABMI).⁵

Secondly, even long before the regional economic crisis began in 1997, there were intense discussions amongst academics and the ruling elites of various ASEAN countries to initiate a new level of regional community formation beyond AFTA. Some analysts have even noted the significant contribution of Chinese and Japanese economic networking to regional community formation in Southeast Asia, if not in East Asia (a region consisting of both Southeast and Northeast Asian countries) (Chung 2001: 407-12).⁶ In recent years, both Japan and China have also been regarded as the centre of 'new Asian regionalism' (Katzenstein 2000: 359). The author, however, believes that significant movement towards the idea of regional community formation has in fact further intensified since the economic crisis of 1997. Amongst other things, the economic crisis has acted as a catalyst in advancing ideas of Western model of democracy in some ASEAN countries, which is particularly significant in Indonesia's case. Strengthening democratisation has led to the rapid development and expansion of the civil society movement in the region. Various

⁴ Detailed analyses of the EAFTA and the 2000 Chiang Mai Initiative will be provided in Chapter 6.

⁵ ABMI was initially endorsed at the ASEAN plus Three Deputies Meeting in Chiang Mai, Thailand, on 17 December 2002. The main objectives of ABMI is to develop efficient bond markets in Asia that would enable the private and public sectors to raise and invest long-term capital without currency and maturity risks. A review of ABMI 2003 can be obtained from the Asia Recovery Information Center website at:

<http://aric.adb.org/docs/asiabondmarket/asean.asp>

⁶ See also Peng's (2002) analysis of the contribution of Japanese and ethnic Chinese economic networking to informal integration in East Asia. In this context, Peng defines informal integration as 'integration through economic factors, facilitated by "natural" channels such as geographic proximity, ethnic ties, and industrial divisions of labor' (p. 425).

domestic non-state actors have become both more interested and concerned with regional level issues as part of the deepening internationalisation of their interests.

Thirdly, many Indonesian state and non-state actors are now increasingly aware that their countries' future development rests upon the strengthening of existing regionalism. The recent development of ASEAN has made a positive contribution in the form of confidence building measures (Sopiee 1986: 222), which were one of the Association's most significant objectives in the past. ASEAN, amongst other things, has increased the bargaining power of Southeast Asian countries in many international fora. Although there is limited evidence to suggest that ASEAN was able to bargain with various international institutions, such as the International Monetary Fund (IMF) and the World Bank during the economic crisis, ASEAN has the potential to carry out such tasks if member countries opt for greater and stronger co-operation. However, the question remains as to whether ASEAN will respond to a host of new regional challenges (Smith 2000a: 41). The emergence of an ethnonationalist movement, for example, has been a significant post-crisis concern amongst Indonesian state and non-state actors (Lay 2001). However, Indonesian state and non-state actors appear to hold the view that ASEAN has the potential to help Indonesian in resolving this domestic problem.

Although Indonesian state and non-state actors' attitudes towards ASEAN have become more positive in recent years, there are still some as yet unresolved issues which may hinder the development of further RIA in the region. One issue particularly worth stressing concerns the Association itself, which has become more exclusive in terms of its relations with the majority of the Southeast Asian population.

The Association is still largely an elitist executive club for regional Foreign Ministers, if not leaders, whose decisions at the regional level do not necessarily correspond with the actual demands of the majority of the Southeast Asian population. There are, for example, many Indonesian non-state actors (particularly NGOs and CSOs) who believe that the implementation of AFTA is not feasible due to the Association's long-standing cardinal principle of non-interference.⁷ The perpetuation of this principle could continue to be a major obstacle to greater economic co-operation, leading to bureaucratic dilemmas during the exchange of economic information amongst the member countries.⁸ Secondly, further RIA attempts will also face challenges from external forces. These include particularly the West's fear that strengthened Southeast and East Asian regionalism might jeopardise the future of the World Trade Organisation (WTO)'s multilateralism (Higgot 2000: 256-9). The third major issue that may prevent a more open attitude amongst Indonesian state and non-state actors towards ASEAN regional integration is the fragmentation of the Indonesian state that has occurred as a result of strengthening ethnonationalist movements in various parts of the country.

The above issues may have implications for the formation of strengthened regional integration in ASEAN for a number of reasons. To start with, regarding the aforementioned exclusivity of ASEAN as an institution, there are two levels at which a strong elitist nationalistic stance could exist. At one level, there are the policy makers whose eagerness to pursue the formation of stronger RIAs will vary

⁷ The principle of non-interference prohibits ASEAN member countries to interfere in any issues which can be regarded as the domestic affairs of other members. This principle is also regarded as one of the key elements, along with the principle of quiet diplomacy, the non-use of force, and decision-making through consensus, of Asian value or the ASEAN way. For detailed analysis of the non-interference principle see Robison (1996), Ramcharan (2000), and Katsumata (2003).

⁸ This does not include a number of attempts to harmonise ASEAN member countries' divergent policies (i.e. on labour, tax, social, etc), required in the process of deeper integration or co-operation.

depending upon their perception of the costs and benefits incurred by such arrangements. In Indonesia's case, policy makers' decisions have been strongly associated with the personal economic benefits that can be gained or lost through further ASEAN regional integration. The decrease in economic gains resulting from such arrangements would normally provoke a stronger nationalistic stance amongst those policy makers. In this context, nationalism often equates to the economic or capital gains that can be acquired or lost by policy makers or other interest groups. At another level, the very fact that the country's foreign policy decisions represent largely the individual interests of members of government has been a catalyst in promoting the nationalistic stance held by many Indonesian citizens. Consequently, the exclusive nature of a regional institution can widen the gaps between the governments and the governed. Secondly, in both the economic and the security field, ASEAN countries are still very dependent on the US, Japan, and the European Union (EU). Therefore, any attempts to promote further regionalism in Southeast Asia cannot afford to violate various established agreements that have been made individually between ASEAN member and non-member countries. Finally, without continuous and comprehensive initiatives to eradicate the ethnonationalist movement within the country, the Indonesian state will most probably not favour any Southeast Asian regionalism since both RIA and ethnonationalistic movements pose challenges to the established nation-state system.

1.3. Contribution of the research

This thesis aims to contribute towards better understanding of the relationship between nationalism and regionalism. More specifically, this thesis is linked strongly

to recent debates on NRT. Despite its flexibility and fluidity in characterising recent patterns of regionalism, the author believes that NRT still lacks the necessary comprehensive conceptual development to explain the nature of the relationship between nationalism and regionalism. In the past, most theoretical frameworks within the study of regionalism have focused upon the issue and process of the institutionalisation of a regional grouping. This study, however, will specifically address the issue of the gap between a regional institution and the citizens of its member states, which has often been ignored in most theses on the political economy of regionalism.⁹ It is only logical to address this particular issue since nationalism has long been seen as a contending variable within international fora or arrangements. Whilst realising this, however, most scholars have failed to elaborate further on the dynamic relationship between nationalism and regional integration.¹⁰

Moreover, this thesis will provide some new dimensions to the study of contemporary Indonesian foreign policy, and foreign economic policy (FEP) in particular, in ASEAN. This is in contrast to past Indonesian foreign policy studies that have taken for granted that Indonesian nationalism will be a contending variable in the future of ASEAN regionalism. The central conclusion of this study, however, offers a contrasting view. Past studies on this issue, such as those conducted by Weistein (1976) and Anwar (1994) have nevertheless provided an essential starting

⁹ The problem of the gap between citizens and regional institutions is best illustrated in the context of the European Union (EU). In recent years, the strengthening of the EU has led to an emerging 'democratic deficit', a concept based on the notion that the EU lacks democracy due to its complex operational method. The EU is becoming increasingly remote from its citizens because Europeans put too much emphasis on the European Parliament, which is the only branch of the EU that is directly elected by the citizens (Moravcsik 2002). The debate over the EU's democratic deficit seems to raise further questions about the Union's social legitimacy (Smith 2003).

¹⁰ Although a closer attempt at analysing domestic attitudes towards regionalism has been made by Haggard (1997), this study lacks any specific analysis of the dynamic relationship between nationalism and regionalism. Most recent publications on NRT, such as those produced by Hettne (1999) and Schulz *et al* (2001a), also do not provide any specific explanation on the dynamic relationship between the two variables.

point from which to study the subject as well as a valid analysis of the logic behind such nationalistic stances. It must be taken into account, however, that the study of international political economy is not static, and thus has to be re-assessed within specified time periods and the international situations that exist at these particular times. The periods of Indonesian foreign policy in which Weinstein and Anwar carried out their respective research, for example, were set against a relatively stable international political economic context. Consequently, it is hoped that this study will offer new and important contributions to the analysis of Indonesia's foreign policy within the *reformasi*¹¹ period. Finally, it is also hoped that this thesis' exploration of a case study that focuses on Indonesian nationalism and ASEAN's regionalism will be useful for future comparative regionalism research.

1.4. Structure of the thesis

There are three major questions that underlie this thesis. The first question is concerned with the reasons why regionalism has been one of the most important features of the global political economy in the last few decades. The second question focuses on why nation-states, particularly developing countries, employ a regional integration strategy (RIS) in international relations. The third question concerns domestic state and non-state actors' reactions and perspectives towards RIAs *vis-à-vis* globalisation. Two main perspectives have emerged in recent writings on regional integration. On the one hand, there are scholars who see the development of regional integration as a stepping stone or building block towards greater multilateralism in the world trading system (e.g. Lawrence 1995; Summers 1991; Anderson and Blackhurst

¹¹ This period is marked by the regional crisis and followed with the resignation of Suharto as the President of the Republic of Indonesia on 21st May 1998.

1993). For Bhagwati (1995), on the other hand, regionalism can be seen as a stumbling block towards greater multilateralism in the world trading system. Accordingly, he insists on the persistence of multilateralism and global governance. From the mid-1990s, the issue has become increasingly controversial owing to the substantial rise in the number of domestic non-state actors that simply reject the idea of regional integration and globalisation.¹² It is, therefore, necessary to explore each of these questions in order to comprehend the logic behind the creation of various regional groupings in the world as well as the logic behind regional actors' decisions in pursuing an RIS. To deal with all these questions, this thesis is divided into eight chapters which deal with specific issues concerning the theoretical background of regionalism and nationalism, as well as an analysis of the case study that focuses on the dynamic relationship between Indonesian nationalism and ASEAN regionalism.

In Chapter 2 the author analyses the theoretical background within the study of regionalism and nationalism. The chapter will start with an analysis of the logic behind regionalism as a contemporary phenomenon. The second part of this chapter will focus on recent trends in regionalism in the world today and the theoretical background to regionalism. There are two main disciplinary perspectives in the study of regionalism, that have emerged from international relations (IR) and economics. Whilst IR perspectives on regionalism have experienced a major shift since their first appearance following the Second World War (i.e. neo-realism to social constructivism), much economic analysis of regionalism is still focused upon the traditional Vinerian approach. In recent years, however, NRT has added a new

¹² Those who oppose regional integration, such as labour and environmental activists, tend to view regionalism as a similar phenomenon to that of globalisation, although on a smaller scale. Ideas about the surrender of sovereignty and the spread of the negative forces of capitalism can lead to scepticism about regionalism amongst the general public.

dimension in the study of regionalism. This new theoretical approach attempts to bridge the gap that exists between IR and economic perspectives on regionalism. Following the analysis of the theoretical background of regionalism, the third part of this chapter will focus on nationalism. More specifically, this part of the chapter will analyse the concept of nationalism and its application to international affairs.

Chapter 3 and Chapter 4 are concerned with the conceptual framework and research methodology respectively. The main focus in Chapter 3 is on the analysis of NRT. This chapter begins with an analysis of the relationship between NRT, as a new regionalism approach, and nationalism. This analysis aims to explore the dynamic relationship between nationalism and regionalism. Furthermore, this section is designed to fill the gap between established perspectives on regionalism and NRT, since most regionalism theorists have to date only mentioned the importance of the national domain but yet to provide any conceptualisation of this issue. In addition, specific attention within this chapter will also be given to an analysis of contemporary nationalists' interest in pursuing a regional integration strategy. Finally, Chapter 3 will include a brief analysis of the relationship between NRT, Indonesian nationalism and ASEAN regional integration. Chapter 4 provides a detailed account of the research process undertaken in the making of this thesis, including data collection and the categorisation of respondents, as well as an analysis of preliminary research findings.

Detailed analyses of Indonesian nationalism and ASEAN regional integration will be provided in both Chapter 5 and Chapter 6 respectively. Through a detailed examination of both the historical and contemporary perspectives on Indonesian

nationalism and foreign economic policy, this thesis seeks to establish the logic behind Indonesia's pursuit of RIS, despite its strong nationalist historical background. The primary focus of Chapter 6, however, is on ASEAN regional economic integration attempts, both past and present. Since this thesis is primarily concerned with AFTA, early ASEAN regional economic integration attempts, such as the ASEAN Preferential Trading Arrangement (PTA), ASEAN Industrial Projects (AIPs), ASEAN Industrial Complementation (AIC) and ASEAN Industrial Joint Venture (AIJV), will only be analysed briefly. The analysis of AFTA will include a historical account of the trade agreement and its prospects and challenges within and beyond Southeast Asia.

Chapter 7 provides a detailed analysis of Indonesian perspectives towards the country's involvement in ASEAN, with particular reference to AFTA. This investigation has been made possible through field research carried out during 2000-01, which involved research interviews conducted with representatives from various government agencies and domestic interest groups in Indonesia. Moreover, this section also analyses several contextual factors which have influenced public perceptions towards ASEAN at the present time. These include the regional crisis of 1997, contemporary Indonesian nationalism and ethnonationalism, and the organisational structure of ASEAN. The subsequent sections in this chapter are divided according to the questions set during the field research. Finally, Chapter 8 concentrates mainly on the findings of the study, which analyses the dynamic of the relationship between Indonesian nationalism and ASEAN regional integration

1.5. Conclusion

The relationship between nationalism and regional integration has traditionally been viewed as conflictual, particularly since the latter can undermine the integrity of the former. This study offers a new approach to the study of regionalism and nationalism. The examination of Indonesia's relationship with ASEAN as a case study serves as a focal point in which the nature of the contending forces between nationalism and regionalism can be better comprehended. Indonesia is known traditionally as one of the most nationalistic country in the Southeast Asian region, which is not only due to her pride in the sheer size and richness of her natural resources, but also due to her long historical struggle against imperialism. Such attributes and historical background give Indonesia a sense of confidence in herself and, thus, over time, may be see to have produced excessive nationalism. Although ASEAN has existed for over three decades, it has as yet been unable to make any progress in further promoting Southeast Asian regionalism. Excessive emphasis on the national interests of member countries has further obscured the regionalisation process in the Southeast Asian region.

In 1992, ASEAN member countries agreed to form AFTA, which has the objective to increase the international competitiveness of ASEAN industries and to make the Southeast Asian region an attractive investment location. During the signing of this trade agreement, there were little opposition expressed amongst Indonesian domestic actors because Indonesian politics at the time treated the conduct of the Indonesian foreign economic policy as exclusive affairs of the President, the Ministry of Foreign Affairs, the military, and a handful of members of the academic

community. Recent developments within the region, however, depict a different picture where many Indonesian state and non-state actors have finally become more conscious about regional issues and problems. The conclusion of this thesis argues that although the majority of the Indonesian political elite remain supportive to AFTA, some Indonesian pressure groups, particularly NGOs and CSOs, are still concerned about this regional trade liberalisation scheme. Despite this, scepticism towards AFTA was not borne out as a result of the emergence of nationalist sentiment in Indonesia, but because of the lack of proper information disseminated to these pressure groups. For the majority of Indonesian state and non-state actors, ASEAN and its AFTA scheme remain part of Indonesia's national interest because they help to promote sustained economic development, the preservation nationalism and sovereignty, the enhancement of autonomy and bargaining in international arena, and the ability to resist the negative forces of globalisation.

Chapter 2: Understanding the Relationship between Regional Integration Arrangements and Nationalism

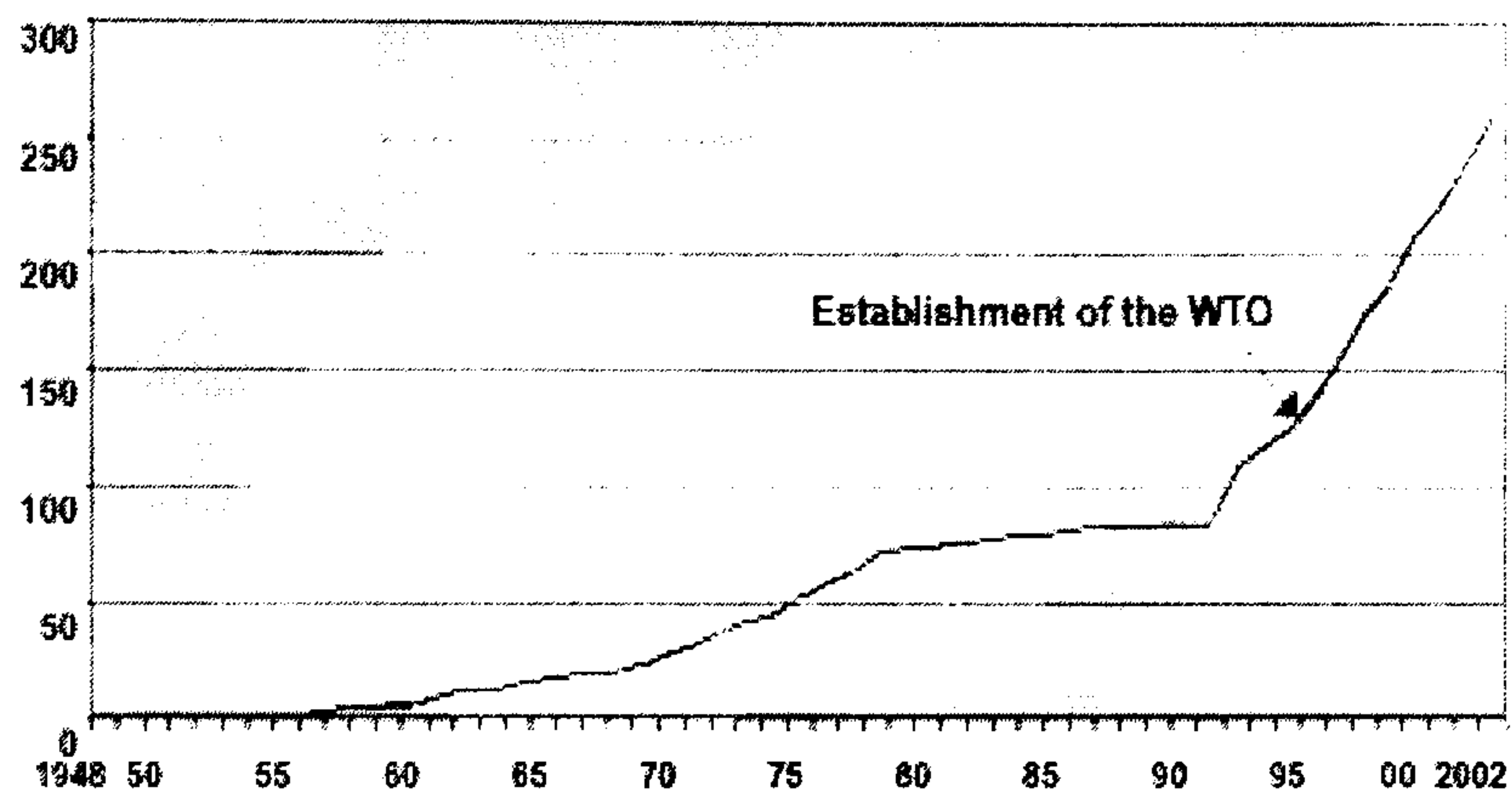
2.1. Introduction

The relationship between nationalism and regionalism is one major issue that has been neglected by political science (Shulman 2000: 365). Generally, however, the relationship between nationalism and regionalism has been characterised as contentious. For example, Breully (1985: 10) has mentioned that scholars often regard the term nationalism as referring to ‘offensive and aggressive policies’ in world politics. The main objective of this chapter is to revisit some of the theoretical backgrounds in the study of nationalism and regionalism, as well as to identify some of the gaps in the existing literature on each respective subject. Section 2.2 analyses the recent trend of regionalism in the world today. Subsequently, section 2.3. analyses different theoretical perspectives of regionalism. The theoretical analysis in this section is divided into two periods of regionalism; namely the *old regionalism* period and the *new regionalism* period.¹ Section 2.4. analyses different theoretical perspectives within the study of nationalism. Here, the principal focus will be given to the concept of nationalism and the development of nationalism in the international context. Meanwhile, section 2.5. identifies the gaps within the existing literature on both nationalism and regionalism. Finally, the chapter will conclude with a general analysis of main findings within the literature of regionalism and nationalism.

¹ The old regionalism is also known as the ‘first wave’ of regionalism whilst the new regionalism can be referred to the ‘second wave’ of regionalism (Hettne 1999; Schulz *et al.* 2001)

2.2. Recent trends in regionalism in the global economy

Figure 2.1.
RTAs in force by date of notification



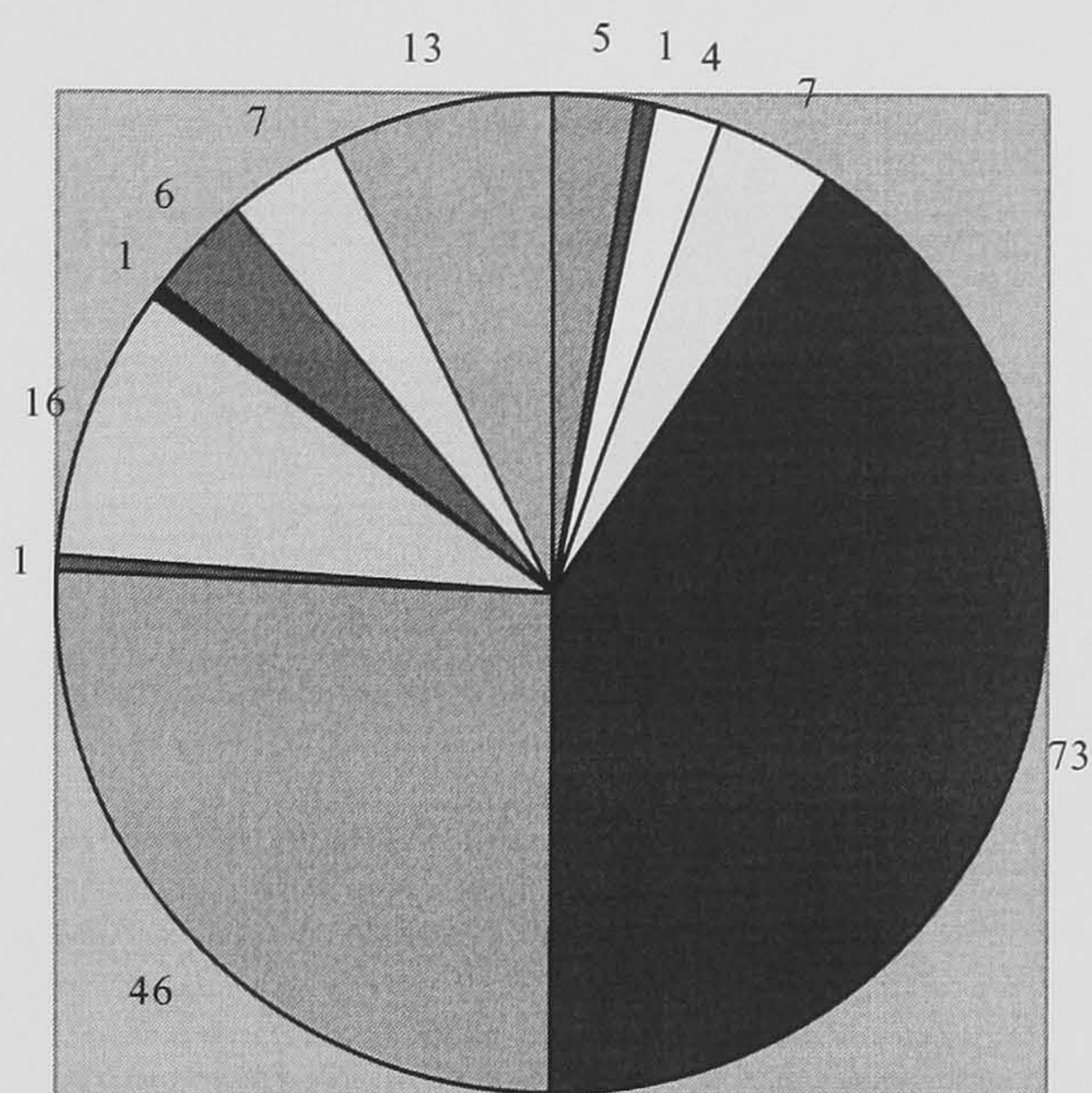
Source: WTO official website (accessed 2003) at:
http://www.wto.org/english/tratop_e/region_e/regfac_e.htm

There has been an increase in the number of formal regional organisations in recent years, which suggests a proliferation of regionalism amongst countries in the world today. The World Trade Organisation (WTO) (see figure 2.1), for example, notes that the GATT identified the existence of 124 RTAs during the period 1948-1994. Since the creation of the WTO in 1995, about 100 additional regional arrangements have been added to promote liberalisation of both trade and services. To date, there are 250 RTAs, of which 180, or roughly 72 percent, were operational as of February 2004, whilst the remaining 70 RTAs are still under negotiation.² The majority of the active RTAs are bilateral free trade agreements formed between an established regional grouping and a state, and FTAs that are formed between two states (see figure 2.2.). By 2002, the total number of RTAs had increased to 250, showing an increase of 130 since the creation of the WTO. A WTO (2000: 3) study also suggests that by 2005 the total number of RTAs

² These are the updated figures from the last WTO (2000) report.

could reach approximately 300 if those RTAs presently at the planning or negotiation stage are put into operation.

Figure 2.2.
Types of regional groupings,
as of February 2004



- Plurilateral Custom Unions
- Bilateral Custom Union between 2 states
- Bilateral Custom Union between a regional grouping and a state
- Plurilateral Free Trade Agreements
- Bilateral Free Trade Agreements between 2 states
- Bilateral Free Agreements between a regional grouping and a state
- Bilateral Free Trade Agreements between 2 regional groupings
- Plurilateral Preferential Arrangements
- Bilateral Preferential Arrangements between 2 states
- Plurilateral Service Agreements
- Bilateral Service Agreements between 2 states
- Bilateral Service Agreements between a regional grouping and a state

Source: WTO official website (accessed 2003) at:
http://www.wto.org/english/tratop_e/region_e/regfac_e.htm

Even with the increase in the number of RIAs, the European Union (EU) remains the most comprehensive regional grouping in the world today.³ It originated from the European Coal and Steel Community (ECSC), and has progressed towards the establishment of the Single Market in 1993, introducing euro notes and coins on the 1st January 2002. At the moment, the EU seeks to open negotiations for further enlargement that will include Central and Eastern European countries. Apart from that, various regional groupings in Europe are also pursuing bilateral FTAs with non-European member countries (i.e. FTAs between the European Community (EC) and Morocco, EC and Israel, and between the European Free Trade Association (EFTA) and Israel). During the first wave of integration, there was also an attempt amongst socialist states of Eastern Europe to form an RIA. The economies of Eastern Europe formed the Council for Mutual Economic Assistance (CMEA) in 1949, which sought to accelerate economic development and the establishment of a more rational division of labour amongst the socialist states of Eastern Europe (Robson 1987: 219).⁴ The grouping was composed of the Soviet Union, Bulgaria, Czechoslovakia, Hungary, Poland, Romania, Albania, the German Democratic Republic (GDR), Cuba, Mongolia, and Vietnam as member countries.⁵ Over the years, however, the aim of the CMEA was to counter the rival Western European's European Community (EC) and the European Free Trade

³ Further details on the history of the EU can be obtained from the European Union On-Line official website (accessed 2002) at:

http://europa.eu.int/abc/history/index_en.htm

⁴ The CMEA is also commonly known as COMECON in the West.

⁵ Despite an initiative amongst Eastern European socialist states, by the 1970s and 1980s membership was expanded to include non-Eastern European socialist states. In 1976, the CMEA also gave observer and co-operant status to Iraq and Mexico. For further analysis on the involvement of Iraq and Mexico in the CMEA see Marer and Montias (1988).

Association (EFTA). The CMEA, however, ceased to exist in 1991, largely as a result of internal conflict and divergent national interests amongst member countries.

In other regions, there are also examples of RIAs. In the Americas, for example, the North American Free Trade Agreement / Area (NAFTA)⁶ and the Southern Common Market Agreement (MERCOSUR – *Mercado Común del Sur*)⁷ have been the most significant ones to date. In Central America, there are also the Central American Common Market (CACM) and the Andean Group, which were established in 1960 and 1969 respectively. Recently, however, there have been efforts to unite the economies of the Western Hemisphere, which will incorporate member countries of both NAFTA and MERCOSUR as well as other older regional groupings, such as the Andean Pact and the Central and Caribbean units (Phillips 2000: 288). This effort has materialised in the Free Trade Area of the Americas (FTAA), which was originated from a joint declaration made at the first Summit of the Americas that took place in Miami, in December 1994.⁸ The grouping will involve 34 countries in the region, all agreeing to a free trade area throughout the continent by 2005.

⁶ Other forms of RIAs existed amongst North American countries prior to the creation of NAFTA in 1993. The first comprehensive one was the US – Canada Auto Pact of 1965. In 1988 this RIA was transformed into the Canada – US Free Trade Agreement (CUSFTA), which involved a total free trade agreement between the two countries. Many elements within the CUSFTA were later incorporated into the NAFTA agreement, whilst Mexico was asked to join the agreement.

⁷ Initially, during the first wave of regionalism, a number of RIAs were formed amongst Latin American countries, which include the Latin American Free Trade Area (LAFTA – 1960), and the Association of Latin American Integration (ALADI – 1980). Many of these RIAs, however, failed to succeed. MERCOSUR was finally established in 1995 and was initiated by two of the largest Latin American countries, Brazil and Argentina. The wish to deepen their relationship resulted from decades of mutual distrust between the two countries. The two countries drafted 24 bilateral protocols that symbolised a new political and economic reality for these two Latin American countries. By 1991, Paraguay and Uruguay had asked to join the agreement. Subsequently, the Treaty of Asuncion was signed in 26th March 1991, agreeing that the decision for the creation of a common market should be decided upon by 31 December 1994.

⁸ A review of FTAA's progress can be found at the FTAA official website (accessed 2003) at: http://www.ftaa-alca.org/View_e.asp

Africa, however, has the largest number of RIAs in the world, although most of which are still in the form of preferential arrangements. Amongst these are the *Communaute Economique de L'Afrique de L'Ouest* (CEAO -1974), the *Union Douaniere et Economique de L'Afrique* (UDEAC – 1964), the *Communaute Economique des Pays de Grande Lacs* (CEPGL – 1976), the *Communaute Economique des Etats de L'Afrique Centrale* (CEEAC – 1983), the *Communaute Economique des Etats de L'Afrique Centrale* (CEEAC – 1983), and the West African Community (WAC – 1978). In South Africa, furthermore, there are three main regional organisations, which include the South African Custom Union (SACU - 1969), the Southern African Development Co-ordination Conference (SADC – 1980) and the Preferential Trade Area for East Africa (1981). In 1994, the Preferential Trade Area for East Africa was transformed into the Common Market of Eastern and Southern Africa (COMESA), which took the end objective to be a full common market (Odén 2000:255).

A similar trend, however, was not reflected in Asia. The only comprehensive RIA in the region is ASEAN, which, at present, comprises all the Southeast Asian nations. Prior to the creation of ASEAN there were various different integration arrangements that existed amongst some Southeast Asian countries, but only in the very short-term.⁹ A more recent regional integration scheme in Asia is the South Asian Association for Regional Co-operation (SAARC), formed in 1985 and consisting of

⁹ The first of these was the Association of Southeast Asia (ASA), which was created in 1961, composed of Thailand, the Philippines, and Malaysia as member countries. The second was Maphilindo, which was created in 1966, with member countries including Malaysia, the Philippines, and Indonesia. These two projects were mainly based on security issues, and sought to contain the spread of Communism in the region. The existence of both ASA and Maphilindo, however, was rather short owing to continuous conflicts amongst the member countries of each respective Association.

Bangladesh, Bhutan, India, the Maldives, Nepal, Pakistan, and Sri Lanka. Despite other trade liberalisation initiatives, SAARC is still the main tool that protects the political and security interests of South Asian countries. In 1993, member countries of SAARC agreed to form an ambitious regional trade agreement, the South Asian Preferential Trading Arrangement (SAPTA), which, subsequently, was put into effect in December 1995. The SAPTA was hoped to act as a stepping stone to a more ambitious project to create the South Asian Free Trade Area (SAFTA) by the year 2000, or the latest by 2005 (Muni 2000: 125).

During the 1970s and 1980s, many of these regional groupings, particularly those formed amongst developing countries, failed to sustain their existence. One major problem encountered by these regional groupings was that they used an EC model (Langhammer and Hiemenz 1991: 173; Breslin *et al.* 2002: 3). The EC, which reflects a traditional Vinerian approach to integration,¹⁰ is a very complex model for many developing countries. It requires economic heterogeneity and the willingness of member countries to pool their resources together, and also to surrender part of their sovereignty. To date, CACM and ASEAN are the only regional groupings amongst developing countries able to survive the transition period between the first wave and the second wave of regionalism. Another main obstacle to regional integration during the first wave of regionalism was the issue of forms of new identity (Jelin 1999: 47), as well as internal conflicts that thwarted cooperation (Banega *et al.* 2001: 235). Successful regional

¹⁰ The Vinerian approach is further explained in the next section.

integration attempts, therefore, depend upon the success of participating governments in addressing these issues and not simply mirroring RIA attempts in other regions.¹¹

2.3. Theoretical perspectives on regionalism

In recent years, interest in regionalism has been resurrected amongst scholars and policy-makers as a result of emerging patterns of this phenomenon in world politics. Analysis in this section will be devoted to different theoretical perspectives on regionalism, particularly those relevant to a study of regionalism in the Southeast Asian region. The analysis in this section will be divided into two frameworks; namely 'old regionalism' and 'new regionalism'. Within the old regionalism (first wave of regionalism), four international relations (IR) theories are relevant to our analysis of regionalism in Southeast Asia. These are (neo) realism, neo-liberal institutionalism, social constructivism, and structuralism. Another mainstream theory during the first wave of regionalism is based on an economic perspective.¹² However, the old regionalism period faded out in the late 1970s. In the wake of the re-emergence of RIAs throughout the world during the early 1990s, or during the second wave of regionalism, a new line of theory has been introduced. Scholars commonly term this new theory the

¹¹ This also applies to the socialist RIAs. The CMEA, for example, was unsuccessful because of internal political differences amongst member countries, and because of its inability to enhance the welfare level of member countries. In economic terms, for example, Finch (1988: 148) suggests that CMEA countries experienced welfare deterioration from trade integration and other forms of co-operation. In addition, Jovanovich (1992: 50) also argues that the USSR's egotistical behaviour led to internal conflicts amongst CMEA member countries.

¹² Generally, economists' analyses of regionalism are based on four different economic structures, namely Free Trade Areas (FTA), Custom Union, Common Market, and total integration or Optimum Currency Areas (OCAs). However, since the main focus of this thesis is on the ASEAN Free Trade Area (AFTA), specific concentration in this section will be given to FTA.

New Regionalism Theory (NRT).¹³ This theory attempts to bridge the gaps between both the IR and economic perspectives upon regionalism. However, there are some existing limitations in the analysis of NRT, which are particularly evident in a vague and limited analysis of the relationship between nationalism and regionalism. This issue will be further explored and analysed in this chapter.

2.3.1. Definitions and associative concepts of regional integration

In general, regional integration arrangements (RIAs) can be described as agreements between nation-states, within a specified geographical area, to minimise barriers.¹⁴ Such an agreement is normally created with the aim of achieving gradual moves towards an elimination of political boundaries between the participating states. In addition to the term of RIA, this thesis also uses the concept of a regional integration strategy (RIS). The two terms differ in the sense that an RIS specifically refers to a *strategy* of regional integration used by domestic state and non-state actors to enhance their interests either at the domestic, regional, or international levels. Certain domestic actors (i.e. nationalists) may use an RIS for the purpose of, *inter alia*, enhancing their

¹³ Some scholars, such as Schulz *et al* (2001), also term this new theory the New Regionalism Approach (NRA). However, for the rest of the thesis, the term NRT will be used.

¹⁴ The term RIA was primarily derived from the concept of *regional integration*. Although there are no clear historical accounts which indicate the exact time that the concept of *regional integration* was first initiated, Machlup (1977: 63) suggests that the 'concept made its first appearance in 1939 and 1942'. Thus, it is a relatively new term, dating back to the World War II period. In addition, Machlup (1977: 61) also points out that the word *integration* itself was 'taken from the Latin word *integratio*, which [was] mainly used in the sense of renovation'. During its conception, the word *integration* was normally associated with industrial organisation, and referred to the act of combining business firms through agreements, cartels, and so on. By 1950, however, the term regionalism had been given a specific definition by most economists as 'a process and as a state affair' (Balassa 1961: 1). Regionalism is regarded as a process because it encompasses *measures* designed to abolish economic discrimination between participating countries. At the same time, it is also viewed as a state affair due to the absence of various forms of discrimination between national economies.



country's bargaining power *vis-à-vis* world economic powers. Whilst this thesis primarily uses the terms RIA and RIS, other scholars have also used other terms, such as international economic integration (IEI)¹⁵ and regional economic integration (REI).¹⁶ Although these three terms have been used interchangeably by most scholars from time to time, each term is significantly different from the others. To start with, it is important to note that when one speaks of regionalism, one must bear in mind that 'regionalism is regional' (Ethier 2001: 3), in that it specifies certain geographical limitations. Thus, there are differences between REI, IEI, and RIA.

The term REI is mostly limited to discussions of regional integration in the context of economics. In this sense, REI is normally defined as 'the process of reducing the economic significance of national political boundaries within a geographic area' (Anderson and Blackhurst 1993: 1). Alternatively, it may also be 'loosely defined as any policy designed to reduce trade barriers between a subset of countries' (Winters 1999: 8), and as such reflects the notion within trade theory that a partial move towards freer trade will improve welfare amongst member states. REI is similar to IEI, which can be broadly defined as 'a state of affairs or a process [that] involves the amalgamation of separate economies into larger regions. [It is] more concerned with the discriminatory removal of all trade impediments between the participating nations and with the establishment of certain elements of co-operation and co-ordination between them' (El-Agraa 1988: 1).

¹⁵ The term used by some scholars, such as Tinbergen (1954), El-Agraa (1988), and Robson (1987).

¹⁶ Multilateral trade bodies, such as WTO use the term regional trade arrangements (RTAs). This term specifically refers to free trade agreements made between two or more participating countries. The WTO, however, regards RTAs as not specifically constrained by region *per se*. This is mainly due to the fact that many RTAs today do not necessarily involve countries within the same region. Further details on RTAs can be found at the WTO website (accessed 2003) at: http://www.wto.org/english/tratop_e/region_e/region_e.htm

Although this definition of IEI mentions the word *region*, it is actually referring to international or global integration, which implies a larger geographical context than that of *region*. Finally, the concept of RIA carries a rather loose notion of regionalism. It is limited to the context of *region*, rather than *global* or *international*, and it does not denote a specific form or nature of regionalism, such as economic integration. Therefore, for the remainder of this thesis, the term RIA is used since much of the analysis will not focus solely on economic integration, but also on the framework of the political and social integration of a *region*. After all, regionalism is not, and should not be, purely centred around the issue of economics alone, in spite of much discussions and empirical evidence that prove the notion that trade fosters the growth of regionalism and *vice-versa*.

A distinction must also be made between regionalism and regionalisation when analysing RIA. Regionalism is primarily an ‘ideology that we ought to live in geopolitical domains greater than states, though not worldwide. Regionalisation, [on the other hand], is the description of an empirical trend that ostensibly inspires or bears out this basic belief’ (Pettman 1999: 181). In practical terms, regionalism consists of policies initiated by regional state actors to promote greater integration in a region (e.g. a state-led project, such as the formation of a growth triangle initiative). Meanwhile, regionalisation normally refers to regional activities that are initiated by regional non-state actors (e.g. market or business-led projects). Moreover, despite being specifically *regional*, RIA is often associated with the concept of globalism or globalisation. In line with his earlier definition of regionalism and regionalisation, Pettman (1999: 181) also proposes that globalism is an intention ‘to live in ways that unite people worldwide, [whilst]

globalisation is the description of an empirical trend that ostensibly inspires or bears out this basic belief'. Whereas the former is associated with a vision of a border-less world, the latter is often interpreted as being the process through which globalism could be achieved. Meanwhile, most economists associate globalism with 'the principle of non-discriminatory and multilateral free trade in promoting non-restrictive movements of various commodities, including those of goods and services' (Okita 1994: 72), whilst globalisation, on the other hand, 'involves more precisely a quantum leap in the transnationalisation of production, distribution of goods and services, and financial flow' (Tussie 1998: 82). Both terms refer to a form of international trade and economic liberalisation in which tariff barriers between countries are non-existent, which is also known as multilateralism, regardless of the region in which a country is located.

There are some other important terms related to the notion of RIA and globalisation, many of which relate to economic perspectives on RIA. It is important to understand these definitions prior to analysing some of the mainstream theoretical frameworks of regional integration, particularly those related to economic issues. These terms include the following: 'outward vs. inward looking policies; trade creation vs. trade diversion; and market integration vs. discriminatory integration' (Okita 1994: 72-5), and also homogenous vs. heterogeneous economies. Economists often refer to two different effects of regionalism on globalisation, seeing it either as a stepping-stone or a stumbling block (Bhagwati 1995a). Regionalism as a stepping-stone is normally equated with open regionalism (outward regionalism), whilst regionalism as a stumbling block is usually associated with that of a trading bloc (inward regionalism). Both terms are also related to

traditional RIA theory or the Vinerian *trade creation* and *trade diversion* theory.¹⁷ An outward regionalism normally implies an RIA that proposes an open economy, and holds to the principle of trade creation both within and beyond the region. Meanwhile, the principal characteristics of inward regionalism can be seen in RIAs formed amongst countries that pursue a closed economic policy with a high level of protectionism, which leads to trade creation within the region, but trade diversion beyond the region.

Debates on whether regionalism is a stepping-stone or a stumbling block have been lively amongst economists. On the one hand, there is an argument that regionalism should be seen as a stepping-stone towards global economic multilateralism since regional activities themselves are ‘heavily influenced by increasingly regionalised forms of capitalism’ (Stubbs 2000a: 233). Moreover, it has also been suggested that the re-proliferation of regionalism in recent years has resulted from many countries’ ‘frustration [towards] multilateral approach within the [General Agreement on Tariffs and Trade (GATT)] framework’ (Srinivasan *et al.* 1993: 73). The WTO has largely focused upon an individual country’s preference in phasing out a protectionist policy. Meanwhile, regionalism could be a stumbling block in the sense that the rise of production networks and a single currency might eventually lead to the creation of competing blocs in the

¹⁷ The concept of trade creation and trade diversion are primarily used in the advanced level of REI, particularly at the custom union level. In his analysis of the static measure of a custom union, Viner (1950) argues that, as a result of the introduction of a common external tariff (CET), trade with non-member countries will result in either trade creation effect or trade diversion effect. A trade creation effect occurs when the imposition of a CET does not distort trade with non-member countries. In this context, a lack of inefficient products within an RIA will be replaced with cheaper imports from non-member countries, which eventually lead to producer and consumer gains. A trade diversion effect, on the other hand, occurs when ‘cheaper external imports being replaced by more expensive partner equivalent as a consequence of CET’s imposition’ (Dent 1997: 30) on non-member countries. A trade diversion effect, therefore, refers to higher levels of trades generated within an RIA rather than outside it.

world economy. Multilateral trade is argued to have grown faster in the absence of RIAs (Bhagwati 1995a). However, GATT rules specifically regulate the pursuance of RIA between countries. Article XXIV, Clause 4, in particular, includes some prerequisites in which an RIA can be formed. Member states of an RIA must recognise that 'the purpose of a custom union or a free trade area should be to facilitate trade between the constituent territories and not to raise barriers to trade of other contracting parties with such territories' (GATT 1947: 41). This particular regulation applies not only to those countries that wish to establish new RIAs, but also to all established RIAs that wish to strengthen their co-operation. Thus, GATT rules have made it clear that the formation of an RIA should not be made at the expense of multilateralism.

Another important distinction has to be made between market and discriminatory integration. Market-led integration is a regional integration scheme where governments play a limited role in determining the direction of the market whilst discriminatory integration involves heavy interference from the government in determining the shape and size of a regional grouping. In market integration, market actors, such as transnational corporations (TNCs), are the most crucial players in determining the future of regionalisation in a defined region. Their actions are closely associated with the movement of capital, goods and services, as well as financial mobility. The nature of the economies of regional groupings can be characterised as either homogeneous or heterogeneous. Whilst a homogenous regional grouping includes member states that possess identical economic structures, a heterogeneous regional grouping normally consists of member states whose economic structures differ from each other. Lastly,

there are also some other terms, such as shallow integration and deep integration (Robson 1993; Haggard 1995), that should also be acknowledged. Whilst shallow integration refers to regionalism in the form of trade in goods and services only (i.e. FTAs, such as the North American Free Trade Agreement (NAFTA) and the Baltic Free Trade Area (BAFTA)), deep integration involves integration in the level of production (i.e. custom unions, such as the Southern Cone Common Market and MERCOSUR) and the Caribbean Community and Common Market (CARICOM)).

2.3.2. Mainstream old (first wave) regionalism theories

Any attempt made to transcend mainstream theorising in regionalism requires a comprehensive understanding of previous theoretical analyses of the subject. There were four mainstream theories that dominated the analysis of regionalism during the first wave of regionalism, including (neo) realism, neo-liberal institutionalism, structuralism, and social constructivism. Each of these theories falls within the sphere of IR analysis, and each demonstrates certain characteristics, in that they all reflect the international political economy in which they were developed. Neo-realism, for example, was developed through a belief in the importance of the nation-state system in international relations. Neo-liberal institutionalism, on the other hand, rejected this notion and challenged the (neo) realists' view by recognising new important forces in world affairs; namely non-state actors or agencies. The same approach is also applied to the other remaining two newer IR theories. Economists, such as Viner (1950), Tinbergen ('954), and Balassa (1961), have also given us an equally important analysis of the first wave of regionalism.

REI theory is generally concerned with the deepening of regionalism through the free trade area (FTA), custom union, common market, and total integration. This thesis, however, pays particular attention to FTA. The aim of this section is to examine and to analyse each of these mainstream theories, as well as to highlight their relevance to our study on regionalism in Southeast Asia.

Initially, regionalism was perceived as ‘state-driven processes in response to the changing structural condition of the international economic system’ (Dent 2001a: 733). This is the predominant view held by the majority of *realists* about the emerging pattern of regionalism in the 1950s and 1960s. For realists, regionalism is the pursuit of national interests by nation-states. Another predominant feature in realists’ thinking is security. The international system is assumed to be anarchic and run by egoistic actors, so that each state is forced to prioritise its own needs and interests as the basic means for its survival.¹⁸ It is, therefore, necessary for a state to exercise power within the international arena. Its capacity to fulfil this role is normally determined by its military capability. In this sense, a state has the ‘monopoly of legitimate violence’ (Lähteenmäki and Käkönen 1999: 205), which can be used to contain both internal and external threats. This line of thinking, moreover, stresses the notion of the balance of power, whereby a strong country will act as a hegemon in order to minimise conflicts, or to foster co-operations, amongst nation-states. The elements of hegemonic power normally comprise ‘control over materials, markets, and capital as well as competitive advantages in the production of

¹⁸ The work of Thomas Hobbes (1688) was one of the main inspirations for the development of (neo) realist thinking. For Hobbes, human nature is selfish: life is a struggle of individual wills in a battle for survival. Accordingly, in an international system where forces capable of producing order are absent, it is inevitable that wars occur as a result of human fear, greed, and competition.

highly valued goods involving the use of complex or new technology' (Keohane 1984: 32-3). However, whilst acknowledging the anarchic international system, realists also believe that the relationship between nation-states is hierarchical since each nation-state possesses a different level of resources, wealth, and power. In the context of regionalism, therefore, the realist perception tends to stress 'the outcome of a situation where the major power acts as either an imperialist, the player whose presence is to maintain the balance of power, or as a hegemon' (Hveem 1999: 91-92).

As with realism, neo-realism considers the state as the main determinant in neo-realist analysis whilst, at the same time, the 'internal characteristics of nation-states [are considered] as irrelevant' (Dent 2001a: 732). Another major characteristic of this theoretical perspective is that states act rationally in order to acquire substantial power in the international arena. The main actors in this theoretical approach are the nation-states who make their decisions based on relative gains and losses, depending on the domestic concerns of their countries. The main departure of neo-realism from realism concerns the structure in which states function. Intense interaction amongst states enables a structure to develop that makes up the order or the arrangement of the international system (Waltz 1979). Moreover, the international system is perceived as anarchic rather than hierarchic, as realists would have suggested earlier. The international arena is, therefore, unpredictable. With the collapse of the Cold War, Waltz (1993) added the concept of *cyclical change* within the neo-realist paradigm. In his view, the world observes the rise and the fall of the Great Powers. In this context, for example, he suggests that Germany or Western Europe, Japan and China will rise to rank as great powers alongside the US

(Waltz 1993: 50). Therefore, as a result of an anarchic international system, nation-states are more concerned with relative rather than absolute gains.¹⁹

The theoretical perspectives provided by realists and neo-realists are particularly important in explaining the rise of regionalism in Southeast Asia. The Association of Southeast Asian Nations' (ASEAN) member states, for example, opted for a regional strategy to cope with the changing international economic condition. ASEAN has often changed course to suit the unpredictable international political economic conditions. AFTA, for example, was introduced partly as a response to strengthening regionalism in Western Europe and North America in the early 1990s. There are, however, some main fallacies prevalent in both realist and neo-realist perspectives on regionalism. One main deficiency lies in the tendency of both theories to see the aggressive behaviour of nation-states, in the form of military actions, as a way to maintain peace. Thus, realism and neo-realism assume that regionalism is often shaped by political polarisation in the international system. Such political polarisation is best illustrated through observing the Southeast Asian region where, during the Cold War period, two main political ideologies, capitalism and communism, divided the region into two camps. On the one hand, some countries, Singapore, Thailand, Indonesia, Malaysia, and the Philippines, joined ASEAN as the supporters of liberal capitalism, whilst, on the other hand, the socialist countries, such as Vietnam, proponents of communist based regionalism, joined the CMEA. Another major criticism of both theories is their emphasis on the importance of the nation-state in determining the international system (Underhill 1994: 26; Miller 1998:

¹⁹ In this context, for example, Waltz (1979: 67) suggested that, in the near future, it is likely that both Japan and Germany could become nuclear powers.

77). Throughout the late twentieth century there were other actors, apart from the state, that played important roles in shaping and determining the international system. The significant rise of both civil society organisations (CSOs) and non-governmental organisations (NGOs), for example, has been influential in determining the state's behaviour in the international arena today.

Another relevant theoretical framework for an analysis of Southeast Asian regionalism during the first wave regionalism period is neo-liberal institutionalism.²⁰ Neo-liberal institutionalism perceives the emergence of regionalism differently to (neo) realists. Regionalism, according to this line of thinking, can be fostered through the formation of regional institutions or regimes (Keohane 1984; Grugel and Hout 1999). As with realism, however, neo-liberal institutionalism stresses the notion of individual self-determination and rationality. The expression of this notion has been best illustrated in the *laissez faire* principle of free trade and comparative advantage (Dent 2001a: 734). For neo-liberal institutionalists, 'the idea of politics is equated with the need to develop social institutions (such as the state and market) that conform more closely to a possessively individualist model of motivation and the propensity of ostensibly free individuals to pursue their material self-interest' (Gill 2000: 50). However, unlike (neo) realists who emphasise the importance of state actors, neo-liberal institutionalists are more concerned with non-state entities or actors, such as TNCs, NGOs and other international agencies. These entities have not only become major forces in international

²⁰ See in particular Moravcsik (1993), one of the main proponents of neo-liberal institutionalism.

political-economics, they have also become the main determining factors for governance in the international arena (Risse-Kappen 1995).²¹

Apart from an emphasis on non-state entities, there are several other main characteristics that embody neo-liberal institutionalism theory. The first is the theory's preoccupation with the notion of interdependency (Keohane and Nye 1977). Interdependency is generated through intense interactions amongst non-state entities or actors. Neo-liberal institutionalism treats interdependency amongst states as the main feature of an *international regime* in regulating specific policy issues (Rittberger 1993). Subsequently, an increased level of interdependency will generate greater demand for the formation of international (or regional) co-operations. The second major characteristic is the use of a bargaining system between states as well as functional incentives for institutionalisation to provide the outcome of inter-state bargains' (Moravcsik 1993: 517). The third characteristic prevalent in most neo-liberal institutionalist literature is the stress on the institutionalisation of such co-operation.²² These international (regional) institutions are important because of their capacity to disseminate relevant information to the actors concerned, the promotion of transparency and monitoring, and to mediate divergent interests amongst different actors (Schulz *et al* 2001a: 9).

²¹ Despite this, neo-liberal institutionalists also concur with (neo) realism analyses, particularly with regard to the state's role in world affairs. Here, neo-liberal institutionalists also maintain that states play a determining factor in world affairs, and that they act with a unitary and rational manner. Moreover, neo-liberal institutionalism also agrees with the (neo) realists argument that anarchy is the major force that shapes the motives and actions of the states. For a further review on the differences between (neo) realism and neo-liberal institutionalism, see Grieco (1988).

²² See also Moravcsik (1998) for his ambitious work on developing a theory of economic and political integration on the basis of intergovernmentalism. His work concentrates on national governments' pivotal responses to the increase of interdependence amongst national economies. Other attention is also given to the importance of international (regional) institutions in solving problems generated by economic interdependence.

There are some major deficiencies in the analysis provided by neo-liberal institutionalists. According to (neo) realists, for example, neo-liberal institutionalism fails to take account of two major barriers in international co-operation, which include cheating and relative gains (Grieco 1988: 487). Neo-liberal institutionalism, however, argues that the problem of cheating in international affairs can be overcome through conditional co-operation. Despite this, neo-liberal institutionalism still fails to deal with the second problem of relative gains, which, according to the neo-realist school of thought, is a major characteristic in relations between states. Another main deficiency in this theory is its excessive reliance on the market and the principle of trade liberalisation. The results of the implementation of this approach can be seen across the world. There is a great deal of scepticism amongst the political elites of developing countries about the advantages of the unregulated nature of global capitalism (Bowles 2000; Phillips 2002). This has been particularly evident since the economic crises in the late 1990s.²³ Despite these criticisms, the neo-liberal institutionalist explanations of the rise of regionalism have provided insights. In the Asia-Pacific region, for example, the formation of the Asia-Pacific Economic Co-operation (APEC) has been driven by increased interdependency not only amongst countries in the region, but also amongst non-state entities and actors. The forum itself has become the only major institutionalised mechanism to facilitate economic growth, increasing co-operation, trade, and investment in the Asia-Pacific region. The same also applies to the relationship between Europe and Asia under the framework of the Asia-Europe Meeting (ASEM). This forum was also

²³ Breslin *et al* (2002) also add that, with regard (in respect) to the Asian regional economic crisis of 1997, the underlying task (question) is not to find a regional solution to the economic crisis, but also to question (on) the advantages that can be accrued by pursuing neo-liberalism *per se*.

formed as a response to ‘growing complex interdependency between the two regions’ (Dent 2001a: 734).

Another important theoretical perspective on regionalism during the first wave period was structuralism. This theory’s perspective on regionalism is based on the importance of economic, political, and social structures (Wallerstein 1979; Chase-Dunn 1989; Halliday 1994). In its broadest sense, structuralism analyses a large scale system through a thorough examination of the functions and relations of the small constituents that make up that system (Underhill 2000: 17). Primary analysis within structuralist perspectives is drawn from Marx and Lenin. In Marx’s view, for example, economic structure is the strongest single influence on society.²⁴ Based on his observations of the production structure inherent in capitalism and the dynamics that produce classes, Marx contended that such conditions would lead to class struggle, and, subsequently, revolution and the next stage of history. Marx’s idea was further expanded by Lenin (1966), who regarded imperialism as the highest stage of capitalism.²⁵ According to Lenin, imperialism is a transitional stage that the world must pass through to reach communism.²⁶ This theory advocates the reform of the structure of global capitalism, particularly for the sake of developing countries (Isaak 1991: 3). The tendency for capital flow to come from developing countries to developed countries, for example, is a

²⁴ See, for example, Marx and Engels (1955: 5).

²⁵ Lenin’s analysis, *Imperialism: The Highest Stage of Capitalism*, was first published in 1917. It is important to note that an earlier comprehensive analysis on the role of economics in imperialism was first developed by John Hobson (1965). In Hobson’s view, imperial expansion was primarily driven by the desire to search for new markets and resources, as well as to seek the opportunity for investment overseas.

²⁶ This theoretical doctrine has been adopted by a number of socialist countries. Russia under Joseph Stalin and China under Mao Zedong, for example, adopted a centralised system to achieve the transformation from capitalism and imperialism to communism. .

result of trade terms that are structured against the poor (Prebisch 1964). Moreover, structuralists also find an asymmetry between *the centre* and *the periphery* areas (Singer 1950; Prebisch 1951). The asymmetry between the two areas emerges as a result of imbalances between the excessive demand made by the centre, or developed countries, for manufactured and industrial goods and the demand made by the periphery, or developing countries, which specialise in agriculture and other basic natural resource production. This structural imbalance will result a trade gap between the two respective areas.²⁷

Two major contemporary variants of structuralist perspectives have been *dependency theory*²⁸ and the *modern world-system theory* or *global social theory*. Dependency theory began to emerge during the 1970s and attempted to expand previous structuralist thinking on the divide between developed and developing countries. This theory holds that ‘the economy of certain countries is highly conditioned by the development and expansion of another economy to which the former is subjected’ (Dos Santos 1970: 231). According to dependency theory, the gap that exists between the centre and peripheral areas is normally sustained due to the dependency of developing countries on developed countries to supply capital, technology, trade, and so on. In a similar line of argument, modern world-system theory contends that ‘world politics

²⁷ Structural or trade imbalance normally refers to the incapacity of peripheral areas, or developing countries, to earn enough from exports to cover the cost of imports. Developing countries normally require imports for the purpose of development. For a further review on structural or trade imbalance see Tussie (1987: 22-37).

²⁸ Dependency theory was developed largely by analysts within the Economic Commission on Latin America (ECLA). This theory was later developed by other scholars, particularly those associated with the United Nations Conference on Trade and Development (UNCTAD), who were dissatisfied with the assumption that the failure of development in many developing countries was a result of religion, culture and tradition, which acted as a bulwark against modernisation. Further analysis of dependency theory can be found in Dougherty and Pfaltzgraff (1990: 249-52) and Ghosh (2001).

occurs within a world-system dominated by the logic of global capitalism' (Hobden and Jones 1999: 126). One such prominent thinker is Wallerstein (1974), who argues that the world economy acts as a determining factor in the international system. Some of the main characteristics within the modern world system, according to this line of theory, are: first, a single division of labour that makes nation-states mutually dependent upon each other for economic exchange; second, the accumulation of profit through the sale of goods; and third, the functional areas or socioeconomic units within the world system.²⁹ Unlike dependency theorists, however, the modern world-system theory emphasises the concept of the *core* to represent a geographical region made up of nation-states, all of which play an important role in the modern world system. Due to the varying degrees of bourgeois interests in each of these countries, all nations have different elements of core, periphery, and semi-periphery. Consequently, it is the core states that have the capacity to dominate the peripheral states through the unequal exchange between them.³⁰

More recent analyses of structuralism have also been developed through an analysis of two kinds of power in the international political economy, namely structural power and relational power (Strange 1994: 24). Within this context, structural power refers to the power that shapes and determines the systematic structures within which other actors must operate. Relational power, on the other hand, is the direct exertion of

²⁹ Moreover, Wallerstein (1991) also argues that a world system analysis is the appropriate mode of analysis to explain all social phenomena over time.

³⁰ Throughout the late 1980s, however, Wallerstein's work received stiff criticism by a number of scholars. For example, Chase-Dunn (1989) believes that the inter-state system is equally important in determining the international system. In his view, the capitalist mode of production has a single objective in which both politico-military and exploitative economic relations play key roles. Another criticism of Wallerstein's view is also present in Abu-Lughod's (1989) work, particularly with regard to the framework of the world system during the sixteenth-century. In her view, during the medieval period Europe was peripheral whilst the core region was the Middle-East.

the power of international actors on the behaviour of other actors. Within a global political economy where competition is evident between state and international capitalist forces (i.e. TNCs), structural power counts more than relational power. Structural power in an international economic structure, as Strange (Strange 1994: 29-30) further postulates, emerges from four sources, including security, production, finance, and trade. Those who possess such power will be able to change the range of options available to others. In this context, not only are international capitalist forces able to influence the policies pursued by international organisations, but they are also able to influence the environment in which economic activities take place (Dent 2001a: 736). Structuralism is useful to explain the failure of regional economic integration in Southeast Asia. The economies of ASEAN member countries, for example, have been greatly dependent upon the economies of non-member countries, particularly the US, Japan, and the EU. Moreover, structuralism would view that the formation of AFTA, with its open economic policy, would further consolidate ASEAN member economies with those of North American, European, and Northeast Asian economies. This condition, in turn, will further marginalise other global peripheral regions, such as African countries.

In recent years, regionalism has also been explained through the adoption of a social constructivist point of view. Social constructivism was developed during the early 1990s³¹ and has become the backbone for the development of NRT. Social constructivism is mainly concerned with the notion of culture and identity, both of which have been undervalued in other mainstream regionalism theories (Lapid and Kratochwil

³¹ Prior to 1989, the term social constructivism was hardly used. Most scholars used the term *structuration theory* to relate to a constructivist approach in IR theory. This is particularly apparent in the works of Giddens (1979), Ruggie (1983), Wendt (1987), and Dessler (1989).

1996).³² The core analysis of social constructivism, however, is similar to (neo) realism and neo-liberal institutionalism in that they all emphasise the notion of rationalism (Smith 1997: 183). Additional similarities also exist between social constructivism and neo-liberal institutionalism in the sense that both theories are concerned with the norms and beliefs that shape the behaviour of international (regional) actors (Hette and Söderbaum 2000: 460). Moreover, social constructivism can also be seen as structuralism in the sense that it stresses ‘the interests of individual states are in an important sense constructed by the structure of the international system’ (Baylis 1997: 204).³³ The underlying difference between social constructivism and other IR theories is that the former argues that norms and beliefs are socially constructed and not exogenously given.

In general, social constructivism offers a comprehensive understanding of ‘material incentives, inter-subjective structures, and the identity and interests of the actors’ (Hurrell 1995: 72). In its broadest sense, social constructivism ‘places emphasis both on material forces and on its standings, including norms, that emerge from social interaction’ (Adler and Barnett 1998: 10). For social constructivists, the meaning of material resources for human actions can only be acquired through the structure of shared knowledge in which they are embedded (Wendt 1995: 73).³⁴ In the social constructivist

³² In recent years, however, the notion of culture and identity has also been predominantly used by neo-liberal institutionalists. For further analysis of the importance of culture and identity in neo-liberal institutionalists’ perspectives see, *inter alia*, Caporaso (1992) and Zaccher and Matthew (1995).

³³ One major difference between structuralism and social constructivism is the latter’s argument that structure has no existence or causal power apart from when it acts as a process. As a result, structure does not explain the outcomes. For further analysis on the differences between the two theories see, *inter alia*, Wendt (1992).

³⁴ For Ruggie (1998: 4), social constructivism allows for the formation of various international (regional) agencies not only as the enactment of pre-programmed script, but as a reflection of social creation, within structured constraints.

view, norms, culture, and ideas are ideational factors that should operate above any functional utility they may have, which would include the way in which they shape the identity and interests of the actors (Wendt 1994; Katzenstein 1996). In the framework of international affairs, social constructivism holds that ‘the system of states is embedded in a society of states, which includes sets of values, rules, and institutions that are commonly accepted by states’ (Ruggie 1998: 11). This condition, in turns, enables the system of states to function properly. In Wendt’s (1992) analysis, for example, international anarchy is not fixed since it does not reflect self-interested state behaviour. Social constructivists, therefore, view anarchy as the reflection of selfish identities and interests and the product of interactions amongst states.

In reference to regionalism, social constructivism argues that a region is socially constructed and, as such deals specifically with the concept of a *region* (Schulz 2001a: 15). The term is most often used in the geographical sense to denote a certain geographical area. However, as Nye (1968: VI) points out, ‘region is an ambiguous term ... There are [no] absolute [or] nationally defined regions. Relevant geographical boundaries vary with different purposes ... [A] relevant region for security may not be one for economic integration’. Indeed, as a concept, a region is relative matter. As Schulz *et al* (2001a: 14) have added, the socially constructed character of a region also implies that ‘regionalisation can be deconstructed’, as it can be constructed. It is also important to note that some regions are too loosely defined. Again, by taking an example from the Asia-Pacific geographical area, Palmer (1991) insists on certain geographical limitations of this particular region. Due to the region’s vast geographical size and its

cultural and racial heterogeneity, it is almost irrelevant to regard the Asia-Pacific area as a *region*. It should instead be regarded as a 'series of regions' (Palmer 1991: 21). Moreover, when one analyses the concept of a region, it is also imperative to note some of the characteristics that make up a region, which include geographical proximity, social and cultural homogeneity, shared political attitudes and behaviour, and economic interdependence. These are the elements that make up a sense of regional identity. These elements may seem vague and abstract, yet they provide clearer guidelines than those of modern frontiers. In addition, social constructivists also argue that the institutionalisation process within regionalism is very much related to intense interactions conducted amongst actors (Smith 1997: 185). In this context, regionalisation is considered a *process*. Through an understanding of various inter-subjective structures, it is possible that the interests and identities of international (regional) actors could change overtime.

2.3.3. Economic perspectives upon free trade areas

Neoclassical economic analyses of regionalism are generally based on the orthodox theory of REI (Schulz *et al* 2001a: 10). The underlying concept within the study of REI has been the theory of the customs union, which refers to the creation of the advanced stages of REI in linear succession. These stages normally include the formation of a preferential trading agreement (PTA), FTA, customs union, common market, and, finally, economic and political union (Ballasa 1961; Robson 1987; El-Agraa 1997; Jovanovich 1998). As with most other regional groupings in the world, with the

exception of the EU, REI in Southeast Asia has only advanced at the FTA level. In the past ASEAN has also practised economic co-operation under the framework of the ASEAN Preferential Trading Agreement (ASEAN-PTA) in 1977. In the early 1990s, however, ASEAN countries agreed to form a more advanced level of economic co-operation in the form of AFTA. This framework of economic co-operation was only implemented in January 2002. It is for this reason that the main focus of this section is given to an economic analysis of FTAs.³⁵

Whilst mainstream IR theories place much emphasis on institutional factors, economic analysis of regionalism define regionalism in terms of the movement of capital, goods, services, and labour. International trade theories have evolved from the seventeenth and eighteenth century mercantilist approach, such as absolute advantage³⁶ and comparative advantage,³⁷ and the early twentieth century factor endowment theory.³⁸ These traditional international economic theories, however, are deficient in some

³⁵ It is still highly speculative to assume that REI in Southeast Asia will advance to any level beyond the FTA. Amongst other things, this problem is a result of the lack of will amongst ASEAN member governments to surrender part of their sovereignty. At an advanced level of REI, a regional grouping must suppress any discrimination in commodity movements as well as impose an equalisation of tariffs towards non-member countries (custom union), abolish restrictions on factor movements (common market), harmonise national economic policies amongst member countries (economic union), and, finally, unify monetary, fiscal, social, and countercyclical policies (total economic integration). Many of these requirements are still too difficult to achieve in ASEAN. For further analysis on each of these stages see, *inter alia*, Balassa (1961)

³⁶ The concept of absolute advantage was based on Adam Smith's most influential work, *The Wealth of Nations* (1776). Smith analysed the consequence of economic freedom, covering issues such as self-interest, the division of labours, the function of market, and the implication of the *laissez faire* economy. For a detailed analysis of Adam Smith's works see also Smith *et al* (1986).

³⁷ The theory of comparative advantage was developed by a British MP and economist, David Ricardo, in the early nineteenth century. For a detailed analysis of Ricardo's work see Sraffa and Dobb (1951).

³⁸ Factor endowment theory was developed by Bertil Ohlin (1933), in his work *Interregional and International Trade*. In this work, he developed an earlier theory introduced by his mentor, Eli Heckscher, and his own earlier doctoral thesis. The factor endowment theory is now known as the Heckscher-Ohlin theory and has become the basis for many contemporary economic theories, such as the regional economic integration theory developed by Viner (1950) and Balassa (1961).

respects, particularly in their emphasis upon individual actions in initiating trade and the assumption that perfect information disseminates amongst economic actors. In addition, these traditional theories do not explain the issue of the transfer of goods or FDI, technology, management, and marketing (Bende-Nabende 2002: 26). In spite of these shortcomings, these theories have proved useful in providing initial analyses for the development of contemporary REI theory. This is evident in the development of the comparative advantage and factor endowment theories. Whilst the comparative advantage theory perfected the absolute advantage theory by introducing the term *specialisation*, the factor endowment theory corrected other previous theories by focusing upon land, labour, capital, technological, and management. The theory of comparative advantage has underpinned the development of recent REI theories by insisting on global free trade as the *first best* policy of realising free trade. Under a global free trade condition (i.e. tariff free global trade), trade-creation is encouraged through tariff level cuts between all countries. In this context, each country is assumed to produce only the goods that it can produce more efficiently than other countries. This leads to optimum efficient production on a global scale if the neo-classical assumptions of comparative advantage theory hold true, namely a constant return of scale, no transport costs, perfect competition market conditions, etc. This theory is essential within the study of REI. A grouping that decides to co-operate economically aims to achieve welfare enhancement.

As mentioned earlier, prior to achieving a condition of total economic integration, countries in a region normally conduct an FTA, or in a simpler form, a PTA. A PTA normally exists when member countries charge each other lower tariffs than those they

charge non-members (Schulz *et al.* 2001a: 10; Bond 2001: 16). However, it is important to note that PTAs normally involve one or more types of economic integration, including FTA, customs union, etc. Generally, economists differentiate between two types of PTAs: Partial Preferential Trading Agreements (PPTAs) and Full Preferential Trading Agreements (FPTAs) (Grether and Olarreaga 1998: 9). PPTAs generally refer to trade preferences that are granted to either specified products or unilaterally to a set of member countries by more developed member countries. At this stage, member countries are more concerned with their tariff barrier levels than with the free movement of goods. FPTAs, on the other hand, refer to trade preferences that include full product coverage and where all members grant preferential access to other members.

PPTAs normally involve a significant decrease of tariffs between member countries through a *product by product* base and / or sectoral based mechanisms. Some examples of PPTAs that involve product by product based mechanism can be found in the 1977 ASEAN PTA and the more recent South African PTA. Examples of sectoral based PPTAs, on the other hand, can be found in the European Coal and Steel Community (ECSC) of 1951 and the US – Canada Auto Pact of 1965.³⁹ FTAs normally fall within the category of PPTAs. In other circumstances, FTAs may also be formed as an addition to previously established PPTAs. In this context, FTAs normally involve the initial equalisation of various trade barriers between different states, normally at much lower rates than those imposed during the PTA level. The transformation of the ASEAN

³⁹ The US - Canada Auto Pact of 1965 provided free trade for trucks, cars, and auto-parts between the two countries. Apart from that, this Pact was also formed to facilitate free trade on cars for the US Big Four auto manufacturers, General Motors, Ford, Chrysler, and American Motors (The Marxist Leninist Daily 2001). By 1999, two-way trade between the two countries rose to US\$104.1 billion from an initial US\$715 million in 1964. Nowadays, the Auto Pact has been incorporated into NAFTA.

PTA into AFTA is a case in point whereby AFTA can be seen as an extension of the former. Unlike the more advanced stages of REI, however, both PTAs and FTAs do not require member states to harmonise trade policies amongst themselves.

An FTA has two basic features, which include, first, the ability of each member country to fix its own tariff rates against non-member countries; and, second, the use of a *country of origin* mechanism as a determination of intra-trade. The country of origin mechanism is useful 'to limit trade deflection, [which] is a redirection of imports through the country with the lowest tariff for the purpose of exploiting the tariff differential' (Robson 1987: 23). At the FTA level of regional integration, it is true that trade deflection is likely to emerge (Dent 1997: 27), which is primarily due to the divergent rates imposed on the third countries. Thus, trade deflection occurs when member countries with more protectionist external policies are circumvented. The rule of the country of origin is particularly useful in determining the country origin of the traded goods. Therefore, 'free trade performs the same function for international trade as competition laws in domestic economies' (Oxley 1990: 194).

Another major constraint in employing an FTA is that it generates unequal prices for the products being offered to consumers. This is mostly due to the price differences between products produced within an FTA region and products imported from non-member countries. As both Panagariya and Duttagupta (2001: 41) maintain, the 'free mobility of goods produced within the union ensures there is a single union wide price for them. However, goods imported from outside [an FTA] pay different duty.'

Therefore, at this stage, whilst tariff levels between member countries equalise, tariff levels posed to non-member countries are not yet uniform. This condition normally enables producers to enjoy cheap prices for products coming from other FTA member states. However, this depends on the external tariffs set by member countries towards non-member countries. As a result of the different tariff levels posed to non-member countries, prices of products coming from these countries will vary greatly. Therefore, producers in a member country could only enjoy cheaper prices for goods coming from other member countries if the former set high external rates on imports from non-member countries.

In the global context, there are also some costs and benefits incurred through the creation of PTAs and / or FTAs (Edmond Verbiest 2002: 2-3). In terms of benefits, firstly, the creation of either a PTA or an FTA enables a group of countries to deal with more complex issues of trade and regional co-operation (Freund 2000). Secondly, the creation of PTAs and FTAs also increases domestic competition, which can lead to greater productive efficiency amongst domestic producers. As a consequence, thirdly, the quantity and quality of goods available in the economy improves. Fourthly, these trade agreements may also foster greater economic regionalism amongst member countries. Fifthly, such agreements offer countries the opportunity to liberalise their economies in a limited and smaller scale than those agreements made at the multilateral level.⁴⁰ In terms of its costs, firstly, PTAs and FTAs can be interpreted as an easy way

⁴⁰ An illustration of the benefits accrued from the implementation of PTAs or FTAs can be observed from the experience of the US and Mexico through their involvement in NAFTA. During the first year of NAFTA's implementation, in 1994, bilateral trade between the US and Mexico grew from US\$ 84.7 billion

out for policy-makers who are reluctant to actually commit to trade liberalisation measures, but face an increasing domestic pressure for trade liberalisation. Secondly, there is the fear of what Bhagwati (1995a) calls the *spaghetti-bowl* phenomenon. This phenomenon refers to the situation whereby products in a particular country enjoy access on varying terms based on their country of origins. If this occurs, then the fear is that such PTAs and / or FTAs can lead to an inward-looking regionalism.⁴¹

2.3.4. *New regionalism theory (second wave)*

The global tendency towards regionalism started to fade away during the late 1970s, and only re-emerged during the early 1990s. The resurrection of interest in regionalism in this latter period did not only prevail amongst policy-makers and academia, but also amongst a wider spectrum of non-state actors, particularly business executives. In light of increasing interest in regionalism, political-scientists began to search for possible explanations for the proliferation of regionalism at the time. Aside from social constructivism, which had largely developed since the dismantling of the Cold War, a new theory was created to explain ‘the second wave of regional co-operation and integration’ (Hettne 1999: 8). This theory was later called the New Regionalism

(in 1993) to US\$ 102.6 billion. Subsequently, in 1995, the bilateral trade between the two countries rose to US\$ 112 billion whilst Mexico’s exports to the US amounted to US\$ 66.7 billion. Meanwhile, the influx of direct investment to Mexico rose to US\$ 10.9 billion in 1994 from an annual average of US\$ 2.6 billion between 1985 until 1990. Therefore, since the formation of NAFTA, North American countries have become competition-oriented and have become an attractive investment location. For further assessment of the benefits accrued by Mexico and the US from NAFTA see Schirm (2002: 140-1).

⁴¹ For further analysis on the way country of origin mechanisms enhance protectionism, see Krueger (1993).

Theory (NRT).⁴² NRT's principal difference from other mainstream theories lies in its conceptual approach in defining an RIA. It is particularly concerned with the issue of regionalisation, or the degree of *regionness*, where the 'ultimate outcome [is the creation of] a *region-state*' (Hettne 1999: 11). It describes a *voluntary evolution* process in which nation-states are transformed into a supranational community. Although NRT is quite similar to other mainstream theories in respect of the voluntary transformation process, NRT is largely connected with the broader theoretical debate within IR and international political economy (IPE) (Schulz *et al* 2001a: 12-3). In addition, NRT also emphasises that the roles of non-state actors in regionalism is central to its analysis. Accordingly, NRT theorists, such as Hettne and Inotai (1994), argue that regionalism is not merely the institutionalisation of a regional project or regional organisation, nor is it merely a state mechanism. Rather, it has to be seen as a process, or as a regionalisation process. This process will enable the states involved to gradually transform their relative heterogeneity and lack of co-operation into an increased demand for co-operation, integration, convergence, coherence and shared identity (Schulz *et al.* 2001a: 5). The new regionalism, then, is heterogeneous in character, encompassing a wide range of issues, actors, and institutions involved in the process of regionalisation.

⁴² One major early work on NRT was developed by Hettne and Inotai (1994), a research project sponsored by the United Nations University (UNU) and the World Institute for Development and Economic Research, and was summed up in their work entitled *New Regionalism: Implications for Global Development and International Security*. Subsequently, Hettne, Inotai and Sunkel elaborated further the concept of NRT by editing five publications, entitled: (1) *Globalism and the New Regionalism* (1999); (2) *National Perspectives on the New Regionalism in the North* (2000a); (3) *National Perspectives on the New Regionalism in the South* (2000b); (4) *The New Regionalism and the Future of Security and Development* (2000c); (5) *Comparing Regionalism: Implications for Global Development* (2001). Another important study focusing on the new regionalism phenomenon has also been conducted by Palmer (1991), with specific reference to the Asia-Pacific region.

Departing from two most influential theoretical analyses of global social theory (the modern world-system theory) and social constructivism, NRT has been developed to inform a more ‘comprehensive, interdisciplinary, and [to provide a] historically based social science’ (Hettne and Söderbaum 2000: 460). The modern world-system theory has been particularly important to the development of NRT since this theory attempts to bridge the gap that exists between development theory and IPE approach (Hettne and Söderbaum 2000: 459). The political economy dimension of modern world-system theory enables an analysis of historical power structures and their contradictions, as well as an analysis of the changes and transformations expressed in normative terms to take place (Murphy and Tooze 1991; Hettne 1995; Cox with Sinclair 1996).⁴³ In addition, whilst the modern world-system theory highlights the dichotomy between *micro* and *macro* regionalism, NRT attempts to bridge such a gap.⁴⁴ More importantly, however, global social theory has been useful to NRT analysis because it abandons the idea of the state centrist determinant. Social constructivism, on the other hand, has influenced the development of NRT because of its emphasis upon the relative nature of a region. Moreover, by departing from social constructivism, NRT also attempts to transcend hard structuralism (Hettne and Söderbaum 2000: 459), as an emphasis is placed on the *process* (Wendt 1992) of regionalisation. In this context, therefore, the focus of regionalism

⁴³ As cited in Hettne and Söderbaum (2000: 459).

⁴⁴ The modern world-system theory has also been useful in the development of NRT because it concentrates upon the big process of macro-regionalism, or regionalism between the three core regions, which include Europe, North America, and the Asia Pacific (triad regionalism). Examples of both macro and micro regionalism are best illustrated by Öjendal (2000: 1), who postulates the ‘maximalist and minimalist versions of regionalisation’. The maximalist form of regionalism is associated with the concept of macro-regionalism, such as in the case of the Asia-Pacific, European, and the American regionalisms. The minimalist form of regionalism, on the other hand, is associated with the concept of micro-regionalism, such as in the context of ASEAN, or, alternatively, it can also be viewed in the context of the growth triangles whereby close trade co-operations amongst provincial or district areas of member countries in an RIA occur.

studies is placed on the agency and actors responsible for the formal institutionalisation of a regional grouping or a regional project.

Moreover, the analysis of NRT has been developed through the detailed examination of the difference between the first wave and the second wave of regionalism or integration (Palmer 1991; Hettne 1994; 1999; Bhalla and Bhalla 1997; Hettne and Söderbaum 2000). The first wave of regionalism, according to this line of thinking, was primarily characterised by international bipolarity, an institutional drive to regionalism, inward-looking economies, economic discrimination against the rest of the world, emphasis on intra-regional trade, and membership of only one regional grouping. The first wave of regionalism was much influenced by two political ideologies, capitalism and socialism. The bipolar global political system that existed during the first wave of regionalism, between mid-1950s until late 1980s, was mainly associated with the notion of hegemony, which although it may ‘contain social conflict, [and] it does not eliminate it altogether. [Alternatively, it can be said that] hegemony is not a stable condition; it is always being created and undermined’ (Mittelman 1996a; 1999: 47).⁴⁵ Hegemonic Stability Theory (HST) grew during the 1970s as a result of heated debates over a possible US decline as a hegemon, which, in turn, would pose a problem of how to preserve the trade system from protectionist state policies (Bajo 2001: 23). Secondly,

⁴⁵ Hegemonic stability theory primarily derives from the (neo) realists’ analysis (Dent 2001a: 733) and is considered one of the variations within the liberal IPE perspective (Balaam and Veseth 1996: 51). Within the realm of (neo) realists’ analysis, HST contends that there is a tendency for a hegemonic state to play a stabilising role within the international economic system. A hegemon tends to exploit its techno-industrial superiority through exports to foreign markets. Within the sphere of liberal IPE perspective, HST looks at the state and market in the global economy and holds that international markets work best when certain international public goods (i.e. free trade, peace and security, a balance of power, and sound international payment system) are present. Thus, a hegemon is likely to support an open and free trading system. For detailed analyses on HST see, *inter alia*, Kindleberger (1973), Gilpin (1975), and Krasner (1983).

many RIAs during the first wave of regionalism were primarily set up under government initiatives to create a system of regional peace and harmony. The logic behind the formation of RIAs at the time was mainly concerned with creating political cohesion amongst member countries in a region. ASEAN, for example, was primarily founded for strategic and security reasons to end conflicts in the Southeast Asian region (Wanandi 2000: 25). Concern for other crucial aspects of integration, such as social and cultural aspects, was limited. Aside from the fact that an RIA was primarily triggered by the patterns of trade within a defined region, a state generally discouraged the involvement of non-state actors in determining their regional policies.

Thirdly, many states' strongly nationalist economic policies prevailed during the first wave of regionalism. Within this type of policy, the direction of the market was largely determined by the state and its policies. In a country where strongly nationalist economic policy prevails, such as those in Latin America and Asia, import substitution industrialisation (ISI)⁴⁶ is normally seen as the predominant economic mechanism for the protection of national industries. ISI itself, as Dicken (1992: 177) posits, was normally aimed 'to protect a nation's infant industries so that the overall industrial structure could be developed and diversified and dependence on foreign technology and capital reduced'. In this type of trade strategy, the state normally imposes high tariff barriers on certain industrial sectors through various means, including quotas, licences, multiple exchange rates, and so on. This particular trade strategy eventually drew many critics. In Dicken's (Dicken 1992: 178) view, for example, ISI can be described as 'a *half way*

⁴⁶ ISI strategy was initially developed by an Argentine economist, Raul Prebisch (Miller 1998: 151-2). This strategy forms an integral part of the implementation process of the dependency theory. For an analysis of Prebisch's contribution to the development of dependency theory, see also di Marco (1972).

industrialisation or as *getting stuck* at the consumer goods stage'. This is particularly common in a small domestic market where local production of consumer goods cannot attain an appropriate economy of scale, which leads to high domestic prices. Others, such as Genberg and De Simone (1993: 178-9), are more concerned about the delayed adjustment that ISI produces in the light of an external shock. Nevertheless, the majority of small countries throughout the world employed such a strategy (Hewitt *et al.* 1997: 19). As this economic nationalism spread, it became subsumed within a wider regional context, leading to the creation of regional trade bloc (Hewitt *et al.* 1997: 21). Within such a context, third countries are normally neglected by members of a regional grouping in the process of trade liberalisation.

Another important characteristic of first wave regionalism is that many regional groupings at the time were mainly composed of countries that were economically competitive (homogenous) in nature. At the same time, intra-trade intensity was also used as a benchmark in many scholarly analyses on the development of these regional groupings. Economists, such as Kemp and Wan (1976), examined the type of countries that can be the most desirable partners to form an RIA with. The appropriate level of intra-trade suitable for the promotion of further integration is normally supported with conditions of high economic diversity amongst member countries. Whilst one country might have, for example, a comparative advantage in the production of manufacturing goods, another country's comparative advantage may rest in the richness of its natural resources. These complementary economic conditions amongst member countries will lead to efficiency and eventually to higher intra-trade level. In stark contrast with these

conditions, however, many RIAs during the first wave of integration were homogenous in nature, which therefore led to slow progress towards deeper integration, such as in the case of ASEAN, or led to their demise, such as that in the case of CMEA.

Finally, a variety of policies were pursued by most states when determining the appropriate regional grouping they wished to join. Whilst some countries preferred to join only one RIA, others pursued a strategy of overlapping membership. This can be seen in the case of RIA attempts in Latin America. During the late 1960s, whilst all Latin American countries were members of LAFTA, some had also formed an alternative RIA such as the Andean Pact. Amongst other things, this situation existed mainly as a result of the frustration held by some member countries over slow regionalism in LAFTA (Finch 1988). Moreover, geographical position did not necessarily hinder the pursuance of RIA amongst countries in different regions of the world. Initially, when international trade was not yet as fully intensified as it became during the 1980s onward, states tended to form RIAs with their closest neighbours. Some exceptions in this pattern, however, can be found in the case of CMEA, where membership include those non-Eastern European countries, such as Cuba, Mongolia, and Vietnam (Hewitt *et al.* 1997: 18).

In the view of many NRT theorists, however, recent regionalism differs to the first wave of regionalism in that it takes place in a multipolar world order spontaneous process; is open and outward oriented; and is a multidimensional process with the involvement of non-state actors (Hettne 1999: 7-8; Bhalla and Bhalla 1997: 21). Firstly, the collapse of communism transformed the world order system from a bipolar into a

multipolar system in which regional groupings play important roles. This international political condition has led to the re-emergence of regionalism, particularly with the strengthening of European integration, which signifies the importance of regional rather than global interdependencies. Secondly, recent regionalism has been described by NRT theorists, such as Hettne (1994; 1999) and Schulz *et al.* (2001a), as a *spontaneous process* in the sense that it is not merely process instigated by institutions, but involves a number of other actors all contributing to the process of regional integration. A third and equally major transformation is the recent intensification of global economic activities. This has prompted nation-states to form regional groupings in order to contain the forces of globalisation, but also to remain open according to their commitment towards multilateralism (overlapping commitment). Lastly, the involvement of non-state actors has been crucial in the promotion of regionalism. According to Hettne (1999: 7), because the new regionalism is a more spontaneous process from within and from below, non-state actors (i.e. TNCs and non-governmental organisations (NGOs)), are increasingly becoming the main proponents for regional integration.

The relevance of NRT analysis towards the regionalisation process in Southeast Asia has been significant. The region itself has been recognised as a testing ground for both old and new waves of regionalism in the so-called Third World (Palmer 1991: 59). Although the formation of ASEAN in 1967 has done little to promote deeper integration amongst Southeast Asian countries (Wong 1989: 121), this regional grouping has been able to achieve substantial success in some areas of co-operation, particularly in the security field. The Southeast Asian region, with its diverse political and socio-cultural

backgrounds, as well as its heterogeneous economies, presents many obstacles to the emergence of formal regionalism amongst ASEAN member countries. However, as Palmer (1991: 12) convincingly reminds us, 'regionalism may be well advanced even if it has not led to the establishment of major organizational form'. This has been the case with the regionalisation process in Southeast Asian region. With its limited capacity to foster deeper integration amongst Southeast Asian countries, ASEAN has to rely on the concept of *regionalisation from within* the region. Demand for deeper regional co-operation has not only existed amongst state actors, but also amongst non-state actors. In the global economic context, the region is both committed to maintaining an open economic regime whilst at the same time, exercising overlapping memberships with other regional groupings. One recent study conducted by Lloyd (2002), for example, has indicated that there has been an increase in the demand for formal regionalism in the Asia Pacific, involving one or more countries from the Southeast Asian region. All these factors suggest that the Southeast Asian region has become one of the major players in the promotion of new regionalism across the world.

2.4. Different theoretical perspectives on nationalism

Contemporary analyses of nationalism have paid little attention to the relationship between nationalism and regionalism and / or globalism (e.g. Halliday 1997: 360; Shulman 2000: 365). Traditionally, nationalism is generally regarded as detrimental to both regionalism and globalism. For many IR scholars, such as Cobban (1969) and Roessingh (1996), nationalism can be considered as a territorial ideology, which is internally unifying and externally divisive. States that are not homogenous in culture and

language are undermined from within and assaulted from without. It is, however, important to point out that nationalists today confront a complex set of considerations when dealing with various international forces. It is, therefore, incorrect to assume that all nationalists are uniformly hostile to regionalism or globalism (Shulman 2000: 365). Nationalism today does not necessarily pose a threat to regionalism, and can, in certain circumstances, be seen as a stepping-stone towards both regionalism and globalism. Whatever the case, nationalism is still an important element within the international system and a major constituent in determining the future of regionalism and further global integration. The primary focus of this section is to analyse the existing literature on the relationship between nationalism and regionalism.

2.4.1. The concept of nationalism

Unlike the concept of RIA, which grew only during the post Second World War period, nationalism is much longer. In fact, it evolved even before the conception of the Westphalian State system in 1648.⁴⁷ Nationalism, for some, has been regarded as ‘the most successful ideology in human history’ (Birch, 1989: 3). The word nationalism derives from the Latin word of ‘*natio* [that] was used by the ancient Romans to refer to foreigners. Later it was used to refer to the assembly of nobles and clergy drawn from particular people’ (Zernatto, 1944),⁴⁸ which differs from our use of the word *nationalism*

⁴⁷ For Koht (1947: 265-66), however, the concept of a nation was established far before the conception of the Westphalian State system, or after the dissolution of the Roman Empire.

⁴⁸ Quoted from Oomen (1997: 4).

today.⁴⁹ In its original classical sense, nationalism was also associated with ‘the word *nasci*, [which] means a tribal-ethnic group, a people born in the same place and territory’ (Oomen 1997: 28).⁵⁰ It was only in the late eighteenth and nineteenth century that the debate on nationalism started, particularly amongst political philosophers who attempted to investigate the concept as it manifested during that period.⁵¹

Different scholars have interpreted nationalism in different ways, which has led to a continuous debate about nationalism in both theory and practice. In general, however, distinctions should be made between some of the associative terms related to nationalism. These terms include a nation, a nation-state or a country, people, national, and, finally, nationality.⁵² A *nation* is generally understood to be ‘a social group that shares a common identity, history, language, set of values and beliefs, institutions, and a sense of territory. Nations do not have to have a homogenous ethnic culture but [it] usually exhibits a sense of homogeneity’ (Balaam and Veseth 1996: 456). Subsequently, as Balaam and Veseth (1996: 456) further point out, a *nation-state* or a *country* generally refers to ‘a legal concept describing a social group that occupies a territory and is organized under a common political institutions and an effective government [*sic*]’. The *people*, furthermore, refer to the members of the nation-state, and they often denote a

⁴⁹ However, Sturzo (1946: 5) also stresses the errors and fallacies in the term nationalism and showed the error in connecting patriotism with nationalism. The word nationalism was first used during the nineteenth century, soon after the birth of the three ‘isms’: liberalism, socialism, and communism. All four words have highly respectable origins. The words national, social, liberal, and communal were originally adjectives. ‘Ism’ was added to these adjectives, thereby transforming them into nouns, so liberal became liberalism, social - socialism, common - communism, and national became nationalism.

⁵⁰ The Latin word *nasci* literally means *to be born*. For a general analysis on the historical meaning of the word nation and nationalism see, for example, Haywood (2000: 251-56).

⁵¹ See, for example, Renan (1882) with his published work of *Qu’est-ce Qu’une Nation?* (What is a Nation?).

⁵² Early distinctions between these different terms were made by the Royal Institute of International Affairs (RIIA) in its published work *Nationalism: A Report* (1939).

specific political unit, which is the state, and an ethnological unit, the *race*. Moreover, the word *national* characterises the whole body of citizens as distinct from any section or locality within the given area. It is normally used to describe certain issues that cover the entire nation-state, i.e. national policy, national ideology, etc. National, then, becomes *nationality* by virtue of the people's membership to a nation. Finally, *nationalists* are those who support nationalism in the sense described above. A nationalist, alternatively, may also refer to someone who tends to exalt devotion to his or her nation at the expense of all other considerations.

In the field of international political-economy, the term *economic nationalism* is often used as an as an associative term to that of nationalism. Generally, economic nationalism is a mercantilist ideology that emphasises the partnership between the state and market (Balaam and Veseth 1996: 452). The term itself was widely used during the interwar years of the twentieth century (Heilperin 1960: 17).⁵³ Since then the concept of economic nationalism has been interpreted through various theoretical discourses (i.e. realist, liberal, and Marxist), most of which focus on the way in which production, exchange, consumption, and investment are governed by the state's interests (Crane 1998: 56-7). According to realists, for example, economic nationalism is logical because the state must turn all national economic activities to its national advantage in order to minimise its relative material losses in the international arena (Gilpin 1987: 31). For neo-liberalists, on the other hand, economic nationalism is viewed as something that does not

⁵³ The study of economic nationalism, however, began in the nineteenth century. One of the most prominent scholars during that period was Friedrich List (1789-1846), who wrote *The National System of Political Economy* (1841). Since then, many scholarly analyses of economic nationalism have drawn upon List's work. For a comprehensive analysis of List's concept of economic nationalism see, for example, Levy-Faur (1997a; 1997b).

fit with liberal ideals of economy and development (Koffman 1990).⁵⁴ Finally, from a Marxist standpoint, economic nationalism is simply the expression of capitalism that is conditioned by historical forces (Cox 1987).⁵⁵ Regardless of these different interpretations of the concept of economic nationalism, the term more generally refers to the ‘proclivity of the state, firms and individuals for economic decisions, actions and alliance formation that seeks to advance the nation’s domestic or international position at the potential commercial expense of foreign national or international interests’ (Dent 2002a: 25).

Current debates around nationalism have given rise to other contemporary terms associated with the concept of nationalism, which include *forced nationalism* and *ethnonationalism*. Whilst forced nationalism refers mainly to the ‘extension, or a merger, of boundaries of states, [and is] related to homogeneous cultures between the states involved’ (Hechter 2000: 15-17), ethnonationalism refers to the promotion of ‘the principle of self-determination and the politics of opposition of an ethno-nation or a people, and challenges the state to change its discriminatory policies and oppressive behaviour’ (Jalata 2001: 285-6). Forced nationalism is also often associated with the notion of *irredentism*,⁵⁶ which can be identified as the ‘desire to reconstitute or redeem the unity and integrity of a particular ethnic group, historic entity or community’ (Christie 1996: 131). A forced nationalism or irredentism, then, might manifest as the annexation

⁵⁴ For other liberals’ view on economic nationalism see also Johnson (1967). Although Johnson contends that economic nationalism does promote national identity, he also maintains that the pursuance of this policy does not produce real economic advancement.

⁵⁵ For other Marxist inspired works on economic nationalism see also Arrighi (1994).

⁵⁶ The doctrine of irredentism, according to Mayall (1990), derives from the Italian, *irridenta*. This word was associated with those territories, *Trente, Dalmatia, Trieste, Fiume*, all of which were culturally Italian, but remained under Swiss or Austrian rule and were *unredeemed* after the unification of Italy in 1861.

of a nation to become part of another, more powerful, nation (i.e. Indonesia's annexation of East Timor in 1975). Thus, geographical boundaries can be changed over time depending on the political relationship between a country and its neighbours, signifying the relativity of the nation-state concept. Ethnonationalism, on the other hand, is associated with the concept of secessionism from a large political unit under the nation-state due to differences in political ideology, language, unequal distribution of incomes, race, and cultural or historical backgrounds from the rest of the country. A major example of ethnonationalism can be seen in the experience of Canada in dealing with its province of Quebec. Because of their cultural differences Quebecois insist on being separate from the rest of Canada. This sense of *provincial* or *smaller* scale nationalism is called ethnonationalism.

2.4.2. Nationalism in international political economy

Early studies of nationalism in the international politics have been linked closely with the rise of nation-state systems (Carr 1945; Cobban 1969), wars and tensions between nation-states (Howard 1991), and secessionist movements that are often characterised by ethnic and religious conflicts within a nation-state (Horowitz 1985; Mayall 1990). From the 1970s onward, however, the focus of international politics shifted from military to economic issues (Katzenstein 1978a). The increasing internationalisation of economic activities over recent years, particularly through regionalism and globalisation, has undermined the coherence of nation-states' nationalist ideology. In the late twentieth century, for instance, there have been claims that

'nationalism has become an anachronism' (Heywood, 2000: 256). Indeed, any interpretation of the relationship between nationalism and RIA or globalisation will often be contentious since RIA and globalisation normally act as a destabilising factor to nationalism. Not only do the processes of both RIA and globalisation require a nation-state to lower its barriers and allow outside influences within its sovereign borders, but they may also produce clashes between and within nation-states. It is, therefore, hardly surprising when nationalists pursue a strategy that undermines regional or global projects.

Traditionally, one key variable in analysing the dynamic of nationalism in international politics and economics is the concept of *national interest* (Krasner 1979).⁵⁷ Despite its wide use in foreign economic policy (FEP) analysis, the meaning of the term national (economic) interest remains vague (Frankel 1970: 15). Nevertheless, as Frankel (1970: 31-33) describes, national interest can be classified into aspirational, operational, and explanatory and polemical. At the aspirational level, national interest is seen as an ideal set of goals which, if possible, the state wishes to achieve. At the operational level, the national interest can be understood as the total sum of interests and policies actually pursued by the state. Finally, the explanatory and polemical level of national interest refers to the interrelationship between the aspirational and operational level. It is at this final level that the concept of national interest proves most significant since the distance between the two levels determines political dynamism. For Rosenau (1968: 34), however, the concept of national interest can be defined as both an analytical tool or as an

⁵⁷ As mentioned earlier, the concept of national interest is also central in neo-realists' analysis. In Morgenthau's (1952: 961) view, for example, international politics can be seen as a process in which national interests are adjusted. Accordingly, policy-makers 'think and act in terms of interest defined as power' (Morgenthau 1978: 5). See also Thompson and Myers (1984) for the assessment of Morgenthau's political philosophy on national interest.

instrument of political action. As an analytical tool, the national interest is the benchmark which the adequacy of a country's foreign policy is analysed. As a political action, on the other hand, the national interest can be described as the way in which such a policy is justified. At both levels, the concept simply means what is best for the society of a nation. As a whole, however, it is right to suggest that national interest is 'of great significance to the survival of the state' (Fifield 1979: 20).

It is, however, very difficult to determine a nation-state's national interests. Such difficulty primarily stems from the miscalculation or misinterpretation of the 'perception, priority, and permanence' (Fifield 1979: 19) of various domestic interest groups in the country. The perceptions of domestic interest groups are shaped by various factors, including geopolitics, history, and social and economic factors. Furthermore, the national interest only specifies the state's FEP *objectives*, not the way in which the state implements such aspirations (Katzenstein 1978b). It is for this reason that, as Katzenstein (1978b: 297-306) further postulates, it is necessary to distinguish between policy objectives and policy instruments when analysing a state's FEP. Here, policy objectives imply certain values that are ascribed to a state and the society in a country. Thus, great variations in policy objectives are only to be expected between different nation-states. Policy instruments, on the other hand, determine the success of such objectives in the process of policy implementation. There are vast array of policy instruments that a state can utilise, including licenses, tariffs, quotas, fiscal policies, tax credits, etc.

Apart from its emphasis on the concept of national interest, traditional analysis of FEP has also focused on the international factors that influence the way in which FEP is formulated, whilst ignoring the importance of domestic structures (Katzenstein 1978a). Here, it is useful to utilise the three approaches to FEP formulation proposed by Ikenberry *et al.* (1988: 1-2). The first approach is a system-centred, and explains a nation-state's FEP as a function of the attributes or capabilities of that nation-state relative to other nation-states. In this context, government officials respond to a set of opportunities or constraints that their country confronts at a specific point in time and, thus, international systems condition the state's FEP. The second approach is a society-centred, and views the formulation of a nation-state's FEP as either reflecting the preferences of the dominant group or class in society, or as resulting from the struggle of influence amongst various interest groups or political parties. This approach is most applicable to a democratic society. Here, FEP is a reflection of the ideal of the majority of the population, which is then transformed into policy by the policy-makers. Finally, the third, or state-centred, approach shows the state to be the most important independent variable in the FEP formulation process, where FEP is mainly employed by the state under an autocratic political system. In this context, the objective of FEP formulation is associated with the justification of policy-makers' will to pursue a certain course of action. Such action is assumed to represent the best interests of the majority of the population.

Another important analytical framework that focuses on the relationship between national domestic constituencies and international policy-making processes has been put

forward by Putnam (1988) in his two-level game analysis. In his theoretical framework, Putnam (Putnam 1988: 434) asserts that 'at the national level (level II), domestic groups pursue interests by pressuring the government to adopt favourable policies, and politicians seek power by constructing coalitions amongst those groups. At the international level (level I), national governments seek to maximise their own ability to satisfy domestic pressures, whilst minimising the adverse consequences of foreign development'.⁵⁸ Putnam's argument stresses the sovereign nature of the state, whilst pointing out that nation-states have to realise the increasing interdependencies between one another themselves. Neither level of the game should be ignored for to do so would result in conflicts between the constituents in either the domestic or international arena. A variation to Putnam's two-level game theory was offered by Guerrieri and Padoan (1989: 21-9), who hold that a win-set situation is characterised by 'popularity and reputation'. Whilst popularity depends on the ruling regime and ideological preferences, the reputation of a country depends on the country's ability to resist external or international pressures. With regard to the way in which international (or regional) economic integration policy might be pursued, Guerrieri and Padoan (1989 24-5) propose that 'this can be done in two, not mutually exclusive, ways'. One is to conduct an outward looking strategy, which requires a government to be strong internationally, whilst the other is to conduct an inward looking strategy, which requires strong domestic conditions. National economic policy choices with regard to a country's involvement in an RIA or any other multilateral arrangement would depend on the definition of that country's long-term goals and strategies and the relationship between the state and its constituencies. Such national choices are characterised in terms of the supply and

⁵⁸ For a detailed explanation of the two-level game theory analysis see also Evans *et al* (1993).

demand of the policies. Whilst it is the state that supplies the policy in exchange for popularity, interest groups are those who determine the demand.

In recent years, scholarly analysis of FEP has attempted to explore further the importance of domestic structure in the FEP formulation process. Amongst others, Dent's (2002a) analysis of contesting actor-based influence is particularly useful. From a domestic perspective, Dent (2002a: 24-5) asserts that the process of FEP formulation is contingent upon: first, state bureaucratic power, culture, and dynamics; second, level of democratisation; third, internationalisation of civil society; and, fourth, economic nationalism. Firstly, state bureaucratic power, culture and dynamics determine FEP since policy-makers have the ability to develop their own predilection towards the setting of specific policy objectives. A strong emphasis on state bureaucratic power, culture and dynamics generally occurs in a state-centric society where constituents hold limited influence over FEP formulation. Secondly, the formation of the state's FEP is also dependent upon the level of democratisation in the society. Countries with a higher level of democratisation are more likely to be influenced by constituents in the FEP formulation process. Thirdly, the level of a civil society's influence over FEP is also dependent upon their knowledge regarding international political and economic conditions. More outward-looking societies are more likely to assert a greater stake in the FEP formulation process, and *vice-versa*. Fourthly, the level of economic nationalism also plays an important role in determining the FEP of a state. Nationalist economic measures are invariably implemented through strong industrial policies or the implementation of high import barriers (i.e. protection), much of which are applied to

infant strategic industries within a country. There are also some cases where the huge assets of foreign firms may be confiscated after their operation inside a country for some time. At other times, foreign firms may not be allowed to enter a country to invest in large industries since these industries are seen to serve only the interests of local economic or political constituents.

It is, therefore, clear that an analysis of contemporary FEP is incomplete when a focus upon domestic structure is neglected (Katzenstein 1976: 2). A country's FEP can either be economically nationalist or liberal in nature, or somewhere in between, depending upon the immediate interests of domestic constituents. However, the recent nationalist interest in RIA and globalisation have varied, at least since the post Cold War period, depending upon the degree to which such schemes are seen to serve the interests of a nation. It is important to note that there are times when nationalists may also express strong support for their country's involvement in a regional co-operation scheme, or even in a multinational arrangement. Whilst the issue of sovereignty marks the foundation of much of the criticism attached to RIA, it is also important to stress that 'when two or more countries sign a treaty, they agree to do and / or not to do specified things. Therefore, it is not a valid criticism of any international treaty to say that it entails a loss of national sovereignty' (Jovanovich 1992: 10). Furthermore, there are also times when nationalists may express great interest in regionalism, especially as a means to promote their nation autonomy, identity, and unity (Shulman 2000). Nevertheless, nationalist support for regionalism and globalisation only exists when it is seen to serve their national interests.

2.5. The gap within the existing literature concerning the relationship between regionalism and nationalism

Limited attention has been given to the dynamic nature of the relationship between nationalism and regionalism. Nationalists' reactions towards regionalism are often hostile whilst most proponents of regionalism insist that nationalism should be weakened or overcome (Shulman 2000: 365). This hostile attitude has been prevalent amongst nationalists since 'the increase in the volume of trade, migration and cross-border financial transactions, the emergence of regional trading blocs, and the global reach of TNCs signal the erosion of national borders' (Goff 2000: 533). This thesis, however, argues that there are ways in which a *symbiotic* characteristic can be established in the relationship between nationalism and regionalism. Moreover, previous studies on nationalism and regionalism tend to treat the two as mutually exclusive. As a result, most previous studies fail to explain why convergence can emerge from the seemingly divergent national interests of the states involved in a regional grouping (Schirm 2002: 8).

Regionalism theories themselves are fragmented in their view towards nationalism; all placing different weight upon the concept of nationalism. Although (neo) realists regard states as the most important players in the international arena, they fail to pay attention to other major domestic constituents (i.e. nationalists or liberals) that also have the potential to change the course of the state's FEP. Meanwhile, both the neo-liberal institutionalists and the structuralists have been too preoccupied with the issue of global capitalism. Moreover, both social constructivists and NRT theorists are correct to

propose that regionalism is a process. However, both theories have been vague in their explanation of the way in which the institutionalisation of regional projects or activities must take place in order to create a specific market or economy (Bajo 2001: 42). In addition, although NRT theorists have constantly maintained that the relationship between nationalism and regionalism is symbiotic (Hettne 1999; Schulz *et al.* 2001a), their explanations are still flawed and lack significant depth on this particular issue. Finally, REI analysis of free trade areas has been too preoccupied with intra regional trade as the benchmark of regionalism. REI theory has an implication, particularly on the results of implementation (Lawrence 1995: 7). If, for example, tariffs have been removed, problems can emerge where the countries involved have different regulatory policies. Thus, changing a regulatory policy within a country can affect the social policy of other member countries.

Gaps also exist in previous analyses of nationalism, mainly because scholars, such as Geertz (1963) and Connor (1978) of nationalism have been too preoccupied with the notion of commonality amongst people within a specific geographical area. Such commonality is seen to derive from common language, race, tradition, historical background, and even religion.⁵⁹ Although this analysis is important in explaining why nationalism persists even in modern times (Birch 1989: 3), it fails to explain the supportive role that nationalism can play within the growing pattern of regionalism. Moreover, nationalism has been dubbed as an agency of destruction (Cobban 1969: 249)

⁵⁹ For an analysis of the main narratives on nationalism see, for example, A. D. Smith (2000: 2). Here, Smith observes that the narratives of nationalism can be summarised into four paradigms, including primordialism, perennialism, modernism, and ethnosymbolism. Whilst the former two are mainly concerned with the question of which element, nationalism or a nation, comes first, the latter two are concerned with the contemporary development and the fragmentation of nationalism.

that often acts as a catalyst in propagating wars between nation-states. In the view of Fukuyama (1989), for example, nationalism has emerged as one of the most potentially powerful ideological rivals to economic liberalism. It is, however, possible to find some common ground between nationalists and regionalists. As will be argued throughout this thesis, nationalists do not necessarily feel hostile towards regionalism.

The final gap that will be addressed in this thesis is the fact that most existing FEP literature focuses on the context of developed countries. Much of the FEP analysis, from Katzenstein (1976; 1978a; 1978b), Hawley (1983), Ikenberry *et al.* (1988), Hocking and Smith (1997), to more recent analyses, such as Dent (2002a), have focused primarily upon the formulation of FEP in developed countries and newly industrialised economies (NIEs).⁶⁰ An attempt to bridge this gap has been provided by Shulman (2000) who tries to analyse the FEP of nationalists in both India and Ukraine. However, analyses of this subject in the context of Southeast Asian developing countries have been limited. Many analyses, particularly with reference to Indonesia, have been subsumed into the context of foreign policy in general.⁶¹ It is, therefore, necessary to provide a new focus upon the formulation of FEP in developing countries in order to examine and understand current debates on the new pattern of regionalism.

⁶⁰ Although Dent (2002a) attempts to make a universal application in his analysis of FEP, his case study focuses on the newly industrialising countries of Northeast Asia and Southeast Asia, such as Singapore, Taiwan, and South Korea.

⁶¹ See in particular, Leifer (1983) and Anwar (1994; 2000; 2001a).

2.6. Conclusion

This chapter has provided a detailed theoretical analysis of the relationship between regionalism and nationalism. The analysis has demonstrated that the relationship between nationalism and regionalism is dynamic. This chapter began with an analysis of the various different perspectives that prevail within the theoretical study of regionalism. Regional integration theory has gradually transformed since its first wave into a second wave of integration. Many regional integration theories during the first wave were dominated by (neo) realist, neo-liberal institutionalist, and structuralist points of view. Each perspective provides a different focus on regionalism. Realists and neo-realists, for example, focus upon the state's aggressive behaviour, and argue that regionalism emerges as a result of political polarisation in world politics. Meanwhile, the neo-liberal institutionalist analysis rests on the principle of market and trade liberalisation, and offers the theory that regionalism emerges as a result of an increasing economic interdependency amongst countries in a specific region. Structuralists, on the other hand, challenge the neo-liberal institutionalist idea, and hold that an increasing pattern of regionalism will only further marginalise a peripheral region. Another analysis of the emerging pattern of regionalism looks instead through the lens of economics, and this approach has become a common focus for the study of the various regional groupings forming throughout the world. Despite some fallacies within these approaches, such theories provide useful stepping-stones for further studies of RIA.

New political science analyses have emerged since the end of the Cold War. Both social constructivism and NRT attempt to provide a mediating status for regionalism, particularly in reference to the much-debated conflict between nationalism and globalisation. The recent proliferation of regionalism is a response to the new challenges that states have met in the international arena. From such a viewpoint, regionalism is functional and fully compatible with the concept of national interest (Schirm 2002: 10). The emergence of regionalism does not mean the full erosion of the nation-state system. Such an analysis would propose that the emergence of regionalism is logical in that it can provide strategies for nation-states when dealing with globalisation issues and effects. The role of regionalism within the world order, as Falk (1999: 80) asserts, 'is to help create a new equilibrium in politics that balances the protection of the vulnerable and the interest of humanity as a whole against integrative, technological dynamic associated with globalism'. Therefore, regionalism can be seen as a middle ground that is able to accommodate the notions of both nationalism and globalisation.

The analysis of nationalism presented in this chapter has focused upon the literature provided by the discipline of international political economy. Largely speaking, the traditional literature interprets nationalism in terms of feelings about the country in which one is born and resides. Such feelings stem from the establishment of a commonality amongst the people that live within a particular area or region. An analysis of nationalism at the level of international politics and economy, however, suggests that contemporary nationalism constitutes a much more complex issue. This is particularly true when nationalism is examined *vis-à-vis* regionalism and / or globalisation. Whilst

the traditional approach to nationalism focuses upon the concept of nation building and the modern nation-state, contemporary literature on nationalism places greater emphasis on inter-state relations. The dynamic relationship between nationalism and regionalism is significant in the case study that will be presented in this thesis. Indonesia's position in ASEAN is seen as *problematic*, because whilst the country is seen to have the potential to be the region's leader, domestic economic, social and political problems render it incapable. Despite this, the Association continues to exist and has conducted an initial form of economic integration through the implementation of AFTA in 2002.

Chapter 3: Nationalists and Regional Integration Strategy

3.1. Introduction

The global political economy is continuously changing and in today's world, globalism and regionalism exist alongside growing nationalism and ethnonationalism, in spite of their apparent contradiction of each other (Bereciartu 1994; Halliday 1997; Lähteenmäki and Kähkönen 1999). Given today's increasing international economic integration, nationalists, like other domestic actors, are being forced to change or adjust their ideas and strategies. Nationalists are 'by no means uniformly hostile to free trade and close economic ties with other states or nations' (Shulman 2000: 364). This chapter provides a detailed analysis of the factors that motivate nationalists to support or to pursue a regional integration strategy (RIS). More specifically, it offers a detailed theoretical framework to analyse the symbiotic nature of the relationship between nationalism and regionalism. This symbiotic relationship refers to the notion that the existence of both nationalism and regionalism can be mutually beneficial, although in some cases one variable benefits at the other's expense, or, in other cases, neither variable benefits at all.

In order to facilitate this argument, the New Regionalism Theory / Approach (NRT / NRA) is used as an analytical tool to examine the symbiotic nature of the relationship between the two variables. This is because NRT persists in stressing the

flexible and fluid nature of recent patterns of regionalism. Consequently, the analysis in this chapter is divided into three sections. The first section focuses upon a broad explanation of the position of nationalism as a new focus within NRT analysis. The second section analyses the ways in which nationalists pursue an RIS. The examples in this section reflect the experiences of Indonesian nationalists in dealing with an RIS. Finally, the relationship between Indonesian nationalism and ASEAN's efforts to build up regionalism is presented and analysed as empirical evidence to explain the symbiotic nature of the relationship between nationalism and regionalism.

3.2. Nationalism as a new domain in New Regionalism Theory analysis

Although analyses of nationalism in NRT analysis are not uncommon, there has been no specific explanation of the nature of the relationship between regionalism and nationalism in the literature of NRT (see, for example, Palmer 1991; Hettne 1999; Schulz *et al.* 2001). However, NRT's emphasis on the multidimensionality, heterogeneity, flexibility, and fluidity of regionalism today allows us to expand the current analysis of NRT beyond the regional-global nexus. With the increasing involvement of domestic actors in current international affairs, it is imperative to include the domestic domain in an analysis of the new regionalism. In the view of one of the main proponents of NRT, Hettne (1994: 1), the current 'process of globalisation and regionalisation [can be] articulated within the same larger process of global structural change'. This view, however, neglects the importance of the domestic domain in its analysis of regionalism. It is for this reason that the current analysis of NRT is expanded to argue that 'regions

and regionalisation must be understood in a global perspective, as well as that in the interrelated global-regional-national-local levels' (Schulz *et al.* 2001a: 13-14). Regionalism is, indeed, a complex subject, and, as such, it should be treated in a multidisciplinary fashion, as there are no fixed definitions that can be attached to the term.

By the late 1990s, a more comprehensive approach was introduced to explain the global-regional-national-local nexus in NRT analysis to include the 'world (global) system, interregional relation, the region, and the sub-national level' (Hettne 1999: 14-5). At the world (global) level, NRT analysis is concerned with the decline of the hegemonic powers, particularly in the context of the transformation from bipolarity to multipolarity. The emergence of a multipolar world order implies an increasing pattern of regionalism. At the interregional level, emphasis is placed upon the idea of action and response, or interaction that emerges between different regional groupings in the world. Moreover, this level of analysis also suggests a greater interdependency between different RIAs throughout the world. Furthermore, a regional level analysis stresses the process of homogenisation in terms of culture, security, economic policies and political systems. More importantly, this level of analysis maintains that a region often constitutes arenas for both the competing and converging national interests of member countries. Finally, at the sub-national level, primary analysis is made of the argument that the process of regionalisation is triggered by various forms of disintegration at the sub-national level.

One of NRT's major ideas that is useful to explain the relationship between regionalism and nationalism is the notion of the spontaneous process of regionalism, which primarily refers to the actors that are involved in the regionalisation process (Hettne 1999: 9; Schulz *et al.* 2001a: 13). During the first wave of regionalism, there was a tendency for state actors to play a dominant role in determining the future of regional projects, including the process of institutionalisation. This has not been the case with the second wave of regionalism, which is because of the overwhelming domestic and global issues that states now have to handle. It is for this reason that the 'international community has had to come to accept the legitimacy and activity of several types of influential non-state actors' (Shaw 1994: 140) at both international and national levels. Since the second wave, non-state actors have begun to enter into the process of promoting regionalism. In the past, social actors, such as the religious community and transnational corporations (TNCs), have played an important role in informal transnational, if not regional, activities. Today, however, this role has been expanded to include new actors, such as non-governmental organisations (NGOs) and civil society organisations (CSOs), both of which are equally active in promoting greater interactions between citizens of different countries.¹ The regionalisation process from within has been particularly evident in Southeast Asia in recent years. Apart from the recent expansion of a number of ASEAN-affiliated NGOs,² the first ASEAN People's Assembly

¹ The rise of NGOs and CSOs is not actually a new phenomenon. International organisations (IOs), such as the UN, have been promoting such organisations for the past fifty years. One of the main factors that drive IOs to support these non-governmental agencies is the fact that their actions can be felt directly or indirectly by both their endorsers and recipients (Gordenker and Weiss 1996: 17). Moreover, Makito (1999: 177) also argues that one of the main factors that drive states to allow non-state actors to promote regionalism is the fact that many domestic non-state actors, particularly NGOs and CSOs, are 'naturally issue-oriented or even issue specific'. By being issue-oriented or issue specific, NGOs and CSOs are in a position to act as major advisory groups for the state.

² Refer to Appendix 1 for a detailed list of current ASEAN-affiliated NGOs.

(APA), which was held in Batam, Indonesia, in 2000, was a recent example of the push to include non-state actors in the regionalisation process.³

Another major feature of NRT analysis that is useful to explain the symbiotic nature of the relationship between regionalism and nationalism is the transition from protectionism, which was prevalent during the first wave of regionalism, to a more outward and more market-oriented form of regionalism (Palmer 1991; Bhalla and Bhalla 1997; Hettne 1999; Hettne and Söderbaum 2000). The recent intensification of global economic interactions has pushed countries to ease off on the high economic barriers that they used to impose in the past. Hence, the new regionalism has been generally characterised by an open economic system, which is being driven mainly by the markets and technology (Barry and Keith 1999). In fact, one of the main aims when the concept of new regionalism was launched was to avoid the kind of regionalisation that would limit the scope for global economic liberalisation (Odén 1999: 164). This more open world economic system is best illustrated in the recent World Bank (2001) report, which indicates that substantial cuts in tariffs levels have been made since the late 1980s or early 1990s.⁴ It is, however, a matter of controversy as to whether an open economic system actually prevails in the global trading system today. In Ethier's (2001: 5)

³ The first APA was initiated by the ASEAN Institute of Strategic and International Studies (ASEAN-ISIS). The Institute currently has eight members, including the Brunei Minister of Foreign Affairs, the Cambodian Institute for Co-operation and Peace (CICP), the Indonesian Centre for Strategic and International Studies (CSIS), the Laos Institute for Foreign Affairs, the Malaysian Institute for Strategic and International Studies (ISIS), the Philippines' Institute for Strategic and Development Studies (ISDS), the Singapore Institute of International Affairs (SIIA), Thailand's Institute for Security and International Studies (ISIS), and Vietnam's Institute for International Relations (IIR). The APA was based on the rationale that community building in Southeast Asia must include all sectors of society. It was deemed imperative that ASEAN, as a regional institution, must be made relevant to the ordinary citizens of each of the member states (ASEAN-ISIS 2000).

⁴ Refer to Appendix 2 for data on the level of tariff barriers since the collapse of bipolarity in the late 1980s.

analysis, for example, since ‘a dramatic move to free trade between member [countries] is not central, the degree of liberalisation is usually modest’. Nevertheless, the tendency towards a more open or more market-oriented regionalism amongst most RIAs today suggests a shift of attitude amongst state and domestic actors in each RIA member country towards an increasing pattern of globalisation and regionalisation.

In the Southeast Asian context, one major fundamental shift that indicates the transformation away from the first wave of regionalism to the second wave of regionalism in the economic field is the region’s pursuance of an open regionalism concept (Palmer 1991; Hallet and Braga 1994). However, unlike regionalism elsewhere in the world, the open regionalism concept in Southeast Asia has not been associated with advanced integration schemes, such as the common market, but cross-border investments and a flexible and a well-functioning financial system (Odén 1999: 161). The demise of the Cold War, in particular, had a definite impact on ASEAN countries, enabling them to expand their activities beyond the region. Amongst other factors, the intensification of regional economic trade, particularly since the early 1990s, has made it possible for ASEAN countries to enhance economic co-operation with countries beyond Southeast Asia. One example of this is the interest shown by ASEAN member countries to become involved in Asia-Pacific regionalism, under the auspices of the Asia-Pacific Economic Co-operation (APEC). A more recent example of the tendency of ASEAN member countries to pursue a more outward and open economic policy with external parties is their involvement in the ASEAN plus Three (APT) mechanism. To date, however, APT has been regarded with scepticism by the West since membership has included countries

that should have been members of the failed East Asian Economic Caucus (EAEC), which was first proposed to safeguard the interests of East Asian countries in various multilateral negotiations (Leong 2000: 71). Beyond East Asia and the Asia-Pacific, ASEAN countries have also begun to rectify the weakness in their relations with the European Union (EU) by conducting closer bilateral efforts on both sides and by using the Asia-Europe Meeting (ASEM) as a framework for inter-regional co-operation (Dent 2001b: 25).⁵ These examples suggest that the attitudes of Southeast Asian state and non-state actors today have transformed, and are more accommodating of the emerging patterns of regionalisation and globalisation.

More importantly, however, NRT's ability to explain the symbiotic nature of the relationship between nationalism and regionalism can be seen through the theory's emphasis upon the gradual transformation of a nation-state into a region-state (Hettne and Söderbaum 2000: 462-8). More comprehensively, both NRT theorists maintain that the new regionalism can be explained as a gradual transformation from nation-states into a regional space, regional society, regional community, and, finally, a region-state (refer to fig. 3.1.) (Hettne and Söderbaum 2000: 462). These phases allow us to construct a general idea on how a region evolves into a more formalised institution, which is similar

⁵ ASEM is comprised of ten Asian nations, fifteen European nations, and the European Commission. The prime motive for this meeting grew from the recognition of the need to strengthen the linkage between Europe and Asia. The first meeting was held on 1-2 March 1996, in Bangkok, and was followed up in London, on 3-4 April 1998. Prior to the creation of ASEM, however, both Southeast Asia and countries of the then European Community (EC) had a long-standing partnership, and such a relationship has been regarded as a model for a group-to-group inter-regionalism (Lukas 1989; Mols 1990). Although ASEM has different, even conflicting, agendas to other regional groupings that ASEAN countries are involved in, such as APEC, both forums allow the East Asian policy makers to consolidate political and economic communication with North America via APEC and the EU via ASEM (Higgot 1999: 194). Further information on the background to ASEM's creation can also be found at the ASEM official website (accessed 2003) at:

<http://asem.inter.net.th/asem-info/background.html>

to the process of the formation of the nation-state system. At the *regional space* level, NRT analysis maintains that a region is composed of a group of people sharing similar historical antecedents, cultures, and values.⁶ It is at this level that regional actors and organisations conduct regional projects that will act as a basic foundation for a more complex form of regionalism. Eventually, regional space evolves into a *regional society* in which interaction between groups from two or more different geographical locations within a region takes place. However, interactions at this level tend to be minimal and largely informal. The process of regionalisation becomes more complex with the introduction of a *regional community*, which implies the intensification of the interaction between those groups in the different geographical locations. At this point of the regionalisation process, the institutionalisation of various domestic non-state actors, such as the highly sophisticated traders and civil society groups, begins to take place. Through either conscious or unconscious acts, these actors start to play various roles in promoting regionalism. It is only within the *region-state* level that regionalism is finally institutionalised, and much of this is derived from a voluntary reaction towards the intensification of regional actors' interactions, rather than an involuntary reaction, such as in the case when a state initiates regionalism. Therefore, within the framework of NRT analysis, the institutionalisation of a regional grouping implies an evolutionary process from a nation-state to a region state.

⁶ In Charrier's (2001: 315) analysis, the evolution from countries to a region also implies 'the recurrence of the concept of the region over time in a cultural context, both within the region and beyond it. ... Thus regional spaces develop an increasingly durable identity over time by the very fact of being repeatedly recognized as such in contemporary culture [*sic*]'.

Figure 3.1. The evolutionary process of regionalism



To sum up this analysis of NRT, it is important first of all to pinpoint some of the main characteristics of the theory. The first characteristic is that NRT attempts to be more critical and reflective than previous international relations theories by drawing upon a more comprehensive range of social sciences (Schulz *et al.* 2001c: 235). NRT, therefore, attempts to transcend the problem-solving theory associated with the state-centric and rationalist epistemologies (Schulz *et al.* 2001c: 235). As a result, the new regionalism can be characterised as a more heterogeneous, comprehensive, multidimensional phenomenon, which is concerned with the state, market, and social actors, and covers a whole range of economic, cultural, political, security-related, and environmental aspects (Murphy and Tooze 1991; Hettne 1995; Cox 1996; Hoogvelt 1997; Payne 1998; Schulz *et al.* 2001a). This theory is particularly useful for studying the relationship between nationalism and regionalism primarily because of NRT's flexibility in comprehending the relationship between the two variables. The new patterns of regionalism do not necessarily imply a reduction of the nation-state's capacity, but can be seen as an extended form of nationalism. In this context, the nation-state is an entity that is given a specific function within larger global political structures (Hettne 1994: 36).

3.3. Nationalists' interests towards regional integration strategy

Although the concept of nationalism has been discussed at great length in many NRT analyses, not much attention has been paid to the analysis of the relationship between nationalism and regionalism in NRT.⁷ The contemporary wave of regionalism is only perceived as an extended form of nationalism (Seers 1983; Hettne 1999), or as an instrument that supplements and enhances the role of the state. This section of the chapter will provide expansion on the current analysis of NRT by arguing that the nature of the relationship between regionalism and nationalism is symbiotic. To begin with, it is important to start with an analysis of the importance of trade in diplomacy. As with bilateralism and multilateralism, RIA is essentially a form of diplomacy (Schiff and Winters 1998). Consequently, it is important to ask why trade might be used as a diplomatic measure (Winters 2001). One premise is that trade tends to increase understanding and harmony between partners, and the implementation of an FTA could be particularly beneficial if domestic actors hold such values in high regard (Schiff and Winters 1998). The second premise is that trade diplomacy in the regional context would encourage a higher degree of trust amongst the participating states (Bastian 1996). The third possible premise is that, in the politico-military context, an increase in trade amongst countries in the same alliance will allow member states to raise defence expenditures (Mansfield 1993).⁸ In a specific reference to RIAs, Fawcett and Hurrell

⁷ The prevailing hypothesis in much NRT literature is that globalism and regionalism stand in a symbiotic relationship (see, for example, Hettne *et al.* 1999), particularly since the new regionalism is analysed through the global structural transformation process (Schulz *et al.* 2001a).

⁸ This view, however, was challenged by Schiff and Winters (1997) for two reasons. The first is the fact that the very action of trade generates security benefits, regardless of the income effects that such actions may produce. The second is Mansfield's fallacy in assuming that the lowering of trade barriers would

(1995) also hold that the promotion of an RIA amongst different states is logical since this strategy allows the states involved to pool their sovereignties, enabling member states to acquire greater leverage to manage global pressures.

Any analysis of the symbiotic nature of the relationship between nationalism and regionalism should draw upon the wide range of literature that specifically analyses the domestic rationale behind regionalism, 'much of which highlights interest group politics and societal pressures' (Mansfield and Milner 1997: 12). Some of this literature has focused on the distributive consequences accrued by domestic politics in pursuing certain (foreign) economic policies (Caves 1976; Pincus 1977; Baldwin 1985). This line of study analyses the degree of support or opposition towards certain (foreign) economic policies, which is largely dependent upon the costs and benefits to be gained by the domestic politics. Certain foreign economic policies are pursued if the benefits accrued by domestic groups exceed those of the costs, and *vice-versa* (Mansfield and Milner 1997: 12). Other literature analyses the interactions between social and state actors. Here, Krasner (1979), in particular, contends that the formulation of an (foreign) economic policy is intended to advance the nation-state's national interests. On the other hand, however, Magee *et al.* (1989) and Grossman and Helpman (1994) maintain that the formulation of (foreign) economic policy is strictly intended to advance the personal interests of the policy makers (i.e. to maintain political power or to secure economic resources for personal use).

allow member states to generate income gains. For Schiff and Winters, however, trade preferences based on income should always be considered ambiguous (second best).

There are a few hypotheses that have been developed to analyse the reactions of politico-economic actors to regionalism. One hypothesis, for example, focuses upon the type of domestic pressure groups capable of pushing for protectionist measures in a regional trade liberalisation process (Hoekman and Leidy 1993). In this context, Hoekman and Leidy divide domestic industrial sectors into two types, namely holes and loopholes. Whilst some domestic actors support the protectionist measures attached to all domestic industries (also called *holes*), others are satisfied with the provisions that allow for only temporary protection such as import restrictions, import subsidies, etc (also called *loopholes*). Other scholars, such as De Melo and Panagariya (1993), argue that the 'preference dilution effect' and the 'preference-asymmetry effect' may limit the power and the rent-seeking behaviour of domestic pressure groups. The preference dilution effect implies that the larger the political community, the less influence can be exerted by domestic pressure groups on the policy-making process. The preference asymmetry effect, on the other hand, allows for compromises on a specific issue to take place amongst different state actors and domestic pressure groups across a region.

Another argument focuses on the formation of an RIA as a response of policy makers to domestic pressures. In Milner's (1997: 76-77) view, the formation of regional trade agreements can be seen as a government's attempt to balance consumer interests with the pressures that emerge from private economic agents, such as firms. For Cohen (1997: 65-7), it is the conflict between the state and social actors that has to be considered. He maintains that the formation of a currency region tends to reduce a government's ability to finance public spending via inflation. In this case, it is likely that

private economic actors would want to switch their investments from a local currency to investments in a foreign currency. However, Cohen also reminds us that certain segments of society would find it easier to make such an adjustment than others (Cohen 1997: 73).⁹ Another attempt to link patterns of regionalism with domestic economic conditions is provided by Haggard (1997), who argues that deeper integration in Latin America, in comparison to the Asia-Pacific region, has been facilitated by Latin America's numerous domestic economic crises. These crises have fostered a greater demand for formal institutionalisation to take place in Latin America than in the Asia-Pacific region. Nonetheless, most of the aforementioned literature fails to provide any distinct focus on the attitudes of nationalists towards the formulation of a state's foreign economic policy (FEP) in an RIA.

In order to establish a more constructive analysis on the interests of nationalists towards an RIS, it is necessary to first of all identify the four types of nationalism, which include generic nationalism, state-centred or bureaucratic nationalism, economic nationalism, and ethnonationalism. Firstly, generic nationalism is associated with the concept of nationalism as a political, cultural, and ethnic ideology (Heywood 2000: 254). This type of nationalism involves using the nation's ideal to further specifically political ends (political nationalism), defending or promoting a national language, religion, or way of life (cultural nationalism), and practicing distinctiveness and exclusivity (ethnic nationalism). Within the context of this thesis, generic nationalism will be regarded as a popular expression of nationalist sentiment amongst the general public within a country.

⁹ According to Cohen (1997: 73), the groups most capable of making such an adjustment are those that fall within the higher income group.

Secondly, bureaucratic nationalism refers to the nationalist expression that is prevalent amongst the political-elite and decision makers within a country. Central to an analysis of bureaucratic nationalism is the materialist and instrumentalist explanation or approach¹⁰ to the dynamism of romantic nationalism (Gellner 1964; Nairn 1977),¹¹ which primarily argues that the nation was invented by political elites (bureaucratic units) in order to legitimise their power (Hobsbawm 1983).¹² Thirdly, echoing an earlier analysis in Chapter 2, economic nationalism can be described as an expression of nationalism amongst political and economic actors within a country with the purpose of reducing foreign economic control in their country (through the imposition of high tariff barriers, quotas, the nationalisation of foreign firms, etc). Fourthly, ethnonationalism refers to the ‘emotional identification of a [smaller] group [within a nation-state] which shares culture, values, language, and genealogical line to real or fictive ancestors’ (Andaya 1997: 131).¹³ Ethnonationalism is normally a weapon with which to challenge the established nation-state, particularly in response to discriminatory or oppressive policies directed towards the ethno-nations.¹⁴

¹⁰ This explanation or approach is also known as the Marxist approach to the rise of nationalism.

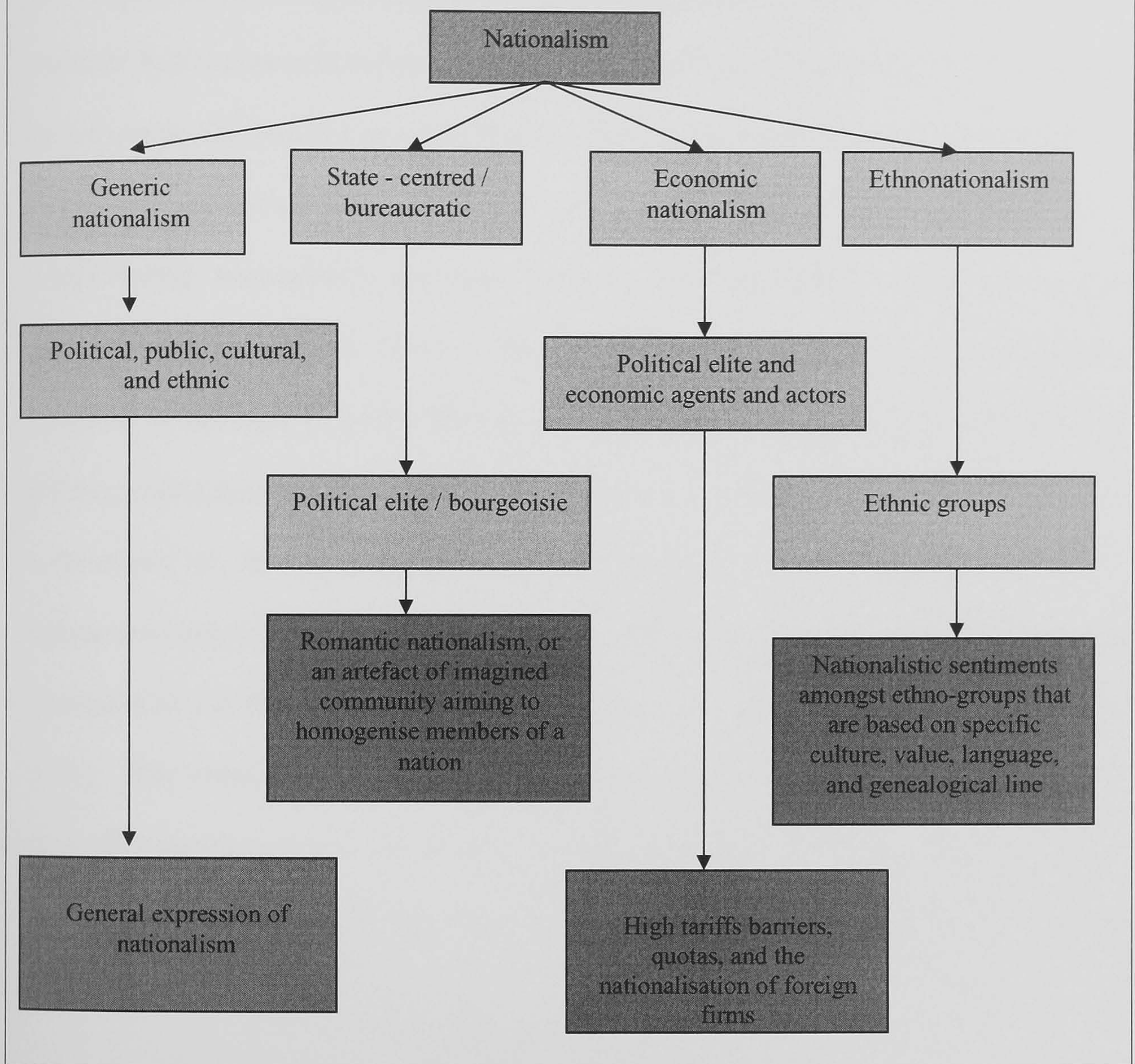
¹¹ For Gellner (1964), in particular, nationalism generally appeals to the educated, upper-middle classes. Nationalism, however, arises mostly in peripheral areas where the mobilisation of the masses is more likely to take place. Such mobilisations would normally be able to reach the developmental goal of those local educated bourgeoisie.

¹² Other scholars, particularly Anderson (1983) and Breully (1985), also employ a Marxist approach to bureaucratic nationalism. In Anderson’s view, for example, the modern nation is an artefact of an imagined political community. He identifies print capitalism and new genres of newspapers and novels as tools used by the political elite to portray a nation as homogeneous. Similarly, Breully identifies the modern bureaucratic state as the genesis of nationalism. Breully also noted that during the seventeenth century nationalism seemed to offer the best solution to the conflicts prevalent between states and society.

¹³ In the Malay-Indonesian context, it could be described as *suku*, which literally means ethnic group.

¹⁴ By using a typology of ethnonationalism, or secessionism, based on levels of economic and educational progress or backwardness, Horowitz (1985) demonstrates that ethnonationalism is most likely to occur amongst groups in poor regions rather than groups in more developed regions.

Figure 3.2.
Types, Composition, and Characteristics of Nationalism



Legends:

- Types of nationalism
- Characteristics of nationalism
- Composition / actors / agents

Moreover, all forms of nationalism can either be expressed romantically or logically. *Romantic nationalism* here is defined as a form of nationalism that feels pride in the achievements and the conventional values of the nation. In the Indonesian context, romantic nationalism would involve excessive pride about the historic struggle against

imperialism, the richness of natural resources in the country, and the geographical size and large population of the country. These normally generate an inward-looking attitude amongst Indonesian nationalists. In the international arena, this attitude is characterised by arrogance and hostility to other nations. For example, the hostility expressed by the Indonesian government towards Malaya¹⁵ in the early 1963 was partly motivated by the long-standing expansionist sentiment held by many Indonesian nationalist leaders (Gordon 1966; Reinhardt 1971). The decision made by Sukarno, the Indonesian President at the time, to *crush Malaya* was viewed by some section of the Indonesian politics, particularly the army, as part of his nationalist cause (Smith 2000a: 11). *Logical nationalism*, on the other hand, is a more moderate form of nationalism. In the Indonesian context, logical nationalism would suggest a more outward approach towards international affairs and a more pragmatic approach in the use of Indonesian foreign policy. The expression of logical nationalism can be illustrated in the increase use of regional integration strategy (RIS) amongst Indonesian policy-makers in the early 1990s as a response to the strengthening of regionalism in Western Europe and North America (Hill 2000: 85).

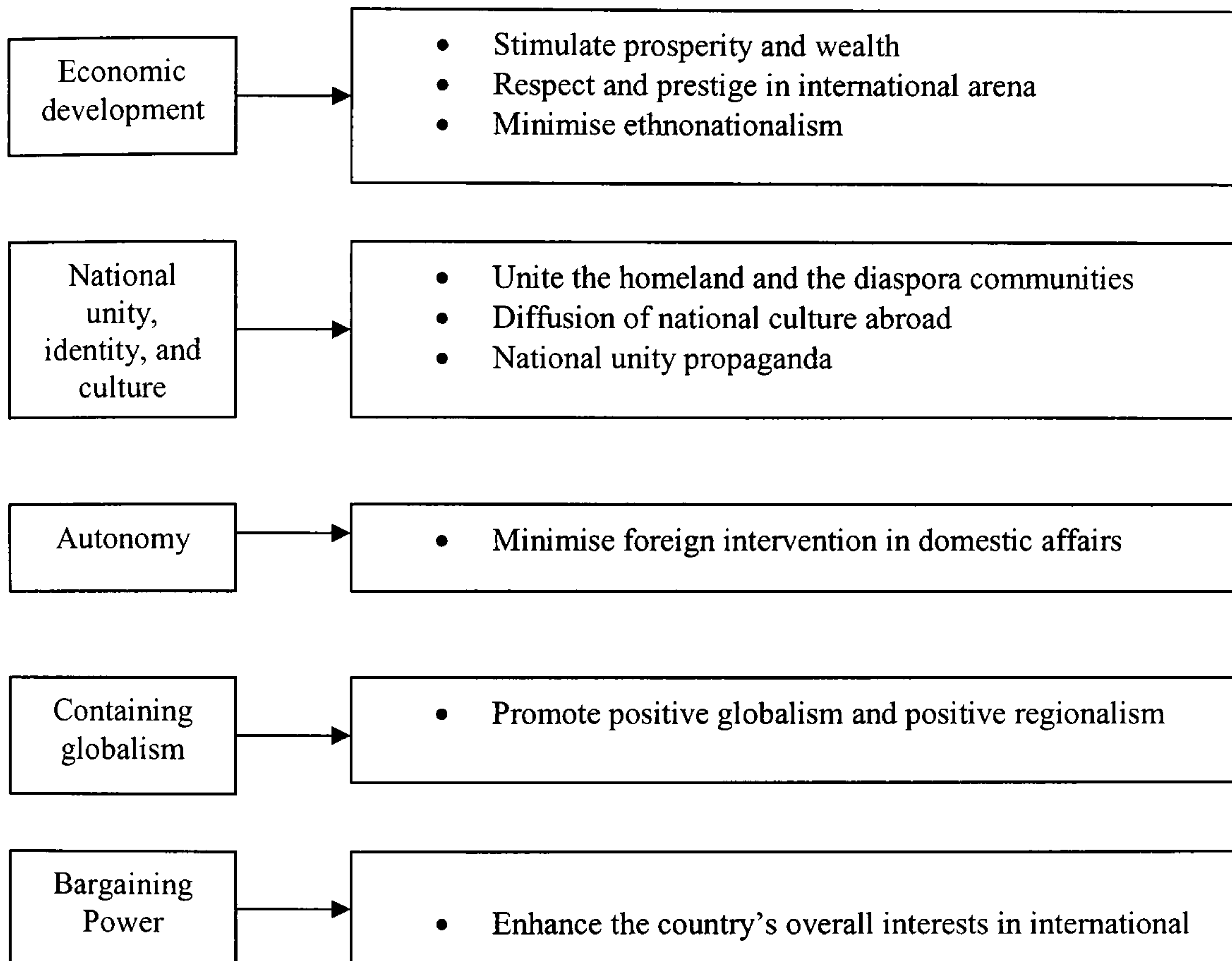
The relationship between nationalism and regionalism is symbiotic; the two variables can sometimes be mutually reinforcing, and sometimes mutually exclusive and conflicting. In order to understand this relationship further, it is necessary to analyse the attitudes and preferences of domestic actors. This analysis will be confined to contexts in which the state is attempting to conduct closer economic ties with foreign nations through the pursuance of an RIS, and on the support or opposition of domestic actors towards

¹⁵ Malaya today is known as Malaysia.

such an agreement. Particular attention here will be given to any nationalist reactions to such an agreement. Nationalists are one of many domestic groups that may adjust or change the state's FEP. Although previous international relations studies have tended to identify nationalists as opponents of FTAs, over recent years nationalists have not necessarily been hostile to free trade and closer economic ties with other states (Shulman 2000: 365). As with other domestic actors, nationalists today have to adjust to the ongoing and intense pressures of globalism and regionalism. Consequently, it is possible to identify general incentives that nationalists may benefit from by supporting an FTA.

Nationalist support towards the promotion of an RIA is dependent upon many factors, as outlined above. It is, however, important to identify some of the main benefits that nationalists may accrue by pursuing an RIS. Here, the works of Shulman (2000) and Falk (1999) are particularly useful to explain the nationalists' interests towards the pursuance of an RIS. However, these analyses can be further explored and expanded. On the whole, nationalists pursue an RIS for the purpose of: first, the achievement of sustained economic development; second, the promotion of national unity, identity and culture; third, the promotion of the state's autonomy in international fora; fourth, the formation of regional collective action to contain the negative forces of globalism and to achieve regional governance through positive globalism and regionalism; and, fifth, the elevation of the nation-state's bargaining power at the international level (refer to fig. 3.3). Some of these points can be interrelated.

**Figure 3.3.
Nationalists' motives in pursuing a
regional integration strategy**



3.3.1. The achievement of sustained economic development

The first major motive behind nationalist support for an RIS is the promise of sustained domestic economic development. Economic development has been one of the major objectives of various regional groupings throughout the world. From more advanced regional groupings, such as the EU, to less institutionalised ones, such as NAFTA, ASEAN, and MERCOSUR, these groupings all have economic development as

part of their stated objectives. Although regionalism as a development policy has been tried in nearly all parts of the world, it has been a failure as far as development is concerned, much of which is due to excessive concerns with trade (Hettne 2001: 14).¹⁶ Since the late 1990s, however, NRT has been trying to promote regionalism as a development policy by broadening the concept of development regionalism. In this context, development regionalism can be defined as ‘concerted efforts from a group of countries within a geographical region to increase the complementarity and capacity of the total regional economy as well as finding the right balance between function and territory’ (Hettne 2001: 14). The new wave of regionalism, therefore, provides a new alternative for nationalists to achieve sustained domestic economic development. In this context, instead of focusing upon the promotion of regional autarky and the creation of trade blocs (or *inward-looking development*), more emphasis is placed on the coordination of production, improvement of domestic infrastructure, and making use of the available complementarities as a regional development strategy (or *development from within*) (Hettne 2001:16).

One fundamental aspect of domestic economic development through RIS is the notion of economic openness (Pernia and Quising 2002: 4). Economic openness here is defined as a full engagement in international trade (Lipsey and Chrystal 1999: 578), which allows the free movement of goods and capital and limits import protectionist

¹⁶ Certain literature links regionalism and development, notably development integration theory, which has focused on two sets of distributive instruments that promote economic development, namely compensatory mechanisms (i.e. transfer tax system, budgetary transfer, etc) and corrective mechanisms (i.e. planned industrial strategy, common investment code, etc) (Schulz *et al.* 2001: 11). For further analysis regarding the development integration theory, see also Axline (1977), Robson (1987: 198-214), and Haarløv (1988: 23).

quotas and foreign exchange controls. Nationalists today are, therefore, not solely associated with the promotion of protectionist policies but are keen to pursue trade liberalisation measures. One main factor behind this transformation is that nationalists have had to change or adjust their strategies to bolster their countries' power, prestige, and prosperity in an increasingly economically interdependent world (Crane 1999; Shulman 2000; Helleiner 2002; Pickel 2003). The notion of economic openness is particularly important because it is held to promote, *inter alia*, domestic economic competitiveness and economic growth. A country is said to be competitive if it is willing to 'meet the test of international markets while simultaneously maintaining and expanding the real incomes of its citizens' (OECD 1992: 242). Countries within a region normally pursue an RIS to push for greater efficiency in some of their domestic industries, thus enabling them to compete in the global markets. Subsequently, improved efficiency will allow these countries to experience economic growth.

Moreover, in a multicultural society, the achievement of economic development through RIS, particularly through trade liberalisation mechanism, may not only stimulates prosperity and wealth throughout the country, but also reduces ethnonationalist sentiments. One of the reasons why certain areas within a country might demand greater autonomy is the failure of the central government to meet the demand of these ethnations' functional needs in terms of strategic planning, co-ordination of governmental and non-governmental activities, and large-scale public service delivery (Parks and

Elcock 2000: 87).¹⁷ Unequal economic distribution as conducted by the central government may trigger the demand for greater autonomy, or even independence, amongst the members of the ethno-nation. Therefore, an RIS or, specifically, trade liberalisation mechanisms may appeal to nationalists because they can act as a stimulant to economic growth and as an appeasement of nationalist sentiments amongst the members of the ethno-nation. Likewise, the quest for autonomy or sovereignty will be less attractive to the population of the ethno-nation if their functional demands are met. However, it is also important to note that the strengthening of economic institutions and the financial sector in the ethno-nation can pose a challenge to the established nation-state (Martin 1997: 255). With improved domestic economic development, ethno-nations will be able to lessen their economic dependence upon the central government. Thus, areas within a country that possess strong cultures that are distinct from the rest of the country will be more inclined to demand greater autonomy, if not full independence (Shulman 2000).¹⁸

¹⁷ Another main reason behind a region's demand for greater autonomy, as Park and Elcock (2000: 87) assert, is the development of strong, distinctive cultures and identities, which lead these ethno-nations to demand a specific title as a national region or stateless nation.

¹⁸ Quebec is the most commonly cited case to illustrate an ethno-nations' support for trade liberalisation for the purpose of lessening their economic dependence upon the central government's economy (Meadwell 1993; Martin 1997; Shulman 2000). Although Quebecois nationalists initially expressed resistance towards free trade in the 1970s (Meadwell 1993: 223), they have supported trade liberalisation strategies since the 1980s. Since the introduction of NAFTA in 1994, for example, the US has been perceived by Quebecois nationalists as a counter-balance towards the excessive English-Canadian dominance over Quebec. To date, greater integration amongst North American countries, under the auspices of NAFTA, has indeed lessened Quebec's dependence on English-Canada. For example, Quebec interprovincial trade increased to \$ 69.41 billion whilst international trade increased to \$ 112.12 billion in 1996, from an initial \$61.33 billion and \$60.20 billion respectively in 1988 (Interprovincial Trade in Canada 1998: 70-74).

Although in the Southeast Asian context the pursuit of RIS has not been specifically aimed at promoting economic development *per se*,¹⁹ the prevalence of support for ASEAN from the region's nationalists is largely due to the Association's capacity for fostering peace and stability in the region. Consequently, governments in the region are able to concentrate upon economic development in their countries.²⁰ Through the existence of ASEAN, for example, some major economies in Southeast Asia, such as Indonesia, Malaysia, Singapore, and Thailand, have achieved tremendous economic growth since the 1970s onward, which has led to rapid modernisation and an improvement in welfare in the region (World Bank 1993a). Economic growth in Southeast Asia, particularly prior to the economic crisis of 1997, was not only able to ease conflicts between states in the region, but also domestic conflicts. Indonesia is a prime example of the way in which Southeast Asian countries have used ASEAN as a means to promote national unity. Indonesians are comprised of nearly five hundred ethnic groups, practice nearly all the major religions, and speak nearly six hundred languages and dialects (Kooistra 2001: 5). The Indonesian political elite during Suharto's New Order regime perceived enhanced economic integration through ASEAN as an exploitation of the country's huge natural resources with very little to be gained in return (Smith 2000a: 24). In recent years, however, there has been growing support for greater economic integration in the region, particularly at the broader East Asian level from amongst the Indonesian political elite, owing to perceived benefits that Indonesia may accrue from such an arrangement (Hill 2000: 92). The Indonesian nationalists are

¹⁹ See, for example, ASEAN Secretariat (1993) or visit the ASEAN Secretariat official website (accessed 2003), at:

<http://www.aseansec.org/12374.htm>

²⁰ Nevertheless, in recent years, as Parsonage (1997: 253) asserts, the focus on accelerating economic development has been considered the main source of solidarity in the region.

concerned by the increasing threat of national disintegration in the country. Greater economic co-operation at the regional or broader East Asian level is hoped to bring about greater prosperity throughout the country. This, in turn, may bring about greater political and economic stability and minimise conflicts amongst Indonesian ethno-nations.

3.3.2. The promotion of national unity, identity, and culture

The second major motive behind nationalist support of RIS is national unification and the promotion of national identity and culture. To start with, it is widely recognised that a principal nationalist objective is to unite all members of a nation both politically and emotionally (Shulman 2000: 371). This is because nationalist ideology reflects a sense of bonding or affiliation amongst a group of people as a result of political, cultural, and ethnic similarities (Heywood 2000: 254). For nationalists, an RIS may help to achieve this objective through its capacity to unite members of a nation that live in the *homeland community* and the *diaspora community* (Shulman 2000: 371).²¹ People tend to move from one place to another in search of better living conditions. Today, the global pattern of migration is not only stimulated by increasing globalisation, but also by the various violent conflicts, economic crises, and natural disasters that emerge throughout the world (National Intelligence Council 2001: 3). At the turn of the new millennium, for example, there were about 150 million migrants worldwide, which amounted to 30

²¹ Homeland community here is defined as a community that is identified with a particular group of people or ethnic group. The members of a homeland community are born and reside in the same area, region, state, or territory throughout their lives. The diaspora community, on the other hand, is a community whose members have become dispersed from their original homeland community.

million more than in the previous decade.²² This trend, coupled with the historical vagaries of state boundary formation, has resulted in the fragmentation of members of nations (Shulman 2000: 371). For nationalists, an RIS may act to unite the fragmented members of each respective nation. Amongst other things, an increase in multinational linkage allows closer contact and communication between the dispersed members of a nation. One of the most widely cited cases where members of a nation linked together within a region is the Chinese community in Hong Kong, Taiwan, and Southeast Asian countries (Dobson 1998: 28-30; Yeung 1999; Peng 2002: 430-2). The ethnic business network in the East Asian region can be regarded as a form of informal economic integration, which facilitates economic transactions and the exchange of information between the fragmented members of a nation. Therefore, national unification amongst members of a nation who live in multiple states can be promoted through the pursuance of an RIS, and *vice-versa*.

The objective of national unity is, therefore, a crucial element in understanding nationalist support for an RIS. Southeast Asian states, for example, have benefited greatly from RIS, such as ASEAN, in that an RIS can help maintain the national unity of the established states in the region. Indonesia, in particular, is one example. Although few studies exist that specifically analyse the direct contribution of ASEAN towards the maintenance of the national unity of its member countries, one motive behind Indonesia's support of ASEAN, as mentioned earlier, was the country's need to maintain domestic stability (Anwar 1994). The achievement of regional peace in the region has had a

²²As reported by the *BBC News* (2000). For further information visit:
<http://news.bbc.co.uk/1/hi/world/europe/1003324.stm>

knock-on effect on economic development in each member state and, therefore, towards the promotion of national unity amongst countries in the region. One significant aspect is ASEAN's policy of non-interference, which primarily stems from 'traditional notions in international relations of equality of the sovereignty of states ... and the consequent right to exclusive sovereignty' (Ramcharan 2000: 60). The adoption of the Treaty of Amity and Co-operation (TAC), which highlights mutual respect for independence, sovereignty, equality, territorial integrity, and national identity of all nations,²³ is particularly central to the promotion of Indonesian national unity. The promotion of regional security in the Southeast Asian region has enabled Indonesia to focus on its economic development, and, in turn, reduce the social unrest that often jeopardises domestic stability in the country.

Moreover, national unity and territorial integrity have become two main concerns of the Indonesian government since the economic crisis in 1997. Strong support from amongst Indonesia's immediate neighbours is crucial for the maintenance of national unity and territorial integrity in the country. During the Third ASEAN Informal Summit in 1999, for example, the Singaporean Prime Minister, Goh Chok Tong, highlighted how important it was for ASEAN leaders to support the integrity of Indonesia (Singapore Ministry of Foreign Affairs 1999). A Joint Statement was also signed amongst the APT Foreign Ministers in Bangkok on 24th-25th July 2000, which highlighted support for Indonesia's sovereignty, national unity, and territorial integrity.²⁴ Furthermore, ASEAN member countries were equally supportive when Indonesia attempted to crush the

²³ See Chapter 1, Article 2 of the Treaty of Amity and Co-operation, which was signed on 24th February 1976, or visit the ASEAN Secretariat official website (accessed 2003) at:

<http://www.aseansec.org/1217.htm>

²⁴ As reported in the ASEAN Secretariat (2000a) official website at:

<http://www.aseansec.org/597.htm>

separatist movement in Aceh in 2003 (Baker 2003). The Thai Foreign Minister, Sihasak Phungketkeow, for example, stated that Thailand ‘would not allow any separatist movements to use Thai territory to cause trouble for ASEAN neighbours’.²⁵ Initially, however, there were mixed feelings amongst ASEAN members when peace talks between the Indonesian government and Aceh broke down (Tan 2003). Singapore and Malaysia, in particular, expressed regret over the breaking down of the peace talks between the two sides and expressed hope that a peaceful resolution could be found to resolve the conflict in Aceh. On the whole, however, no country in the region would want to see the break up of Indonesia as such an event would bring about instability and the possibility of a refugee crisis in the region (Smith 2000a: 72). The existence of ASEAN is, therefore, crucial for the maintenance of Indonesia’s national unity and territorial integrity.

Apart from the promotion and the maintenance of national unity, nationalists also pursue an RIS for the promotion and the expansion of their national identity and culture worldwide. Identity is an important term used by nationalists everywhere, along with unity and autonomy (Hutchinson and Smith 1994: 5). For most modern nation-states, a national identity can be interpreted as having a membership in a people, which is a fundamental characteristic of a nation (Greenfield 1992: 7-9).²⁶ The notion of identity in nationalism emphasises ‘a complex set of themes about *us, our homeland, nations (ours and theirs), the world*, as well as the morality of national duty and honour’ (Billig 1995:

²⁵ As quoted in *The Nation* (2003), or visit *The Nation* official website at:

<http://www.nationmultimedia.com/page.news.php3?clid=4&theme=A&usrsess=1&id=14529>

²⁶ See also Tivey (1981) and Greenfield (1992) for a detailed analysis of a nation’s self-confidence. Both scholars hold that prestige and success bring self-confidence. National identity is, therefore, a matter of dignity.

4). It is, therefore, what members of a nation share which differentiates them from other nations. National culture, on the other hand, is the main feature of national identity, and plays an important role in shaping a nation. As a result, it is in the nationalist interests to preserve and to enhance their culture. Whilst the pursuit of an RIS may impinge upon a nation's culture (Martin 1997), nationalists can benefit from such a strategy because it promotes their national identity regionally (Shulman 2000: 372). One process through which such an objective may be achieved, as Shulman further asserts, is cultural diffusion,²⁷ which enhances a nation's culture through a closer relationship with other nations, particularly those at close geographical proximity.²⁸

One of the strategies that countries have used to promote their identity and culture today is tourism. In Southeast Asia, tourism has become an important 'source of economic development, foreign exchange, and employment generation' (Hall 2001: 13). For Indonesian nationalists, RIS plays an important role in promoting their identities and cultures abroad. In order to achieve this, Indonesian nationalists may support the way in which ASEAN promotes regional tourism. It is more and more clear that 'cross border cooperation is of obvious importance for the mutual strengthening of the tourism industries of neighbouring countries' (Grundy-Warr and Perry 2001: 64). As a result,

²⁷ The use of the term diffusion was prominent as early as 1893 and was used to refer to the notion that most folklore was primarily borrowed from an Old World centre of high culture, such as Egypt, Mesopotamia, India, and so on. Today, the term diffusion is used to describe *acculturation*, which means the transmission of culture from one community to another. For a detailed analysis of the concept of cultural diffusion see, for example, Wescott (1998).

²⁸ This is, however, not always the case. In Shulman's view (2000: 372), for example, the process of cultural diffusion is most successful when a nation's culture is transferred to other nations that share a similar culture. Nevertheless, it is also argued in this thesis that, nowadays, the process of cultural diffusion does not necessarily require a close similarity between one culture and another, although close geographical proximity does allow the process of cultural diffusion to take place naturally. The recent increase in the use of information technology means that today members of a nation may access other culturally distinct cultures from their own without having to be *similar* or geographically close.

during the Eighth ASEAN Summit in November 2002, ASEAN member countries signed a landmark Framework Agreement on ASEAN Co-operation in Tourism to boost the regional tourism industry, to facilitate domestic and intra-regional travel amongst member countries, and to harmonise visa procedures for international travellers.²⁹ Another attempt to promote tourism at the regional level has also been made through the ASEAN Tourism Forum (ATF), which is an annual meeting attended by individuals or entities involved in the ASEAN tourism industry with the objective of promoting the ASEAN region as a tourist destination.³⁰ In recent years, there has also been an attempt to incorporate tourism as an integral part of the Southeast Asian growth triangle initiatives (Chang and Raguraman 2001: 50-51). The co-operation of the Indonesian and the Singaporean governments in the Riau islands of Batam and Bintan has been a leading example of the incorporation of the tourism industry in the growth triangle initiative (Grundy-Warr and Perry 2001: 65).

For Indonesian nationalists, regional integration strategy in the context of the promotion of national identity and culture abroad contains some negative and some positive aspects. On the negative side, the promotion of an RIS can be perceived as a threat to national identity due to the increased penetration of foreign cultures amongst the population of the country (Martin 1997). This has been particularly evident amongst Indonesian youth who have been influenced by the heavy consumerism in foreign products and cultures. Many Indonesian youths today use foreign products to gain status

²⁹ As reported by the ASEAN Secretariat (2002a), or visit the ASEAN Secretariat official website at: <http://www.aseansec.org/13159.htm>

³⁰ For details on the ATF main objectives, see the ATF (2003) official website at: <http://www.atf2003.com/objective/index.html>

and prestige; they drive a Jaguar and wear Armani shirts (Priyono 2003). Such fashions make traditional Indonesian culture appear less attractive to Indonesian youth. Another negative impact from the promotion of Indonesian identity and culture abroad through an RIS is the erosion of ethnic culture and economic and environmental degradation. This has been evident in the Tanah Toraja, in Sulawesi, where, without concerted efforts from both the government and local leaders, it would be impossible to preserve the Toraja's culture and identity (Hall and Page 2000: 16). Meanwhile, economic and environmental degradation as a result of the incorporation of tourism in an RIS is best illustrated in the case of the Singapore, Johor, Riau (SIJORI) growth triangle initiative. Large-scale resort development initiated by many Singaporean investors in both Riau and Johor, for example, has raised concerns over environmental and economic degradation in these two areas (Business Traveller Asia Pacific 1997). Singaporean tourists are perceived by locals in Riau and Johor as arrogant and major contributors to pollution and inflation (Lim 1999).³¹

On the positive side, however, there are two main objectives that the Indonesian nationalists wish to achieve through the promotion of national identity and culture abroad, namely political and economic objectives. The political objective includes the promotion of the Indonesian multi-ethnic character both at the national and the international level. At the national level, this can be used as propaganda to promote national unity amongst different ethno-nations in Indonesia. At the international level, the multiethnic character can be used as a symbol to attract international visitors (Wall 2001: 320). Therefore, the Indonesian government stands to gain substantially through

³¹ As quoted in Chang and Raguraman (2001: 61).

the promotion of national identity and culture abroad. Meanwhile, the economic objective of the Indonesian government to promote national identity and culture lies in the increase of economic development, particularly in the peripheral areas of the country. Hence, it is not surprising that, as Hall (2001: 19) points out, 'national tourism policies and plans are usually a deliberate tool of regional development strategies and / or broader trade policies'. The achievement of even economic development throughout the country is seen to minimise possible conflicts between different ethno-nations in the country.³² Therefore, although RIS may impinge upon Indonesian culture, the Indonesian nationalists benefits from this strategy through the promotion of national unity and economic development.

3.3.3. The promotion of the state's autonomy in the international arena

The third motive behind nationalist support for an RIS is the promotion of their autonomy in the international arena.³³ One central analysis here rests upon the principle of collective self-determination, which is used by a nation as a whole to minimise foreign

³² However, it has also been widely acknowledged that the 'celebration of the manifestation of cultures living in peripheral locations may be viewed as encouraging [ethnonationalism]' (Wall 2001: 321). Through the promotion of regional tourism, for example, many Indonesian ethno-nations can hope for not only the promotion of their identities and cultures abroad, but also economic development. The incorporation of tourism in the Brunei Darussalam, Indonesia, Malaysia, the Philippines East ASEAN Growth Area (BIMP-EAGA) and the Indonesia, Malaysia, Thailand Growth Triangle (IMT-GT), for example, has allowed some of the most restive Indonesian provinces, such as Maluku, Papua, and Aceh, to expect economic gains, particularly in terms of investment opportunities (PATA 1999). With sustained economic growth, Indonesian ethno-nations can lessen their economic dependence from the Indonesian government. As a result, the promotion of ethno-nation's identities and cultures through tourism may also be used as a leverage to increase resistance towards the Indonesian government.

³³ The term autonomy, according to Heywood (2000: 118), literally means 'self-rule or self-government'. Autonomy implies a substantial degree of independence and states, institutions, or groups can be said to be autonomous if they enjoy a substantial degree of independence.

intervention in the domestic affairs of a nation (Shulman 2000: 369).³⁴ As with the aforementioned point on unity, the drive for national self-determination can also be stimulated by economic motive. Although isolationist economic policy, such as protectionism, may contribute to the self-determination, or independence, of a nation in the international arena (Shulman 2000: 369), economic nationalism does not necessarily lead to real economic improvements (Johnson 1967). However, what has become clear in recent years is that both regional economic integration and globalisation are better means to promote wealth than economic autarky (Yergin and Stanislaw 1998). Since the end of the Second World War, countries around the world have gradually moved towards liberalisation.³⁵ With regard to the Asian region, in 1999, the Asian Development Bank (ADB) issued a report that suggests the existence of a strong link between economic openness and growth. Such factors are behind the motives driving nationalists to conduct closer economic ties with other nations.

Indonesian nationalists perceive ASEAN as a 'vehicle for a more autonomous regional order' (Anwar 1994: 212). This objective is particularly important because it coincides with the Indonesian free and active (*bebas aktif*) foreign policy. This policy does not imply that 'Indonesia would necessarily adopt a neutralist stance but would

³⁴ Other scholars, such as Hutchinson and Smith (1994: 4), have also observed that nationalists are always keen proponents of popular freedom and sovereignty. It is, therefore, imperative that the people or members of a nation should be liberated from any foreign interference, be able to determine their own destiny, be masters in their own house, be able to control their own resources, and obey only their own *inner* voice.

³⁵ The WTO official website indicates that the relationship between world trade and economic growth since the Second World War is evident through the cut in industrial products tariff rates (refer also to Appendix 2 for levels of tariff barriers since the end of the Cold War). By 1999, for example, tariffs on industrial products in developed countries had fallen sharply and averaged at less than 4 percent. For further WTO analysis on economic growth and open trade see the WTO official website (accessed 2002) at: http://www.wto.org/english/thewto_e/whatis_e/tif_e/fact3_e.htm

establish a foreign policy course that was independent of great power concerns' (Smith 2000a: 9). Throughout the post-independence period, mistrust of the intentions of these great powers has been evident amongst Indonesian leaders. During the inception of ASEAN, many members of the Indonesian political elite perceived the creation of the Association as evidence of increasing regional independence (Anwar 1994: 54). Moreover, the objective of Indonesian nationalists of creating a more autonomous regional order also reflects the Indonesian government's concerns about the maintenance of Indonesian domestic security and territorial integrity from external threats (Anwar 1992: 13). It is quite fortunate that Indonesia's neighbours share similar concerns and, as such, are willing to adopt a similar approach to Indonesia in dealing with external powers. It is for this reason that Indonesia's policy of national and regional resilience is incorporated into ASEAN. Whilst national resilience is built on the foundation of economic development, regional resilience subsequently emerges once national resilience has been achieved and countries in the region are able to co-operate fully with each other. It is at this point that 'ASEAN countries will truly be able to become the master in their own house, no longer needing the political and military protection of foreign powers' (Anwar 1994: 213).

3.3.4. Collective action to contain the negative forces of globalisation and to achieve regional governance

The fourth motive behind nationalist support of an RIS is the formation of collective actions with neighbours for the purposes of containing the negative forces derived from the process of globalisation and for the purpose of achieving governance at

the regional level. To start with, the concept of globalisation is controversial (Rupert 2000: 43) and most debates have centred upon the issue of the threatened existence of the nation-state. The idea that globalisation will lead to a borderless world and the end of the nation-state (Ohmae 1990; 1995) has been challenged by both academics and the mass media. Some scholars, such as Van Ruigrok and Van Tulder (1995), Hirst and Thompson (1996), Coleman and Underhill (1998), view the globalisation thesis as exaggerated, believing that it is far too early to announce the emasculation, or even the disintegration, of the domestic institution as a significant focus in international economic, social, and political activities. Nevertheless, the process of globalisation poses profound challenges to the nationalist objectives of national unity, international autonomy, and the preservation of their identity. After all, globalisation has been perceived as the process that 'subverts the [established] state's capacity to act in the interests of its citizens' (Stubbs 2000c: 197). Although the globalisation process may have led to global cultural homogenisation, it has also unleashed a cultural pluralism, particularly within nation-states themselves (Mittelman 1996b: 7-8). The explosion of cultural pluralism has given ethnonationalist movements a new start as a potent force to challenge the established nation-states. Since the end of the Cold War, for example, twenty-six new countries have been established, some of which were born out of ethnonationalist movements. One prominent example in the Southeast Asian region is East Timor,³⁶ which gained its independence from Indonesia on the 30th August 2002.³⁷

³⁶ East Timor today is known as Timor Leste.

³⁷ Not all ethnic conflicts have resulted in the creation of a new nation-state. Some examples in Southeast Asia are the Acehnese resistance against the Indonesian government and the conflict between the Philippines government and the Moro Islamic movement. There is a similar tendency in Africa, where internal conflicts have been prevalent but new countries have not been born. One prime example is the conflict between the Oromos and the Ethiopian government (Jalata 2001).

However, it should also be noted that the impacts of globalisation can either be regarded as positive or negative depending upon the criteria being used to define each term. In an attempt to define the composition of positive globalism, Falk (1999: 69) asserts that the term mainly refers to:

'the democratising of global institutions, creating accountability and responsiveness to more democratic social forces and establishing procedures for wider participation by representatives of diverse people'.

Consequently, negative globalism, as Falk further postulates, would point to:

'the conjuncture of largely non-accountable power and influence exerted by [transnational entities] and their collaborators with the ideology of consumerism and a development ethos weighted almost entirely toward return on capital mainly achieved by maximising growth'.

As with other domestic actors, nationalists today face intense pressure from the globalisation process, particularly from its adverse effects.³⁸ It is for this reason that nationalists favour RIS to contain the negative forces of globalisation. Although regionalism has not yet emerged as a potent source to contain negative globalisation (Falk 1999: 72), it has achieved positive results in transcending the state's role to serve the interests of its citizens. Amongst other things, regionalism has been able to act as a forum to mitigate and to minimise conflicts, not only between states in a region, but also when internal conflicts emerge as a result of ethnonationalist movements. To date, there are a number of examples to illustrate the success of a regional grouping in mitigating conflicts at the national level. In Africa, for example, the Economic Community of West

³⁸ However, this is not to suggest that nationalists themselves are not collaborators with these non-accountable international actors. As with other political groups, nationalists often need the financial and other support from these international entities to achieve their objectives.

African States (ECOWAS) was successful in mitigating the fourteen year old civil war in one of its member countries, Liberia.³⁹ In Southeast Asia, however, little evidence exists to suggest that the regional grouping has had any success at mitigating conflicts at the national level. Nevertheless, ASEAN has been able to prevent conflict in the region through its adherence to the principle of non-interference, which makes it unlikely that an ethnonationalist movement in one country will be supported by other ASEAN member states (FfP 2002: 1). Southeast Asian countries, in fact, gave their support to the existence and the strengthening of the established nation-state system in the region. As a consequence, ASEAN states often involve non-members to mediate in domestic conflicts that arise between the central government and ethno-nations.⁴⁰

Meanwhile, collective actions amongst states in a region may also act as a catalyst to achieve governance at the regional level. The term governance, in general, refers mainly to a social function that aims to produce collective choices in regard to matters that concern a specific group of people (Young 1995). Regional governance, therefore, is

³⁹ ECOWAS sent its troops to Liberia to resolve the conflict between the Liberian government, led by Charles Taylor, and members of the Liberians United for Reconciliation and Democracy (LURD) and the Movement for Democracy in Liberia (MODEL). The peace deal was signed in Ghana, on 19th July 2003. For further details concerning the Liberian civil war and ECOWAS' involvement in the peaceful resolution to the conflict, visit the *BBC News* (2003a) official website at: <http://news.bbc.co.uk/1/hi/world/africa/3162089.stm>

⁴⁰ The EU's involvement in the restoration or consolidation of democracies in Southeast Asian countries, such as Cambodia and East Timor, is a prime example of the use of inter-regional initiatives to resolve conflicts between the central government and ethno-nations. For further information concerning the EU's involvement in conflict resolution in the Southeast Asian region see the European Union Online website at http://europa.eu.int/comm/external_relations/cambodia/intro/index.htm (for Cambodia, accessed 2003), and http://europa.eu.int/comm/external_relations/east_timor/index.htm (for East Timor, accessed 2003). In other cases, interregional initiatives to mitigate domestic conflicts have taken the form of formal pressure. One such example is the EU's arms embargo on Indonesia over East Timor. The EU was reported as taking a very pro-East Timorese stance *vis-à-vis* the Indonesian government. The embargo was imposed following the spread of violence in the former Indonesian province after the East Timorese general election on 30th August 1999. The embargo was later lifted on 17th January 2000 after the Indonesian government and the EU reached an agreement that the Indonesian government would seek peaceful solutions to other ethnonationalist movements in Indonesia (Reuters 1999).

‘the set of social functions concerned with making collective choices [amongst] people delineated by geographical proximity and other shared notions of sameness. ... [It is also] also concerned with the regime that constitutes the set of fundamental rules for the intergovernmental institutions in the narrow sense’ (Bøås 2002: 49). Regional governance is important nowadays as a result of the greater complexities that states have to confront. The increasing desire for regional governance amongst states is partly a result of the fact that governance is more difficult to achieve at the global level than at the regional level. If, for instance, globalisation involves an extension of liberal values as the premise of policy making and an expansion of transnational elite networks working through a set of inter-linked international institutions, global governance, then, will create an explicit superstructure to facilitate these processes (Laux 2000: 268). The problem is that globalisation and its *superstructure* will not necessarily accommodate every state’s interests and concerns. In this context, globalisation, as a historical epoch, will result in a new set of ‘winners and losers’ (Reich 2001: 117). This is not to say that regionalism is not also problematic since, after all, regionalism also involves divergent national interests. However, convergence at the regional level is easier to achieve since most states are located within a similar geographic location, which suggests that their concerns and interests will be more uniform, although perhaps differing in context and scope. Regionalism, with its relatively smaller number of participants, is, therefore, preferable to multilateralism in two respects (Jovanovich 1998: 113). Firstly, member countries can enjoy cosier relationships, which makes monitoring easier to carry out. Secondly, friendly or positive co-operation within the group will offer a more conducive

environment for the exchange of favours, mutual agreements, and dispute settlement to take place.

There are two possible ways in which regional governance can be achieved, which are the promotion of positive globalism and the promotion of positive regionalism (Falk 1999: 76-9). The promotion of positive globalism, which includes democratisation, accountability, and responsiveness to democratic social forces, is a means to avoid centralism. Within this context, regionalism can be perceived as the ‘complementary and subordinate tools of global governance, shaped within the UN and contributing to either effectiveness or legitimacy or some combination of these’ (Falk 1999: 77). It is imperative that the promotion of governance at the global level must also be forged at the regional level. Here, the promotion of positive regionalism, which contributes towards the goals of global governance at the regional level, is crucial. Yet finding any evidence of the promotion of positive globalism and positive regionalism in the ASEAN context is a difficult task. Throughout its existence, ASEAN has been far from transparent or accountable to the citizens of its member countries. However, given its willingness to change its organisational structure and its elitist tendencies, it is likely that regional groupings such as ASEAN will become more democratic and more responsive to the diverse needs of the citizens of its member countries.⁴¹

Nationalists may perceive regional governance as an important element to contain the negative forces of globalisation. On the economic front, nationalists, in spite of their doctrine of economic nationalism, are not only concerned with trade protectionism and

⁴¹ See Chapter 7 for a further analysis of ASEAN’s organisational structure and its elitist tendencies.

industrial policy (Crane 1998: 74). In the age of globalisation, nationalists have come to see the logic of pursuing more liberal economic policies that will enhance the competitiveness of nationally based industries and increase the attractiveness of their country for the potential investments of TNCs (Helleiner 2002: 310). Moreover, most countries in the world today are pushed to pursue an open economic policy that will encourage higher incomes and economic growth (Meier 1984; Frankel and Romer 1999; Anoruo and Ahmad 1999).⁴² However, this is not to suggest that nationalist economic policy is no longer valid for nationalists. As mentioned earlier, nationalists today have changed or adjusted their strategies to bolster their countries' power, prestige, and prosperity. Regionalism offers considerable opportunities for nationalists through its processes of collective action to tackle the various conflicts of interest that emerge between domestic industries and the forces of globalisation. A regional institution, for example, will allow competitiveness to flourish as a result of the research funding made available for the development of local industries, a better organised industrial policy (Sally 1995), and the protection of local firms with long-term investments from the volatility of the international financial system (Hveem 2000: 77-8). Indonesia's position in AFTA is a case in point. Despite its poor economic performance as a result of the 1997 economic crisis, the country maintains its commitment to the agreement. After all, the elimination of tariff barriers amongst Southeast Asian countries allows member countries to enjoy greater production efficiency and long-term competitiveness (ASEAN Secretariat 2002: 2), and thus generates economic incentive for Indonesian nationalists.

⁴² In recent years, substantial analyses, such as those produced by Gundlach (1996), have been made on the impact of openness on the economic growth of developing countries. Most developing countries in the past supported the import substitution industry (ISI) mechanism that favoured protectionism. Initially, the open economic policy was challenged by economic nationalists who favoured protectionism. For the views of economic nationalists on the open economic policy see, for example, Myrdal (1957) and Prebisch (1962).

3.3.5. The elevation of the nation-state's bargaining position in the international arena

Nationalists' fifth, or final, motive in supporting an RIS is to elevate their country's bargaining power at the international level. As with other domestic actors, nationalists may want to increase the bargaining power of their country *vis-à-vis* other countries, particularly in the framework of multilateralism. It has been asserted that 'a nation's prospects in international negotiations depend principally on its bargaining power' (Hoekman and Leidy 1993: 258). Nevertheless, although concern over bargaining power is one reason why countries pursue an RIS, there has been little analysis of this issue in the regional integration literature. One exception is the regional economic integration (REI) analysis, which argues that countries, particularly small and developing ones, pursue a regional integration strategy to increase their bargaining power in economic relations (Robson 1987: 196). It is, however, necessary to analyse the two main objectives that underlie a country's desire to elevate their bargaining position in international relations. The first objective is that countries may desire to promote their national goals, such as an increase in domestic economic welfare, through international relations. Here, as mentioned earlier, an RIS may play an important role in promoting economic competitiveness and growth in its member countries. The second objective may be inspired by the state or other domestic actors' defensive reasoning that an increase in bargaining power in international relations will enhance their country's ability to counter the combined weight of regionalism pursued in other regions (Ravenhill 2001: 15-6).

However, one important aspect in the issue of bargaining power is the relative size of the regional grouping, instead of its absolute size, *vis-à-vis* its trading partners (Jovanovich 1998: 87-113). It is important to note that a regional arrangement implies 'both a decision to include and a decision to exclude countries' (Padoan 1997: 130). In economic terms, for example, many countries pursue an RIS as an *insurance* that will protect them against possible trade bloc wars (Baldwin 1993; Perroni and Whalley 1994). Another analysis suggests that the external effects of integration may also trigger an enlargement process to take place (Mattli 1999: 59-64).⁴³ Here, a successful regional integration project creates a demand amongst non-member countries to join the established regional grouping (Dent 1997: 90).⁴⁴ Alternatively, negative external effects created by the establishment of a regional grouping, such as the diversion of trade, investment, and aid, may equally increase the demand amongst non-member countries to join the established regional grouping. Although the question of number optimality depends upon changes in the international environment, the increased size of an alliance normally increases the member countries' capacity to resist outside threats (Padoan 1997: 120-30). There can be no doubt that the size of a regional grouping is crucial. This applies not only to regional groupings composed mainly of developing countries, but also those composed of developed ones. The recent move by the EU to expand its

⁴³ This external effect of integration can also be termed the multiplier effect (see, *inter alia*, Pederson 1994). This analysis argues that the lure to join an established regional grouping is greater when the critical mass of established regional groupings' members grows.

⁴⁴ It is also possible that non-member countries' demands to join an established regional grouping may be rejected. As a result, as Mattli (1999: 43) further postulates, non-member countries may form their own regional grouping.

membership eastward, for example, proves that the Union still wishes to strengthen its role in world affairs.⁴⁵

For Indonesian nationalists, the issue of bargaining power is central to enhancing the country's interests in the international arena. It is for this reason that Indonesia strongly supported the enlargement process within ASEAN. It has been acknowledged that ASEAN's best achievement to date has been its efficacy as a united bargaining bloc in international diplomacy (Ravenhill 1995: 860-1; Anwar 2001b: 37). As a larger group, not only will ASEAN improve its position in Asia (i.e. *vis-à-vis* China), but it will also increase its bargaining power against some of the major powers, such as the US and the EU. Throughout the 1990s, a number of initiatives have been taken by Indonesia to enhance its bargaining position in the international arena, particularly APEC. Indonesia was also indirectly involved in discussions over the proposed EAEC, which was a fearful reaction to the fortification of Europe following the adoption of the Single European Act of 1987 and the steady move towards Europe 1992 (Mattli 1999: 168). Unfortunately, the initiative was abandoned after the US objected to APEC's East Asian member countries' proposals (Alvstam 2001). In recent years, it has become more likely that ASEAN will concentrate on strengthening APT cooperation to improve external relations (Abidin 2001: 271), and, as a result, policy-makers in Indonesian hope to become involved in activities within the APT framework. Amongst other things, this hope has

⁴⁵ Apart from increasing the bargaining power of the Union in world affairs, the benefits of enlargement also include: (1) peace, stability, and prosperity throughout Europe; (2) the boosting of economic growth; (3) a better quality of life for the Union's citizens; (4) an increase in cultural diversity. For further information regarding the EU's enlargement, visit the European Union online official website (accessed 2003) at:

<http://europa.eu.int/comm/enlargement/arguments/index.htm>

been fuelled by the slow progress of liberalisation under the WTO, the enlargement process within the EU and the growing pan-American move to create the Free Trade Area of the Americas (FTAA), and, finally, the economic crisis of 1997 (Harvie and Lee 2002: 125).

3.4. The relationship between ASEAN regionalism and Indonesian nationalism

For quite some time now ASEAN has been regarded as the most successful RIA formed amongst developing countries. The Southeast Asian region itself is dynamic as a result of its heterogeneous historical backgrounds, levels of economic development, and social patterns. More importantly, however, the dynamism of the Southeast Asian region is also due in part to an upsurge of nationalism, the growing interdependence of the global economy, and a new burst of regional co-operation, both outward-looking and inward-looking (Palmer 1991: 22).⁴⁶ There is a definite correlation between ASEAN regionalism and Indonesian nationalism. For Indonesia, ASEAN has been a vehicle to promote its national interests at both regional and international levels. In order to illustrate further the relationship between the two ideologies, it is necessary to define ASEAN, AFTA, and Indonesian nationalism. To start with, ASEAN, in the simplest terms, can be defined as a regional grouping of Southeast Asian countries, which was established amongst the five Southeast Asian countries of Indonesia, Malaysia, the Philippines, Singapore, and Thailand, on 8th August 1967, in Bangkok, Thailand. The

⁴⁶ In addition, Palmer also describes the region as the laboratory for the study of the new regionalism, as was the case with Western Europe's experience during the first wave of regionalism.

Bangkok Declaration of 1967⁴⁷ spells out the objectives of the regional grouping, which include, *inter alia*, (1) the acceleration of economic growth, social progress and cultural development in the region; (2) the promotion of regional peace and stability; (3) the promotion of active collaboration and mutual assistance in the area of economic, social, cultural, technical, scientific, and administrative fields.⁴⁸ Throughout the 1980s and 1990s, however, membership has been expanded to include Brunei Darussalam (1986), Vietnam (1995), Laos (1997), Myanmar (1997), and Cambodia (1999). Although the acceleration of economic growth was one of the prime motives behind the formation of ASEAN, another major focus was strategic and security co-operations (Wanandi 2000: 25).

Furthermore, AFTA is a reflection of the need for Southeast Asian countries to integrate the economies of the region into a single production base and to create a regional market for 500 million people (ASEAN Secretariat 2002: 1). AFTA is, therefore, aimed at making the Southeast Asian region a free trade area. This trade scheme is an extension of previously established forms of economic co-operation which have been pursued since the mid-1970s. Starting with the ASEAN Preferential Trading Agreement (ASEAN-PTA), intra-ASEAN trade was 'liberalised at the pace that was acceptable to all ASEAN members' (Wong 1989: 205-6). Following the creation of the ASEAN-PTA, the Southeast Asian region saw the emergence of various regional economic projects, such as the ASEAN Industrial Project (AIP), the ASEAN Industrial

⁴⁷ Also known as the ASEAN Declaration.

⁴⁸ Quoted from the ASEAN Secretariat official website (accessed 2002) at:
www.aseansec.org/64.htm

Refer to Appendix 3 for details about the Bangkok (ASEAN) Declaration of 1967.

Co-operation (AIC), and the ASEAN Industrial Joint Venture (AIJV). Today, aside from AFTA, ASEAN economic co-operation is further extended through the promotion of the ASEAN Investment Area (AIA), and Growth Triangle (GT) schemes, such as BIMP-EAGA, IMS-GT, IMT-GT, the West-East Corridor (WEC) Mekong Basin River Growth Triangle, and SIJORI.⁴⁹ All these economic co-operation schemes currently being promoted are for the purpose of accelerating economic growth in the region.

Meanwhile, Indonesian nationalism is a form of nationalist expression amongst Indonesians that has been developing for nearly a century.⁵⁰ In the beginning, nationalism was used as an instrument to resist foreign colonial power in Indonesia. Indonesian nationalism, however, has dominated much of the country's post-colonial economic history. According to Robison (1997: 29-30), for example, four major agendas characterise the economic structures and policy frameworks in Indonesia, namely economic nationalism, economic populism, predatory bureaucratism, and economic liberalism. Firstly, economic nationalism in Indonesia stemmed from the desire to transform the economy from low value-added industrial production to a technologically advanced industrial economy. The Indonesian economy has been characterised by strong state intervention and trade protection. Secondly, economic populism is a form of economic nationalism that focuses on small business co-operatives and is heavily

⁴⁹ GT schemes were developed through the Growth Centre Theory (Lim 2001: 196-7), which attempts to narrow the wealth gap between central and peripheral regions or areas. This theory maintains that it is possible to achieve growth in both the central and the peripheral regions or areas. Whilst it is the centre that provides the peripheral with the capital injection needed for growth, the centre also depends on the peripheral as suppliers of raw materials for industrial needs in the central regions or areas.

⁵⁰ The October 28, 1928 *Sumpah Pemuda* (Youth Pledge) was a turning point in the promotion of Indonesian national identity. The delegates involved in this congress were representatives of many Indonesian political and ethnic groups. The congress resulted in the adoption of the Indonesian national language of *Bahasa Indonesia*, the Indonesian national anthem of *Indonesia Raya* (Great Indonesia), and the Indonesian flag of red and white.

influenced by anti-Chinese xenophobia. Although economic populism was used as a tool to oppose the growing pattern of conglomeration, this ideology also played an important role in reinforcing political and social order in the political and military hierarchy. The third major agenda within the Indonesian economy was predatory bureaucratism, which can be defined as the appropriation of public authority by political and bureaucratic interests, or, sometimes, by powerful families. A high level of predatory bureaucratism prevents nationalism from producing significant results from economic industrialisation, such as the economic success stories in South Korea or Japan. Fourthly, liberalism has been another key agenda in Indonesia's domestic economy, but it has received little support from amongst the domestic bourgeoisie due to the benefits that this group accrue from the state's heavy protection of their business activities.

Moreover, during the post-colonial period, Sukarno, Indonesia's first President, regarded colonialism and global capitalism as the twin evils of the colonial order. As a result, Sukarno pursued an economic ideology that was a hybrid of nationalism and socialism, which elevated trade barriers and discouraged foreign investments (Smith 2001a: 1). Following Sukarno's removal from office in 1967, Suharto, with his New Order regime, conducted one of the most successful stabilisation programmes anywhere in modern history (Booth 1998: 178). Indonesia began a trade liberalisation programme, which eased the restrictions on foreign trade and investment. Despite this, the switch from socialism to a capitalist or free market regime was never properly realised because of the widespread, deep-seated mistrust of market liberalism amongst the majority of policy makers in the country (Hill 2000: 95). In actual fact it was economic nationalism,

economic populism, and predatory bureaucratism that triumphed over economic liberalism. On the whole, therefore, the Indonesian economy during the post-colonial era was characterised by the rhetoric of free trade on the one hand, and the apparent necessity of economic nationalism on the other. Indonesia's commitment to trade liberalisation was at best half-hearted, and many in the policy-making circle remained unconvinced of the benefits that might accrue through closer integration at the global level (Booth 1998: 203).

The economic turmoil following the economic crisis of 1997 brought few changes to the way in which Indonesian state actors and domestic economic actors perceived the importance of economic nationalism. The Habibie administration's attempt to promote the *Ekonomi Kerakyatan* (People's Economy), for example, illustrated how important economic nationalism was to certain domestic actors in Indonesia (Smith 2001a: 7).⁵¹ However, all the Indonesian governments during this period have remained fully committed to the trade liberalisation programme, at both regional and global levels. One important question to be answered is why Indonesia has been pursuing this strategy despite the country's strong tendency towards economic nationalism. The first outstanding factor that has driven Indonesia towards a rather liberal strategy is the economic crisis itself. Since the resignation of Suharto, Indonesia has had to comply with agreements made with the IMF and the World Bank, which include the promotion of an open market policy and privatisation across various different sectors. The IMF, in March 2003, completed its eighth review of the Indonesian economy and has approved

⁵¹ The concept of the People's Economy was developed by the Minister of Co-operative, Small, and Medium Enterprises, Adi Sasono, during the Habibie administration. This concept will be analysed in Chapter 5.

the disbursement of a further US\$ 469 million.⁵² The necessity to secure loans from these international agencies is clear to all Indonesia's post-crisis leaders. To that end, the pursuance of inward-looking economic measures would be highly unfavourable to the domestic economy, at least for the time being.

The second factor that drives Indonesia towards a liberalisation strategy is the growing tendency towards greater regional economic integration in the Asian region, as well as trade liberalisation measures brought about by the WTO. Throughout the 1990s, in particular, Indonesian policy-makers began to take a serious interest in regional economic integration, especially with Japan and other Asian NIEs. Two main factors have contributed to the drive amongst Indonesian policy-makers towards trade liberalisation at the regional level. The first is the economic growth of the East Asian region. In trade related matters, Japan and other Asian NIEs have been the major benefactors of Indonesia's exports, accounting for 50-60 percent of the countries total exports, well in excess of the 25-40 percent destined for the EU-US (Hill 2000: 85). The second is that these trade figures illustrate the growing complementarity between a low wage but resource rich Indonesia and high wage economies such as Japan and other Asian NIEs.

It is, therefore, clear that a profound relationship exists between ASEAN regionalism and Indonesian nationalism. To start with, it is important to reiterate the basic proposition of NRT theorists which has emphasised the symbiotic relationship

⁵² As reported in the IMF News Brief (2003), or visit the IMF official website at: <http://www.imf.org/external/np/sec/pr/2003/pr0343.htm>

between nationalism and regionalism. The proliferation of regionalism today should not be perceived as a distinct alternative to the promotion of national interests and nationalism, but rather as an element that enhances and protects the role of the state at both international (Palmer 1991; Axline 1994; Schulz *et al* 2001) and domestic levels. In the case of Indonesia, although there is a strong tendency towards inward-looking, protectionist economic measures, Indonesian policy-makers are beginning to comprehend the greater benefits that their country could gain by pursuing a much more liberal economic programme. Although ASEAN countries play only a small part in Indonesian trade overall, ASEAN represents, nevertheless, the first and foremost circle of Indonesia's diplomatic relations. Regional economic integration with Japan and other Asian NIEs has, in fact, been propagated through ASEAN. This explains the recent expansion of ASEAN into APT, as well as the incorporation of the ASEAN membership into APEC.

3.5. Conclusion

This theoretical analysis has demonstrated the symbiotic relationship between nationalism and regionalism. In particular, this conceptual framework has shed light on the possible benefits that nationalists may accrue by conducting an RIS. Nationalists pursue an RIS for various reasons. Firstly, nationalists may find an RIS appealing because of its ability to stimulate economic development. Accordingly, a nation may acquire greater respect and prestige in the international arena as a result of sustained economic development. Moreover, sustained economic development may also enable a

state to minimise the potential threat of national disintegration. Secondly, an RIS is also useful in helping nationalists unite the fragmented members of a nation. Amongst other things, increased regional linkage allows closer contact and communication between those who live in the homeland and those who live in the diaspora community. Thirdly, nationalists pursue an RIS in order to achieve international autonomy, thus, enabling them to minimise the potential threat of excessive foreign intervention in their domestic affairs. Fourthly, nationalists benefit from an RIS in that it can contain the negative forces of globalism through the promotion of positive regionalism and globalism, which includes democratisation, accountability, and responsiveness to democratic social forces. Finally, nationalists pursue an RIS to elevate their bargaining power in international arena so that they could enhance their overall interests at the global level.

There is no doubt that both nations and nationalism will continue to survive in spite of global and regional transformations (Hoffman 1966; Strange 1995; Smith 1995). Therefore, the relationship between nationalism and regionalism is not necessarily always contentious. The case study of the relationship between Indonesian nationalism and ASEAN regionalism proves useful in illustrating the way in which nationalist policy-makers use regionalism as a way to enhance their country's power, prosperity and prestige in the international arena. Although economic regionalism has been overshadowed by the quest for economic competitiveness in the region, ASEAN has managed to expand its economic interests to include Northeast Asian countries (as demonstrated by the APT). In recent years, inter-regionalism has also intensified through the increased promotion of the ASEM. All these factors suggest that the relationship

between nationalism and regionalism is no longer contentious. Nationalist doctrine, instead, should be perceived as a symbiosis element in the emergence of regionalism.

Chapter 4: Research Methodology

4.1. Introduction

This chapter describes the research methodology used in this thesis. Three specific issues will be analysed in this chapter, including the evolution of the research and the process of data collection, the categorisation of respondents, and analysis of preliminary research findings. This thesis mainly focuses upon the perceptions held by Indonesian state and non-state actors towards ASEAN's attempts at regionalism. This focus was chosen for several reasons. Firstly, such a focus gives insight into the contemporary perspectives of Indonesian state and non-state actors towards ASEAN's regionalism attempts, particularly with regard to AFTA. Secondly, it provides a background for the contesting standpoints regarding the formation and the realisation of AFTA of various different groups in Indonesia. Thirdly, it makes it possible to address some important issues that have been neglected in the past. The ASEAN regionalisation process has relied too much on inter-state relations and economic co-operation, whilst ignoring the importance of other relevant factors, such as social co-operation. Fourthly, it is only after addressing such issues that a potential conflict resolution mechanism, which would serve the interests of both the state and pressure groups in Indonesia, can be established. Finally, this focus provides the author with a suitable foundation from which to propose a number of alternatives for the improvement of ASEAN regionalism initiatives.

4.2. Research evolution

During the initial stage of the research, the author focused mainly on the existing literature of regionalism, particularly literature relating to the Southeast Asian region. From a review of the early literatures, the author observed two important elements within regionalism in Southeast Asia, which are trade issues and the foreign economic policies (FEP) of ASEAN member countries. The recurrence of these two important elements is logical for two reasons. First, is the fact that trade and economics are still the main benchmarks used by Regional Integration Arrangement (RIA) theorists to measure the level of integration in a region; second, most regional groupings are still undertaking economic measures as part of their regional integration strategy (RIS). In the view of the author, however, trade and FEP cannot fully explain the rise and the development of regionalism. As the research progressed, a missing dimension in the existing studies of regionalism was found. That missing dimension is an exploration of the relationship between nationalism and regionalism. For the purpose of this research, that dimension is explored alongside the other already established dimensions, such as trade and FEP, in an RIA.

Indonesia is used as a case study that represents the national domain in which to explore the relationship between nationalism and regionalism. In the past, some international relations scholars writing about Indonesia, such as Wenstein (1972) and Anwar (1994), used foreign policy as an analytical framework, whilst stressing the importance of the attitudes of the political elite in offering a historical account of

Indonesia's foreign policy. Both Weinstein and Anwar focused their research on the perceptions of the Indonesian political elite towards ASEAN by conducting primary data collection in the 1960s and early 1990s respectively. They carried out their research during two very different periods. The first of these periods was when Indonesia became independent under its first president, Sukarno, otherwise known as the Old Order period. The second was the New Order period under the leadership of Suharto. This is the period in which ASEAN was formed. Research interviews were conducted with members of the political elite in both periods. Their research findings provide a useful historical analysis of Indonesian foreign policy in ASEAN, and shed light on this analysis of the present state of ASEAN and in what ways it has been affected by the recent economic crisis.

With regard to the process of this research project, the author initially hypothesised that Indonesian nationalism has been going through a revival process, which was triggered primarily by the regional economic crisis that began in 1997. This assumption is based upon an interpretation of various events that took place from 1997 onward that may have influenced Indonesian foreign policy in ASEAN. The devaluation of many Southeast Asian currencies had two contrasting consequences for Indonesia. On the one hand, the event brought about greater democratisation in the country's political, social, and economic systems. On the other hand, the economic crisis also generated a defensive reaction amongst Indonesians. This upsurge of nationalism was exacerbated by the threat of national disintegration (Leifer 2000: 154). The Indonesian provinces of East Timor (Timor Leste), Aceh, West Papua and Maluku were demanding independence,

unless greater provincial autonomy was granted by the central government.¹ East Timor was an exception in that the East Timorese had been demanding independence since their incorporation into Indonesia in 1977. The UN monitored election in December 1999 over the fate of East Timor came as a major blow for many Indonesians, who realised that separation was inevitable. The separation of East Timor from Indonesia produced a knock-on effect throughout the country, with provinces such as Aceh, West Papua, and Maluku also demanding independence, and such conditions brought with them the possible threat of a rise in nationalist sentiment in the country.

The impact that these domestic events had on the ASEAN regionalisation process was significant. The relevance of the Association had begun to be questioned during the height of the economic crisis. ASEAN was criticised for failing to effectively address the domestic crises experienced by each member country (Tay and Estanislao 2000). Although the majority of Indonesians have traditionally shown a rather indifferent attitude towards ASEAN in the past, there were hopes that regional initiatives proposed by the Association would help to alleviate the economic crisis. Furthermore, the Indonesian political elite and other pressure groups (i.e. academics and business community, CSOs, and NGOs) expressed their concern over the country's continued leadership of the Association. As Indonesia experienced rapid political transformations following the economic crisis, regional observers throughout Southeast Asia and beyond were concerned about the possible change of direction in the conduct of Indonesian foreign policy in ASEAN (Smith 2000b). After assuming the presidency, both President Habibie and President Wahid did in fact attempt to change the course of the country's

¹ East Timor and Aceh, however, rejected the Indonesian government's offer of special autonomy.

foreign policy. The inefficiency of ASEAN as a tool for solving the regional crisis particularly frustrated both Indonesian leaders. As a result, Indonesia underwent a transformation in its foreign policy, by changing its focus to a wider international arena beyond that of ASEAN.

It is, however, inappropriate to suggest that ASEAN is no longer significant for the majority of Indonesians. The field research interviews conducted amongst various Indonesian state and non-state actors reveal that there is still support for the Association. The majority of Indonesians nowadays appear to be frustrated over their previous governments' persistence in protecting the country's national interests and sovereignty in an excessive manner. Inward looking foreign policies in Indonesia in the past have been formulated to serve the interests of leaders, the political elite, and the military. Indonesia, to date, has played an insignificant role in most international fora, and has had little influence even over other ASEAN countries' foreign policies. Although national pride over the past struggle for independence and the sheer size of the country still persists, the desire for further regionalisation in Southeast Asia is nonetheless common amongst Indonesian domestic state and non-state actors. The economic crisis is one factor that has caused a transformation in Indonesians' perceptions of ASEAN. Democratisation, as a result of the economic crisis, has enabled the general public to participate more in determining the course of Indonesian foreign policy. Various Indonesian non-state actors appear to have developed a greater awareness of the importance of regionalism in Southeast Asia.

The author's hypothesis was further developed following field research carried out in Indonesia. By observing the current perceptions held by Indonesian state and non-state actors, as well as analysing the existing literature on NRT, the author has developed a new hypothesis in which the relationship of nationalism and regionalism can be regarded as symbiotic, at least with regard to the contemporary relationship between Indonesia and ASEAN. This is a distinctive new analysis in comparison to past studies on Indonesia and ASEAN, in which Indonesians attitudes towards the Association have been described as passive. In order to observe the shifting pattern of Indonesian domestic state and non-state actors' attitudes towards ASEAN, the author has carried out primary data collection and analyses. The findings of the field research are analysed qualitatively in order to contribute to an interpretation of contemporary events in both Indonesia and ASEAN. Accordingly, a descriptive research method is employed in order to observe 'an object, a set of conditions, a thought system, or a class of events at the present time' (Nazir 1999: 63) currently being studied. With regard to the case study used in this thesis, the author observed the set of conditions and thought processes in which Indonesians perceive their country's contribution towards ASEAN and AFTA.

The case study presented in this thesis is employed primarily to evaluate larger variables from a smaller unit. Whilst this method may seem similar to the methods used in other research projects, the underlying difference is that the respondents interviewed represent a wider cross section than before in order to challenge the conventional assumption that the relationship between nationalism and regionalism is contentious. In their field research, Weinstein (1972) and Anwar (1994) focused mainly on the attitudes

of the political elite and officials from both the foreign ministry and military establishment. Both scholars found that the Indonesian perception of regionalism during the early and later periods of the New Order government was largely one of indifference. The current process of democratisation in Indonesia has meant that research interviews should now be conducted with a wider cross section of domestic constituencies, including non-state actors. Specific attention here is given to the motives and rationales of Indonesian state and non-state actors that lie behind the continued support of their country's involvement in ASEAN. Another focus examines how Indonesian state and non-state actor have interpreted the Association's current regional integration initiatives, primarily AFTA. This thesis, as a whole, has been designed to identify any potentially contentious perceptions held by state and non-state actors regarding their country's position in a regional grouping. The information used in this analysis has come mainly from secondary sources, including documents from both the ASEAN Secretariat and various Indonesian government institutions, media reports, and past publications on the subject. In addition, primary data collected during the research interviews has also been used.

4.3. Data collection, categorisation of respondents, and research finding analysis

Data regarding the perceptions of Indonesian domestic state and non-state actors about their country's involvement in ASEAN was gathered during field research carried out in Indonesia between September 2000 and September 2001. Fifty-two respondents from forty-two institutions were interviewed, which included thirteen government

institutions, four business associations, five academic institutions, thirteen pressure groups, and seven foreign embassies (including the ASEAN Secretariat).² Most of the research interviews were conducted in Jakarta, whilst a handful of respondents from Surabaya³ also expressed their interest in being interviewed. Attempts were also made to conduct interviews with employees of government institutions in several district towns surrounding Jakarta, particularly in the industrial area of Tangerang.⁴ However, due to the respondents' personal or formal constraints, the interviews were not given. The remaining respondents were chosen because of their familiarity with the subject, their roles in the policy making process, the degree of their representativeness in the institutions they work for (i.e. decision-makers or those directly involved in the policy-making process), as well as their availability to participate in a research interview.

During the research interview, each respondent was asked a set of open-ended questions to find out the following:

1. The respondents' general perceptions of the regionalism process in Southeast Asia;
2. The extent to which, according to the respondents, nationalism is detrimental to the regionalism process in Southeast Asia;
3. The respondents' perspectives on the development of AFTA and Indonesia's readiness to enter the scheme;
4. The respondents' perceptions of the process of information dissemination about ASEAN and its AFTA scheme;

² Refer to appendix 4 for a complete list of all respondents interviewed in this research.

³ Surabaya is the second largest city in Indonesia, situated on the east coast of Java.

⁴ Tangerang is a regency area in the newly established province of Banten. Banten has recently obtained provincial status following the introduction of the Regional Autonomy Laws in 1999.

5. The extent to which, according to the respondents, various recently issued national regulations, such as the Regional Autonomy Law (RAL), would have an impact on the ASEAN regionalism process;
6. The respondents' views on other domestic and international trade issues including leadership changes, the country's involvement in the World Trade Organisation (WTO), and so on.⁵

Table 4.1.
Characteristics of respondents

Maximalist	Convergence	Minimalist
<p>Regionalist / Internationalist Support ASEAN and believe that ASEAN is important for Indonesia</p> <p>Support AFTA Indonesian nationalism is strengthened through increased commitment in ASEAN and its AFTA scheme</p> <p>ASEAN increases Indonesia's international autonomy, bargaining power, and its ability to contain the negative forces of globalisation</p> <p>There is limited information about ASEAN / AFTA disseminated to the public RAL has a negative impact on AFTA</p>	<p>New nationalism (i.e. logical nationalism over romantic nationalism) Support ASEAN as long as it improves Indonesia's national interest Positive, but remain cautious about AFTA</p> <p>ASEAN and its AFTA scheme serve Indonesia's national interests ASEAN's ability to promote member countries' international autonomy, bargaining power, and to contain the negative forces of globalisation has only been significant since the economic crisis of 1997</p> <p>Information is available to the public, but the dissemination process should be expanded Potential negative effect of RAL on AFTA</p>	<p>Nationalist Oppose ASEAN because Indonesia is still a relatively poor country</p> <p>Oppose AFTA</p> <p>Indonesian nationalism is weakened as a result of an increased regionalisation process</p> <p>ASEAN's contribution towards Indonesia's international autonomy and bargaining power has been minimal, as has its ability to contain the negative forces of globalisation There is sufficient information about ASEAN / AFTA, and no improvement is needed in the dissemination process RAL does not affect AFTA because AFTA is not significant</p>

Subsequently, the chosen respondents were grouped into three different categories in accordance with their answers. The three categories include *maximalist*, *minimalist*, and *convergence*. The respondents whose views fell somewhere in between the

⁵ The detail of the questions posed during the interview are listed in Appendix 5.

minimalist and maximalist groups will hereafter be referred to as the convergence group. Those respondents categorised in the maximalist group were either regionalists or internationalists who supported greater regionalism in Southeast Asia or held a commitment towards complete liberalisation at the global level. More specifically, maximalists supported the Indonesian government policy of using ASEAN as the main pillar of the country's foreign policy. In addition, maximalists argued that Indonesian nationalism has hindered the progress of regionalism in Southeast Asia. Despite the slow progress of ASEAN regionalism, maximalists also maintained that Indonesia is still better off with than without ASEAN. Those categorised within the maximalist group also supported the existence of AFTA and believed that this framework of economic co-operation would improve Indonesia's bargaining power in international fora and will increase the country's competitiveness in the global economic system. Through better standards of welfare, they believed that Indonesia would be able to solve its domestic problems, including the threats posed to national unity by ethnonationalism, and would be better placed to promote its national culture abroad.

Despite their support of Indonesia's foreign policy in ASEAN, maximalists also felt that the attempts made to disseminate information on this subject have been inadequate. Maximalists also argued that if no attempts were made to address this problem, the future of regionalism in Southeast Asia would be uncertain. Moreover, maximalists believed that the implementation of the RAL would have a significant negative impact on the implementation of AFTA. As a result, respondents in the maximalist category felt that the government should concentrate on the effect of RAL

towards AFTA, and *vice-versa*, so that the implementation of AFTA would not be interrupted. This group of respondents also believed that the new the recent transformation of Indonesian leadership (i.e. from Suharto, Wahid, Habibie, to Megawati) has brought changes to Indonesian foreign (economic) policy. More specifically, maximalist respondents argued that the Indonesian government has shifted significantly its foreign policy to an international, rather than regional, outlook. Finally, some maximalists also supported the idea of improved economic co-operation beyond ASEAN (i.e. ASEAN plus Three (APT) or Asia Pacific Economic Co-operation (APEC)) and suggested that Indonesia should remain committed to multilateral arrangements under the auspices of the WTO.

Meanwhile, those respondents categorised as minimalists can be considered extreme nationalists. Generally, these respondents showed great reservation about regionalism and multilateralism. Minimalist respondents opposed the process of regionalism in Southeast Asia because they felt that Indonesia was still poor, both economically and politically (i.e. minimal experience in practicing full democracy). The minimalist respondents were thus against any governmental policies to improve regionalism in Southeast Asia. More importantly, minimalists did not believe that the underlying purposes of RIS have been realised through ASEAN. Although they agreed with maximalists that ASEAN has been successful in maintaining peace and stability in the region, they still felt that the Association had failed to produce other forms of co-operation. They felt, for example, that Indonesia's bargaining position in the international fora was still weak, and that the country's national interests were often

sacrificed to the interests of a foreign state or international institutions. In addition, minimalists did not believe that ASEAN promotes economic growth in the region. They felt that the economic growth experienced during the pre-economic crisis period was primarily a result of economic assistance from countries outside ASEAN and the heavy pursuance of economic nationalism. Despite being more nationalistic than other respondents, minimalists believed that nationalism no longer exists. They argued that Indonesia has been contaminated by foreign culture through the recent processes of economic liberalisation. Therefore, they would ask that the government do more to promote and to preserve Indonesian nationalism.

Respondents in the minimalist category were also opposed to the AFTA scheme. They argued that the implementation of this particular scheme is likely to have detrimental effects on the overall domestic economy. As a result, they supported any possible moves to postpone the implementation of AFTA until, at least, Indonesia achieved a state of autarky. Minimalists saw the dissemination of information regarding ASEAN and AFTA as irrelevant as the subject, in their view, was of little significance to the majority of Indonesians today. Indonesians were more concerned about the many domestic problems that have resulted from the economic crisis. They believed that sufficient information regarding ASEAN and AFTA had been disseminated, and no improvement was needed. Respondents within the minimalist category also believed that Indonesian foreign (economic) policy had remained unchanged despite the leadership changes in recent years. Finally, minimalists did not agree that the implementation of RAL would have any impacts on AFTA. After all, they felt AFTA was of no

significance for the country and that the scheme merited little attention. On the whole, therefore, in the perception of minimalist respondents, Indonesia would be better off focusing on its immediate concerns, particularly measures to alleviate the economic crisis.

Finally, those respondents categorised within the convergence group were those whose views fell somewhere in between those of the nationalists and regionalists and / or internationalists. In general, respondents in the convergence category expressed a view that can be described as a new form of nationalism, or *new nationalism*. Convergence respondents, or new nationalists, held rather pragmatic views as regards Indonesian foreign policy in Southeast Asia. Generally, they perceived the emergence of regionalism in Southeast Asia as positive. As such, they regarded regionalism as a way to improve Indonesia's national interests. The majority of respondents categorised within the convergence group also emphasised *logical nationalism* over *romantic nationalism*. In this context, Indonesian nationalism should be used, for example, to promote the economic competitiveness of the country rather than as a tool to oppose foreign entities or individuals. However, although in theory respondents within the convergence group regarded regionalism as positive, they also felt that the process of regionalisation in Southeast Asia had been limited, largely as a result of ASEAN member countries' excessive preoccupation with their respective national priorities. Respondents in this category also believed that AFTA could help to promote economic growth in the country. At the same time, however, they felt that this form of economic co-operation should be approached cautiously since full trade liberalisation might have detrimental effects on the

Indonesian economy overall. Moreover, although the ASEAN Secretariat and the Indonesian government have provided substantial information to the public regarding AFTA, respondents in the convergence category also believed that the wider public audience, particularly local CSOs and NGOs, should be included as well. Finally, respondents within the convergence category were concerned about the potential effects of the RAL on the implementation of AFTA. The majority of respondents in this category believed that it would be hard to implement AFTA if the issues surrounding the implementation of RAL were not addressed properly.

The questions outlined above were intended to gain an insight into the contemporary perspectives of Indonesian state and non-state actors towards ASEAN and AFTA. With regard to the first question, the author tried to find out the respondents' general perceptions of ASEAN and its AFTA scheme. Whilst maximalist respondents viewed positively the existence of regionalism in Southeast Asia to date, minimalist respondents expressed their opposition towards the concept of regionalism in general. Meanwhile, those respondents categorised within the convergence group held more moderate and mixed views on the existence of regionalism in Southeast Asia. Not only did Indonesian state and non-state actors place a high value on the existence of ASEAN, a similar view was also held by the majority of foreign representatives interviewed.⁶ The second question deals with the respondents' views on the relationship between nationalism and regionalism. In the view of those placed within the maximalist camp,

⁶ Foreign representatives (i.e. officials from the ASEAN Secretariat and foreign embassies) were interviewed due to their ability to provide an outsider view towards the relationship between nationalism and regionalism in Southeast Asia. More importantly, interviews with foreign representatives were useful to gather information concerning the experiences of their countries in dealing with nationalism and regionalism.

Indonesian nationalism can be strengthened through the country's commitment in ASEAN and its AFTA scheme, whilst those in the minimalist camp argued Indonesian nationalism was weakened as a result of increased regionalisation and / or globalisation processes. Generally, however, the majority of the respondents expressed a convergence point of view, arguing that Indonesia's involvement in ASEAN is in the country's overall national interests.

All the respondents were also asked about their perceptions of the development of AFTA and their country's involvement in the scheme. To start with, as outlined in Chapter 3, it is necessary to differentiate between ASEAN and AFTA, as each represents a different concept and sets of impacts on Indonesia. Whilst ASEAN is generally regarded as a regional institution, AFTA is understood to be one mechanism used by the Association to enhance the process of regionalism. The majority of respondents thought that Indonesia's participation in AFTA to be a delicate matter. In fact, most non-state actors indicated that the country was not ready for AFTA and should pull back from the arrangement. Most government officials held a maximalist view, and fully supported AFTA. However, it is important to note that the *personal* views of these state actors differed from their *official* views. The majority of governmental officials expressed their full support of AFTA out of a sense of professional duty, which commits them to support any governmental policies made at the ASEAN level. Another major issue examined during the research interviews was the extent to which the ASEAN Secretariat and the relevant Indonesian government institutions have disseminated information regarding ASEAN and AFTA to the general public. The public's lack of support of ASEAN and its

activities in the past can perhaps be blamed on the failure of these attempts at information dissemination. Whilst the majority of governmental officials believed that they, along with the ASEAN Secretariat, had provided adequate information to the public regarding AFTA, the majority of non-state actors were not satisfied. Although there is a wide range of information available regarding ASEAN and AFTA, the majority of non-state actors believed that the available information is still highly technical and too expensive.

Finally, the last two questions dealt with current issues within the domestic, regional, and international spheres. Within the domestic sphere, the economic crisis has triggered various economical, political and social problems throughout the country. These problems, and the way in which the Indonesian government has handled them, are thought to have complicated the ASEAN regionalisation process. One major concern expressed by the majority of respondents was the threat of national disintegration in Indonesia. Accordingly, the Indonesian government introduced the RAL to minimise the possible threat of national disintegration. Prior to carrying out the fieldwork, the author had hypothesised that the RAL would have a substantial negative impact on the implementation of AFTA, at least in the short-term. The fieldwork confirmed this hypothesis by revealing that the majority of Indonesian state and non-state actors both agreed that AFTA would be difficult to implement, unless further measures to address domestic problems were taken. Issues such as the changes in Indonesia's national leadership and its involvement in other multilateral organisations were also introduced to the respondents. The first issue is important in detecting a possible shift in the conduct of Indonesian foreign (economic) policy as a result of the new leadership. The majority of

Indonesian state and non-state actors saw few changes in Indonesian foreign (economic) policy, which emphasises the importance of regional co-operation, although the government focus has now been expanded to secure aid from various international organisations and other countries beyond the Southeast Asian region.

4.4. Conclusion

This chapter has described the process in which the relationship between ASEAN regionalism and Indonesian nationalism was researched. Drawing upon a wide range of literature as well as observations on the current situation with regard to ASEAN regionalism, Indonesian FEP and nationalism, the author was able to identify a number of important factors that are relevant to an analysis of regionalism in the Southeast Asian context. The notion of nationalism, in particular, has been an important influence upon the formation and the development of Southeast Asian regionalism. Using in depth observations of the perceptions of Indonesian state and non-state actors, as well as analyses of the existing literature on Indonesian nationalism and the NRT, a main hypothesis concerning the symbiotic relationship between nationalism and regionalism is developed in this thesis. This chapter has also identified the ways in which the information was obtained through research interviews and developed. The categorisations described in this chapter will help the reader to fully understand the current perceptions held by Indonesian state and non-state actors of regionalism, which will be further analysed in subsequent chapters.

Chapter 5: Indonesian Nationalism and Foreign Economic Policy

5.1. Introduction

Nationalism in Southeast Asia has been characterised as ‘reactive and creative as well as constructive and destructive’ (Tarling 1998: 75). Nationalist movements in the region have varied throughout history. For Indonesia, nationalism has been a major feature of the country’s foreign economic policy (FEP) during the post-independence period. During the first fifteen years after independence, for example, Indonesian economic policy moved in line with the inward-looking policies of the government (Paauw 1969; Myint 1971), which was evident, for example, in the process of nationalisation that took place between 1957-1964 (Hill 2000: 109). The emergence of the New Order government in 1966 heralded in a major liberalising reform of the Indonesian economy as well as a shift towards regional economic co-operation within the framework of ASEAN. Despite this, the Indonesian economy remained closed as inward-looking economic policies continued to prevail during this period (Hill 2000: 65). The present Indonesian economy is similar to that of the early independence period in that Indonesian economic policy-makers are still ‘deeply concerned about potential foreign control of the economy (Linnan 1999: 2).

The objective of this chapter is to provide an analysis of the dynamics of Indonesian nationalism and FEP, and, specific attention is given to both historical and contemporary aspects of Indonesian nationalism and FEP. The first section, or section

5.2, analyses the way in which nationalism played an important role in shaping the formation of Indonesian FEP in the past. Such analysis is crucial because it helps to explain the contemporary nature of Indonesian FEP. More specifically, this section analyses Indonesian nationalism and FEP in two periods. The first is the Old Order period, which was during the Sukarno administration. The Old Order government was in power from 1949, or the year in which the transfer of sovereignty from the Netherlands to the Republic of the United States of Indonesia (RUSI)¹ took place, to 1966 when Sukarno was removed from office. The New Order government, led by Suharto as the second Indonesian President, lasted for three decades, from 1967 until 1998. Here, attention is given to the New Order government's attempts to stabilise the domestic economy through the normalisation of diplomatic relations with the West and Indonesia's immediate neighbours. Another major focus in this section is the government's attempts to enhance regional economic co-operation within the ASEAN framework. Meanwhile, the second section, or section 5.3, analyses the present state of Indonesian nationalism and FEP. This section analyses in particular the role that nationalism played during the Indonesian economic crisis in 1997 and the threat of national disintegration following the economic crisis.

¹ In November 1946, under the Linggarjati Agreement, Indonesian leaders and Dutch representatives agreed on the formation of RUSI with the Dutch crown as the head of state, following the Netherlands' recognition of the Republic of Indonesia's authority in Java, Sumatra, and Madura. Initially, however, Sukarno and Mohammad Hatta had proclaimed Indonesia's independence on 17th August 1945, but the Dutch were reluctant to recognise Indonesia as an independent state at the time. As a result, major conflicts between Indonesia and the Dutch broke out from the time Indonesian leaders proclaimed their country's independence until the signing of the Hague Agreement in November 1949. Soon after the signing of the Hague Agreement, Indonesia received *de jure* and *de facto* recognition from the following countries: Afghanistan, Burma, Egypt, Iraq, Lebanon, Saudi Arabia, Syria, Yemen (*de jure*), Australia, Britain, the Republic of China, India, the Netherlands, Pakistan, the Philippines, and the US (*de facto*). On 17th August 1950 RUSI was transformed into a unitary state, and is presently known as the Republic of Indonesia.

5.2. The history of Indonesian nationalism and foreign economic policy

As with most other countries in Southeast Asia, Indonesia² experienced colonial domination.³ The lengthy Dutch colonial presence in the East Indies⁴ (some 350 years) led to a nationalist movement throughout the archipelago. During colonial times, Indonesia's FEP was subject to the interests of the colonial powers. When the Dutch gained substantial control of the country, it was the Dutch East India Company (VOC - *Vereenigde Oostindische Compagnie*) that mainly had control of economic policy in the East Indies. In international trade, the East Indies, as a colony, was transformed into an exporting economy (Glassburner 1971: 14). Coupled with the emergence of new export staples, the East Indies export trade grew dramatically in response to the growing markets in Europe and North America (Booth 1998: 203). Subsequently, during the Japanese occupation between 1942 and 1945, the Indonesian economy progressed in the same direction as that of the Dutch occupation. Japanese armed forces were able to secure supplies of strategic raw materials (Booth 1998: 47) to aid Japan economically in her further expansion throughout the Asia-Pacific.⁵

One of the most prominent features of the Indonesian economy during the post-independence period is the emergence of economic nationalism. Shortly after independence, for example, the Indonesian government introduced the so-called *Benteng*

² As according to Smith (2001b: 80), the name Indonesia derives from the Greek word *Indos Nesos*, which simply means Indian islands, and gained popular usage amongst nationalists for its non-colonial etymology

³ Thailand, which was never colonised, is the exception.

⁴ Indonesia was previously known as the Dutch East Indies. The name Indonesia gained popularity in the early 1900s and became the official name of the country following the Youth Pledge of 1928, which promoted Indonesian national identity.

⁵ However, Glassburner (1971: 3) also notes that the Indonesian economy during the Japanese occupation was even more inward-looking and economic growth was further inhibited.

system in 1950, which was intended to promote native Indonesian businessmen (Mackie 1971: 47). Subsequently, following the introduction of Guided Democracy in 1957, the expropriation of foreign capital began to take place. During this period, many 'Dutch trading and estate enterprises, the core of Dutch colonial capital, were expropriated together with Dutch shipping, banking and industrial enterprises' (Robison 1986: 79). The New Order government in 1966 made changes in the way economic nationalism was implemented. The New Order government's main priority in its economic stabilisation programme was to curb the rate of inflation that it had inherited from the previous government (Thomas and Panglaykim 1973: 145). As a result, Indonesia implemented an open-door economic policy, which 'aimed at producing maximum economic growth and relying heavily upon investment by international corporate capital' (Robison 1986: 131). However, these economic policies lasted only until 1975, when there was a resurgence of economic nationalism (Robison 1986: 131). The New Order government began to take a more active role in foreign policy, particularly within the regional context, following the end of the Cold War in the late 1980s and the resurgence of regionalism in both Western Europe and North America. In any case, the New Order government pursued a rather pragmatic approach in its overall conduct of FEP

5.2.1. Nationalism and foreign economic policy during the Old Order period

As mentioned earlier, the Old Order period falls between the transfer of power from the Netherlands to the government of the RUSI in 1949 and the attempted coup d'état in 1965. On the whole, the period between 1949 and 1965 can be seen as a time

'in which the Dutch colonial economy was dismantled and new socio-economic and political forces gathered themselves within Indonesia' (Robison 1986: 36). Indonesia's economic policy during this period can be split into two phases. The first phase was from 1950 until 1957, during which time parliamentary democracy was implemented and the domestic economy was largely controlled by foreign and ethnic Chinese private business interests (Glassburner 1971: 4). The second phase was between 1957 and 1965, during which time the Guided Democracy policy was introduced and the concept of economic nationalism was strengthened. As a result, Indonesia's economic policy became inward-looking, as attempts to minimise foreign economic domination, particularly Dutch-owned capital, prevailed. Despite Indonesia's formal independence for nearly a decade, the Dutch were still largely in control of the relatively small but highly commercialised and industrial sectors, such as plantation agriculture, oil, and import trade (Thomas and Panglaykim 1973: 39). In the export and import sectors, for example, a mere five Dutch companies, including The Borneo-Sumatra Company (Borsummy), George Wehry and Co., *Internationale Credie en Handelsvereeniging* (Internatio), Lindeteves, and Jacobean van den Berg, controlled some 60 percent of operations (Allen and Donnithorne 1957: 60-3).

The pursuit of economic nationalism during the first phase of the Old Order period is best illustrated by the term *Indonesianisation*, which refers to the process used to replace 'Dutch officials and managers by Indonesian nationals in the government bureaucracy and private firms in Indonesia' (Lindblad 2002: 2). The Indonesian government at the time intended to bring indigenous Indonesians into the more complex sectors of the economy to lessen the domination of the Dutch and ethnic Chinese in the

domestic economy. More specifically, Sutter (1959: 2) has outlined nine institutional changes that took place during this period. These were: (1) transfer of formerly colonial public enterprises to the Indonesian government; (2) establishment of state enterprises; (3) transfer of private alien enterprises to the Indonesian government; (4) increased government control over alien business; (5) transfer of private alien enterprises to Indonesian and their organisations; (6) establishment of new enterprises in sectors previously virtually closed to Indonesians; (7) increased Indonesian equity ownership in corporations established by aliens; (8) increased participation in the management of alien companies; and (9) return of landholdings by alien enterprises to the Indonesian community.⁶ Shortly after the declaration of independence, various organisations were established to implement the Indonesianisation policy, which included the National Trading Bank of Indonesia (BDNI - *Bank Dagang Negara Indonesia*) and some twenty other newly established enterprises in the provisional capital of the Republic (Muhaimin 1990: 31). The establishment of new organisations to foster an indigenous capitalist class continued until the early 1950s, which is evident in various business organisations such as the Union of Indonesian Exporters (PEKSI - *Persatuan Eksportir Indonesia*), the Indonesian National Association of Importers (IKINI - *Ikatan Importir Nasional Indonesia*).

Two governmental plans were particularly important in realising the Indonesianisation process that took place during the Old Order period, namely the Benteng programme⁷ and the Economic Urgency programme. The Benteng programme

⁶ As quoted in Linblad (2002: 3).

⁷ The name Benteng literally means fortification.

was first implemented by the Natsir cabinet (1950 - 1951) and was enthusiastically prosecuted by the Ali Sastroamidjojo cabinet (1953 - 1954) (Robison 1986: 44). Through this economic programme, the Indonesian government aimed 'to protect the economically weak by reserving certain commodities and from specified countries that could be imported by Indonesians only' (Thomas and Panglaykim 1973: 48). During its initial phase in 1950, Djuanda, the Indonesian Minister of Prosperity at the time, announced that special protection would be given to national importers to help them compete with their foreign counterparts. Thereafter, the programme altered the focus from national importers to indigenous Indonesians (*bangsa Indonesia asli*) and stipulated that 70 percent of the equity should be owned by Indonesians, excluding the ethnic Chinese (Widihandojo 2000). Meanwhile, the Economic Urgency programme was launched in 1951 by Prof. Sumitro Djojohadikusumo who was Minister of Trade and Industry at the time.⁸ In essence, this programme was introduced as a guide for government activities in the agricultural and industrial sectors (Thomas and Panglaykim 1973: 49). Similar to the Benteng programme, the Economic Urgency programme was a plan for industrial projects that involved extensive economic intervention in an attempt to establish indigenous industries (Djojohadikusumo 1954).

Both the Benteng and the Economic Urgency programmes, however, failed to produce any substantial results. In Chalmers' (1997: 10) analysis, for example, both programmes 'serve to indicate the essential weakness of both private Indonesian capital and the state in the 1950s'. Three main factors contributed to the failure of both programmes. The first was the ambivalent attitude of Indonesian leaders towards foreign

⁸ The Economic Urgency programme was later known as the *Sumitro Plan*.

capital. On the one hand, the Indonesian government at the time resented the fact that foreign capital still dominated the Indonesian economy even after the granting of independence. The continued confrontation with the Dutch over the West Irian issue also fuelled nationalistic sentiment amongst Indonesian policy-makers *vis-à-vis* foreigners. On the other hand, the Sukarno administration publicly admitted that foreign capital and management had an important role to play in strategies for the economic development of an independent Indonesia (Linblad 2002: 17). The second factor contributing to the failure of both programmes was the overwhelming predominance of ethnic Chinese capital in the domestic economy. Although joint ventures between Indonesian and foreign nationals were encouraged, many companies that pursued such a strategy were owned and managed by ethnic Chinese (Booth 1998: 259). The third factor contributing to the failure of the Benteng and the Economic Urgency programmes was the fact that there were favourable international economic conditions for the exporters of primary materials as a result of the Korean War (Chalmers 1997: 11). Indigenous Indonesians thus failed to recapture their lost territory within the domestic economy despite the Benteng and Economic Urgency programmes.

The pursuit of economic nationalism was further strengthened through the introduction of *Guided Democracy* (the second phase of the Old Order period) in 1957.⁹ Guided Democracy was uniquely Indonesian and largely associated with the concept of

⁹ Despite its widespread use in the late 1950s and early 1960s, the Guided Democracy concept had actually been developed by Sukarno in the early twentieth century when Indonesia was struggling to break free from colonial domination. The concept was referred to in a thesis that Sukarno wrote in 1926 concerning the possibility of co-operation between nationalism, Islam, and Marxism (Agung 1973: 283), which later became the basic principle of the Guided Democracy concept.

musyawarah and *mufakat*,¹⁰ which is a process of decision-making traditionally practiced in Indonesian villages (Reindhardt 1971: 55). In principle, the Guided Democracy concept may also be referred to as *Socialisme à la Indonesia*, in that it rejects liberal thinking and places great emphasis on a collectivist organisation of the economy, based on the family principle, or the *gotong-royong* (mutual assistance) method (Mackie 1971: 44-51). The most significant feature of this system is the overwhelming power invested in the political leadership because of the heavily paternalistic relationship between the leaders and the citizens. The decisions made by political leaders are seen as a reflection of the general interests of the public, thus allowing the supreme leader to take any necessary actions to solve any domestic crises. Sukarno had great influence during the introduction of this system after he had revoked the provisional constitution of 1950 and reinstated the older constitution that was established shortly after the declaration of independence. With reference to domestic politics, Sukarno believed that liberal democracy, which resulted in the emergence of numerous political parties and the conflicts that ensued between them, was not suitable for Indonesia. Following the introduction of the provisional constitution in 1950, the threat of disintegration as a result of the different views of political parties, particularly the Communists and religious groups, was looming. Sukarno finally introduced the new concept through the *gotong royong* cabinet and the National Council that represented all the major constituencies in the country.

¹⁰ The term *musyawarah* is largely associated with the notion of consensus within a *mufakat*, or a meeting. As Hill (1994: 280) notes, the concept of *musyawarah* signifies 'the recognition of consultation amongst all household heads before community decisions were made'. These social forms continue to be used to this day.

The introduction of the Guided Democracy system produced substantial impacts on the development of Indonesian foreign policy. During this period, Sukarno was regarded as both the 'draftsman for the blueprint of Indonesia's foreign policy and the driving force in its execution (Agung 1973: 284). After launching the Asia-Africa Conference in 1955,¹¹ Sukarno believed that he had wide support from the leaders of other less developed countries (LDCs), and 'launched himself as the champion of the New Emerging Forces (NEFOS) in Asia, Africa, and Latin America against the Old Established Forces (OLDEFOS) in the West' (Anwar 1994: 21). According to scholars, such as Bunnell (1966) and Legge (1972), Indonesian foreign policy during the Guided Democracy period was largely influenced by Sukarno's fervent nationalist idea that continuous anti-colonial struggle should be part of governmental strategy. Sukarno was convinced that colonialism and imperialism still prevailed in most parts of the world. It is for this reason that Indonesia had an active, yet militant foreign policy, particularly towards the West.

Nationalism was equally reflected in the general conduct of Indonesian FEP. One key aspect of Guided Democracy in the area of economy was the concept of the *Guided Economy*. As with Guided Democracy, Guided Economy gave substantial power to President Sukarno as the designated administrator of the national economy. Economic nationalism within the Guided Economy framework did not only include 'the appropriation of the colonial economy, [but also] an attempt to build a national import substitution industrial section' (Robison 1990: 39), which meant that the state assumed a

¹¹ The Asia-Africa Conference was held in Bandung in April 1955 and attracted delegates from 24 nations. Some prominent world leaders, such as Chou En-Lai, Nehru, and Nasser, also attended the Conference.

dominant role in the domestic economy. Although there is no authoritative definition of Guided Economy, its components can be seen in the Eight Year (Development) Plan of 1960 and the Economic Declaration of 1963, which include the strengthening of the role of the state in the national economy, the expropriation of foreign capital, and an attempt to create a more self-sufficient and more industrialised economy by replacing the colonial import / export economy with indigenous businesses (Robison 1986: 71).¹² Sukarno was able to draw support for his controversial foreign policy amongst Indonesian domestic constituents who were themselves frustrated by the continued Western domination of the Indonesian economy. As Weinstein (1976: 294) observes:

'in its trade and aid relations with the outside world, Indonesia looked almost entirely to the West; at home, Western capital still played a very important role in the country's economic life. [Meanwhile] the Dutch still occupied West Irian, a constant reminder that even the struggle for formal sovereignty remained incomplete'.

Indonesian FEP at the time, as with its foreign policy in general, was dominated by 'an apparent leftward drifts in domestic politics and a corresponding alignment internationally, especially in relations with the People's Republic of China' (Leifer 1983: 61) and the Soviet Union.¹³

On the whole, however, the Sukarno government paid little attention to the overall economic policy of the country (Chalmers 1997: 14). The Indonesian government was

¹² The formalisation of the Guided Economy system was initiated through other nationalistic economic policies. One economic policy that stood out was the Nationalisation Bill of 1958, which ended Dutch control over the modern sector of the Indonesian economy (Thomas and Panglaykim 1973: 56). The anti-Dutch boycott, however, had officially begun in October 1957, and resulted in the confiscation of some 246 Dutch private investments.

¹³ The socialist approach in the Guided Economy system, however, was not particularly a result of Indonesia's political drift towards the Left. Indonesia's fervent opposition to liberal capitalism was stipulated in the country's constitution of 1945, which stated that 'the economy shall be organised as a common endeavour based on the principle of the family system'.

too engrossed with the West Irian issue and with Malaya's proposed plan to gain independence from the British. Whilst the West Irian issue was settled through the Bunker Plan,¹⁴ a confrontation with Malaysia became inevitable, particularly following Sukarno's announcement of the Crush Malaysia (*Ganyang Malaysia*) campaign in September 1963.¹⁵ The Indonesian economy soon deteriorated along with Sukarno's plans to wage a war against Malaya. As Booth (1998: 65) observes, although GDP growth was positive from 1958 - 1965, it was still much lower than in the 1950 - 1957 period. More importantly, Pauker (1962: 617) notes that by 1961 Indonesia was experiencing high inflation due to high deficits in the rising national budget from Rp. 1.56 billion in 1956 to Rp. 16.65 billion in 1961, and with the figure expected to rise to Rp. 37 billion by the end of that year. The US government, wishing to counteract Sukarno's military advances into West Irian and Malaya, pledged US\$ 325 million in economic aid through the Humprey recovery plan to which would be added US\$ 81 million from the IMF (Agung 1973: 446). Sukarno, however, preferred his militant foreign policy and discarded the West's help in economic rehabilitation.

Steps to end the conflict between Indonesia and Malaysia were taken when Macapagal, the President of the Philippines, proposed creating an organisation

¹⁴ The Bunker Plan was named after the US diplomat Ellsworth Bunker, who proposed that the Netherlands give up West Irian to the UN administration, and a plebiscite held to decide the future of the territory. The transfer of West Irian from the Netherlands to the Indonesian government formally took place on 15th August 1962.

¹⁵ The Crush Malaysia campaign was a result of Sukarno's irritation over the continued existence of colonialism in the Southeast Asian region. Some scholars, such as Reinhardt (1971: 129) and Gordon (1966), argue that the confrontation with Malaysia was an implementation of the long-standing expansionist sentiment held by many Indonesian nationalist leaders. The validity of this argument was given weight by one of the Indonesian leaders, Yamin (1959: 131-32), who maintained that a greater Indonesia would include the Malayan peninsula within the projected nation. On the whole, however, Malayan independence was seen by most of the Indonesian elite as an 'alien-inspired polity designed to perpetuate colonial economic and military interests in Southeast Asia which, by their nature, posed a threat to the viability and regional role of Indonesia' (Leifer 1983: 75).

comprising Malaysia, the Philippines, and Indonesia (Maphilindo) in 1963.¹⁶ Later that year, serious talks began between the Foreign Ministers of the three countries. However, establishing Maphilindo was not an easy task. The Indonesian government, for example, received stern criticism from domestic political groups regarding the country's involvement in talks about the creation of Maphilindo. The Indonesian Communist Party (PKI – *Partai Komunis Indonesia*), in particular, announced their formal opposition to any regional initiatives that involved Malaysia, as well as the whole idea of Maphilindo. One of the reasons was that many in the PKI leadership, particularly Dr. Subandrio, had been influential in Sukarno's decision to implement the Crush Malaysia campaign. The talks soon ended after the Federation of Malaysia was formally established in September 1963. This event was marked by a mob attack on the Malaysian embassy in Jakarta, and Indonesia soon decided to break off its diplomatic relations with Malaysia.

In sum, Indonesian foreign policy during the Old Order period was mainly nationalistic in character, with a leftist orientation. In many ways it could be argued that Indonesian FEP was a reflection of the country's foreign policy in general. There were several reasons for this. The first was that Indonesia at the time had only just emerged from its colonial experience. This provided a fundamental basis for nationalist sentiments against anything foreign from amongst Indonesian policy-makers, and explains the implementation of inward-looking economic policies. The Benteng and

¹⁶ Maphilindo, however, was not the first regional organisation in the Southeast Asian region. In 1955 the US initiated a military pact of eight nations, the Southeast Asian Treaty Organisation (SEATO), to check the Communist expansion in the Asia and Pacific region. This grouping involved Great Britain, the Philippines, France, Thailand, Pakistan, Australia, New Zealand, and the US. Subsequently, in 1961, another regional organisation, the Association of Southeast Asia (ASA) was established between Malaysia, the Philippines, and Thailand. This organisation, however, became defunct following the Sabah conflict that emerged between Malaysia and the Philippines.

Economic Urgency programmes exemplify the staunch nationalist attitude amongst Indonesian policy-makers. Under these programmes, the nationalisation of foreign enterprises took place, particularly those owned by Dutch and ethnic Chinese private businessmen. Another reason was the leftward drift within the political spectrum in Indonesia. After successfully establishing himself as the supreme leader of the Republic, Sukarno was able to give vent to his rhetoric of anti neo-colonialism, colonialism, and imperialism (Nekolim),¹⁷ which clearly indicated his suspicion of the West. Throughout the implementation of Guided Democracy, Indonesian foreign policy was radicalised and brought towards a closer relationship with the major Communist powers, particularly China (Anwar 1994: 21).

5.2.2. Nationalism and foreign economic policy during the New Order period

The failed coup d'état of 1965 marked the fall of Sukarno and the ascension of Suharto's New Order government.¹⁸ If Sukarno played a major role in influencing Indonesian foreign policy during the Old Order period, Suharto was the main determinant of Indonesian foreign policy during the New Order period. General Suharto soon took charge of the government following the neutralisation of President Sukarno in July 1966 and brought radical changes to Indonesian national policy. As the new leader, 'Suharto [was] serious and dedicated, yet also somewhat distant and devious in pressing his

¹⁷ Nekolim was a term first coined by General Achmad Yani.

¹⁸ The coup began on 30th September 1965 with the arrest and execution of six leading generals. The coup was blamed on the PKI, which led to the killing of 500,000 members of the PKI in the following next month (Smith 2001b: 77). Some scholars, such as Chalis (2001: 82), argue that the coup was a subversive attempt sponsored by the Central Intelligence Agency (CIA), which has been very active in conducting its operation to remove President Sukarno since August 1965. To date, however, the circumstances surrounding the coup remain unclear.

policies. Delicacy and ritual [seemed] to mark his style of authority and he [was] committed to a compromising mode of operation' (Reinhardt 1971: 141). In order to carry out many of its objectives, the New Order government conducted 'a notable reduction in the degree of pluralism within the system and not an assumption of power by new elements' (Leifer 1983: 111). One of the main determinants that ensured the long tenure of Suharto's Presidency was his emphasis on placing the military at the centre of Indonesian politics and daily life, as demonstrated by the Indonesian military's adoption of the dual function (*dwi fungsi*) system.¹⁹

This system, as Kooistra (2001: 11) asserts, 'allowed the [military] to place members of its 'socio-political wing' alongside government officials right down to the village level. The idea was to keep in touch with local communities, explain to people how great it was to be Indonesian'. Suharto realised that the military had consistently played a significant role in Indonesian politics since the independence period. The military, and particularly the army, which had assumed command of the political heights of the Republic, had been of great political importance from the onset of the national revolution. Another important political element within the New Order period was the Functional Group (Golkar - *Golongan Karya*), which was a government-sponsored functional group that became the main Indonesian political party during the Indonesian New Order period.²⁰ Thus, the President, the armed forces, and Golkar became the main

¹⁹ *Dwi fungsi*, or dual function, is the Indonesian army's main doctrine that legitimises the military's involvement in political and social affairs. General Nasution was the first to introduce this doctrine through his 'Middle Way' speech in November 1958. Although the dual function doctrine was implemented from the 1960s onward, it was not made law until 1982.

²⁰ Golkar was first established in October 1964.

political players during the New Order period to determine Indonesian national and foreign policies.

With regard to foreign policy, 'the New Order leadership had three key aspects: namely, strong anti-communism, a commitment to stability and economic development, and a pragmatic international outlook' (Anwar 1994: 35). Indonesian FEP had a similar direction. The first way in which the New Order government incorporated these aspects into Indonesian foreign policy was through appointing Adam Malik Foreign Minister (Leifer 1983: 113)²¹ and by granting the Sultan of Yogyakarta²² the position of Economic Minister. The major aim of Indonesian FEP at the time was to restore the country's credibility in international fora. It was only through the implementation of such policies that Indonesia would be able to acquire the necessary aid to restore the country's ailing economy. Upon resuming his position in the Ministry of Foreign Affairs, Malik immediately declared Indonesia's intention to repair the country's relationship with Malaysia and to rejoin the UN, which were finally achieved in August and September 1966 respectively. Indonesia's credibility was gradually restored, particularly in the eyes of the US and Japan who finally granted an emergency credit of US\$ 59 million and US\$ 30 million respectively (Palmer 1978: 27).²³ Indonesia's relationship with its major

²¹ Adam Malik initially served as Indonesian Ambassador to Moscow during the Sukarno administration. He was a well-known politician from the small but influential Murba party. As Anwar (1994: 35) observes, the 'appointment of Malik, who had close links with the Soviet Union was probably partly to convince the international community, especially the non-aligned countries, that despite the massacre of communists, Indonesia was not about to enter the American camp', thus confirming Indonesia's continued commitment to a free and active foreign policy.

²² Also known as *Sultan Hamengkubuwono IX*. The Sultan had previously held various important positions during the Sukarno administration and had continuously identified with the banned Indonesian Socialist Party (PSI - *Partai Sosialis Indonesia*). He was also largely responsible for the rescheduling of Indonesia's foreign debt following his appointment as Economic Minister.

²³ West Germany later offered funds of US\$7.5 million, the Netherlands US\$18 million, and Singapore US\$32.7 million in aid.

creditors was later formalised through the creation of the Inter-Governmental Group on Indonesia (IGGI) in February 1967. The Netherlands' led initiative aimed to co-ordinate the multilateral aid given to Indonesia.²⁴ The major creditors of Indonesia were convinced that the stability of Southeast Asia would be ensured if Indonesia could achieve political and economic stability.

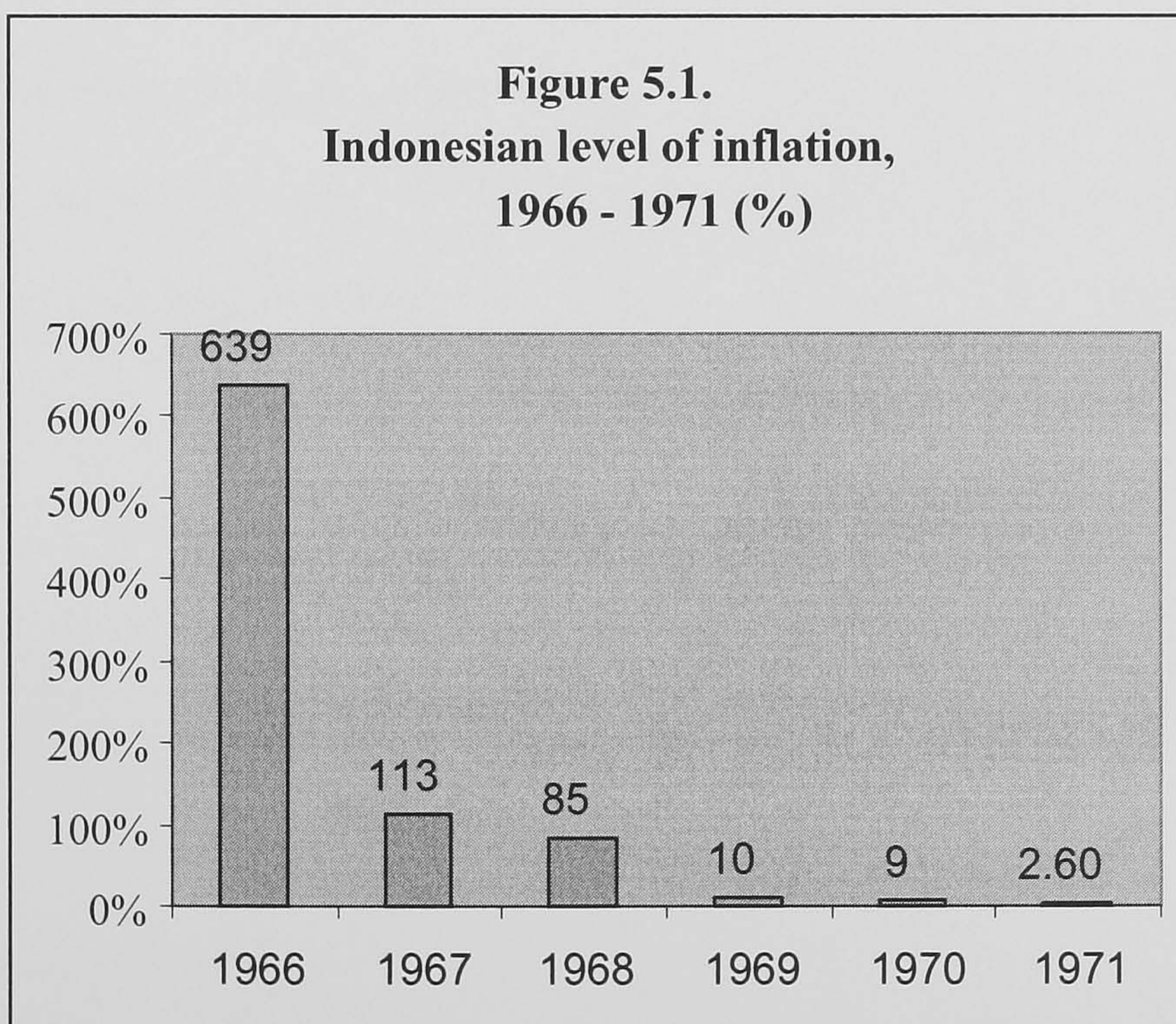
The major economic policies issued by the New Order government can be divided into three periods, all of which had substantial impacts on the Indonesian government's FEP. The first was from 1966 - 1973 when the New Order government concentrated on the issue of economic rehabilitation and recovery. The government priority in this period was to re-establish its relationship with its most major Western donors as well as to manage the inflation level. The second period was between 1974 and 1985, when Indonesia attained rapid economic growth. The sustained growth of the economy was particularly significant following the rise of the international oil price in the mid-1970s.²⁵ However, the Indonesian economy during this period was also highlighted by strong economic nationalism, economic populism, and a strong resurgence of predatory bureaucratism.²⁶ As a result, this period saw a substantial increase in indigenous-led enterprises as well as the rise of protectionist policies, particularly trade and investment policies. Subsequently, the fall in the international oil price in the mid-1980s forced the Indonesian government to cut back on its expenditures and to introduce

²⁴ IGGI membership consisted of Australia, Belgium, Great Britain, Canada, France, Germany, Italy, Japan, the Netherlands, New Zealand, Switzerland, and the US. IGGI was later transformed into the Consultative Group on Indonesia (CGI) in March 1992 as a result of Indonesia's rejection of continued Dutch leadership and membership of the group.

²⁵ Indonesia is one of the world's major oil producers and a member of the Organisation of Petroleum Exporting Countries (OPEC)

²⁶ See Chapter 3 for definitions of these terms.

a major economic reform, which concentrated on tax and banking policies. Finally, the third period runs from 1986 until the recent economic crisis. Within this period Indonesia conducted a rather active FEP, particularly through its commitment to various regional and international economic integration arrangements. There were, however, some substantial setbacks for the Indonesian economy, which included an increase in the practice of predatory bureaucratism amongst the New Order leadership as well as Suharto's continued reliance on certain technocrats.



Source: National Development Information Service (1977: 34)

During the first period, from 1966 until 1973, a major concern of the New Order government was to restore the deteriorating economy of Indonesia (Reindhardt 1971: 141-2; Leifer 1983: 112-3). As a result, Indonesian economic policy at the time was

influenced by a *laissez-faire* approach, which aimed at increasing economic growth and attracting foreign investment (Robison 1986: 131). In 1967, for example, the Indonesian government issued the Foreign Investment Law No. 1 / 1967, which made the investment climate more attractive by providing substantial incentives, such as tax holidays, certain guarantees, etc, to foreign investors.²⁷ This was the New Order government's response towards the decline of the Indonesian economy. When the New Order government took control, the inflation level was 'accelerating, output was stagnating, poverty and hunger were widespread, and a tiny minority with access to import licenses were enriching themselves [whilst] incomes ... were declining' (Booth 1998: 71). In 1965, the inflation level exceeded 500 percent (refer to figure 5.1.), whilst the price of rice rose as much as 900 percent (Leifer 1983: 113). In the capital alone, the cost of living index rose from 166 in 1959 to 269,000 in 1965 (refer to table 5.1.). Moreover, Indonesia's total debt reached 'about [US]\$2,300 million, of which about half was a Soviet and East European military debt. The immediate forecast, for 1966, was of foreign exchange earnings of \$430 million (including oil) and minimum import requirements of \$560 million; not to mention a debt servicing of \$530 million' (Palmer 1978: 6-7).

Between late 1958 and 1965, the Indonesian annual growth rate for net national products was 1.7 percent per annum, which was lower than for the 1950 - 1957 period. This percentage indicated a decline in the per capita income, as the population grew at around 2 percent per annum (Nugroho 1967: 539). In addition, the new Indonesian government also faced major problems concerning the balance of payments. In order to

²⁷ The law, however, did not apply to several crucial sectors, including the oil, gas, banking, insurance, and leasing sectors.

restore the Indonesian economy, the New Order government realised that it was necessary for Indonesia to acquire foreign aid and to reschedule its foreign debts. The government turned for help to some prominent Indonesian economists (Booth 1998: 74), who later become the main architects behind the Indonesian economic boom of the 1980s.²⁸ These economists soon approved the government's decision to acquire external funding. The Indonesian economy eventually made substantial progress through the implementation of various economic policies, such as an improved tax collection system and the government's focus on non-agricultural sectors (Sundrum 1986: 58), particularly the manufacturing and construction sectors.

Table 5.1.
**Cost of living index in Jakarta,
 1959 - 1966**

End of the year	Index	Percentage of increase*
1959	166.0	19.4
1960	215.0	29.5
1961	380	76.7
1962	976.0	156.8
1963	2,226.0	128.1
1964	5,234.0	135.1
1965	36,347.0	594.4
1966	268,733.0	639.4

Notes: Compared with the end of previous year

Source: National Development Information Service (1977: 18)

Apart from the economic restoration of the country, there was also a major shift in Indonesian foreign policy during the first phase of the New Order period, particularly with regard to the government's perspective on regional order and stability. The shift was not only evident in the normalisation of the relationship between Indonesia and

²⁸ This group of economists included Prof. Sumitro and Sjafruddin, who were at the time teaching at the University of Indonesia. This group was later known as the *Berkeley Mafia* as most of them were trained at Berkeley University, USA.

Malaysia, but also in Indonesia's support of the creation of a regional forum in Southeast Asia. Following the signing of the final agreement to end the confrontation, the representatives of both Indonesia and Malaysia continuously conducted various discussions on the possibility of the formation of a regional grouping. Both sides decided to put the issue on the agenda during their formal talks at the end of May 1966 (Gordon 1969: 110). Many Indonesian politicians at the time were convinced that co-operation in the region would prevent future conflicts and promote regional prosperity. In his statement before the House of Representatives (MPR – *Majelis Permusyawaratan Rakyat*) on 16th August 1966, General Suharto (1966: 48) stated that:

*'If one day an integrated Southeast Asia can be established, this part of the world then may stand strongly in facing outside influences and intervention from whatever quarter it may come, be it of an economic nature, or a physical military intervention (sic).'*²⁹

Suharto's argument soon drew widespread public support. Most people believed that regional co-operation would act as a much needed bulwark against the forces of neo-colonialism (Anwar 1994). Suharto was also greatly influenced by other Indonesian army leaders, who also thought that a regional grouping in Southeast Asia was necessary, largely for strategic purposes. More importantly, however, Indonesia, as a member of ASEAN, was determined that its development would be oriented towards programmes that strengthened its national resilience and promoted stability in all fields (Panglaykim 1977: 38). Despite the fact that Indonesia was known as the most nationalistic country in the region, it held, and still holds, a vision of an integrated Southeast Asia. Despite this, little attention was given to the development of ASEAN at

²⁹ As quoted in Leifer (1983: 119).

the time. It was not until the second phase of the New Order period that strengthened co-operation, particularly in the field of economics, was fostered amongst Southeast Asian countries.

Throughout the period between 1974 and 1985 Indonesia saw an increase in economic growth at an average of 7 percent per annum (Booth 1992: 1). At the same time, however, Indonesia experienced another surge of economic nationalism within the second phase of the New Order economy. Such nationalistic sentiment was partly fuelled by the Malari Riot of 1974,³⁰ which gave added impetus to the momentum of public dissatisfaction with foreign capital (Chalmers and Hadiz 1997: 71).³¹ This resurgence of economic nationalism at the time can be characterised as a 'complex movement influenced less by a declining petty bourgeoisie demanding state protection against the superior forces of foreign capital than by emerging political and economic forces demanding the removal of political and economic constraints upon their potential development' (Robison 1986: 147). Realising that it was impossible to control nationalist discontent, the Indonesian government introduced measures that would benefit indigenous Indonesian businessmen. Amongst other things, all new foreign investments at the time were required to open as joint ventures with local businesses. More specifically, all new foreign investors were required to offer Indonesian businessmen a

³⁰ The Malari Riot started on the 15th January 1974, during the arrival of the Japanese Prime Minister, Kakuei Tanaka. A public demonstration of tens of thousands of people led to looting and violence. Today, this incident is also referred to as the anti-Japanese riot of 1974.

³¹ During the period leading up to the Malari Riot, Robison (1990: 145) points out that, 'associations and newspapers representing Muslim-oriented indigenous small capital had conducted a public and virulent anti-foreign, anti-Chinese campaign in an effort to halt their deteriorating position' in the domestic economy.

share of as much as 20 percent of equity holding initially, and this was to be expanded to 51 percent within ten years of operation.

The re-emergence of economic nationalism during the second phase of the New Order government was caused by two factors. Firstly, Indonesia became increasingly dependent on foreign aid, particularly from international financial institutions, such as the IMF, World Bank, and other foreign advisers (Arndt 1984: 42). The Indonesian public resented the fact that Indonesia had to sell out its natural resources to serve the interests of foreign capitalists. Aside from that, indigenous Indonesians, mainly Muslims, were also unhappy with Indonesia's open-door policy at the time, arguing that they could not compete with their foreign counterparts. Secondly, the boom in oil prices in 1974 - 1975 also played a major role in shifting the orientation of New Order economic policy-makers' towards more inward-looking policies. The Indonesian government, for example, was able to increase the corporate tax on oil from Rp. 344 billion in 1973-74 to Rp. 8,627 billion in 1981-82 (from 35.6 to 70.6 percent of total revenue) (Robison 1990: 144). The excess revenue accrued from the oil sector allowed the Indonesian government to implement more inward-looking economic policies.

Four institutions were particularly important in promoting economic nationalism (or statist-nationalist ideology) during the second phase of the New Order period, namely the Indonesian Gas and Oil Company (Pertamina - *Perusahaan Pertambangan Minyak dan Gas Bumi Negara*), the Ministry of Industry and Trade (Depperindag – *Departemen Industri dan Perdagangan*), the Investment Co-ordination Board (BKPM – *Badan*

Koordinasi Penanaman Modal), and the Centre for Strategic and International Studies (CSIS) (Chalmers and Hadiz 1997: 72). Pertamina was actually a state corporation but, from when the New Order government took control until 1975, it was ‘a fiefdom controlled by a military officer directly responsible to the President in pursuit of a variety of nongovernmental interests’ (Robison 1990: 15). Apart from its involvement in non-governmental activities, such as allocating drilling leases to foreign companies, Pertamina often used the ‘state’s authority to force foreign capital to support Indonesia’s own development’ (Chalmers and Hadiz 1997: 72). On the other hand, the Depperindag promoted economic nationalism through the maintenance of tight regulations in Indonesian investment laws, and BKPM was established during the New Order period to study various investment applications from abroad.³² Indonesia’s trade and regulatory policy regimes had often been the *bête noire* of liberal economists (Hill 1990: 226), in that the investment process was often heavily bureaucratised. The last major institution that promoted the notion of economic nationalism was CSIS, which was a private research institution established with business funding. It had close links with Golkar, the State Intelligence Co-ordinating Agency (BAKIN - *Badan Koordinasi Intelijen Negara*), and a military organisation called the Special Operation Service (OPSUS – *Operasi Khusus*).³³ The CSIS intellectuals were part of the nationalist bureaucrats who longed for

³² Initially, the Indonesian government created the Foreign Capital Investment Advisory Board (BPPMA – *Badan Pertimbangan Penanaman Modal Asing*) following the enactment of the Foreign Investment Law No. 1 / 1967. In the following year, 1968, the Indonesian government felt that it was necessary to improve the institutions involved in the investment process. To that end, the BPPMA was transformed into the Technical Committee on Investment (PTPM – *Panitia Teknis Penanaman Modal*). The task of the PTPM was not only to advise the President regarding the implementation of foreign investment, as was the case with the BPPMA, but this new institution was also responsible for the study and evaluation of investment applications. BPPMA was later changed into BKPM in 1973 as a result of the further need to improve the co-ordination of investment permits as well as the need to improve investment promotion. For a more detailed history of the BKPM, visit the BKPM official website (accessed 2003) at: http://www.bkpm.go.id/bkpm/bkpm.php?mode=baca&info_id=90

³³ OPSUS was shut down in 1985 following attempts to restructure the organisation.

state-led national capitalism, which would be integrated at the political level with authoritarian corporatism (Robison 1986: 134-5; 148). These four institutions were cornerstones for the formalisation of economic nationalism in governmental economic policy.

The fall in the oil prices in the first half of the 1980s forced the Indonesian government to take structural adjustment measures. By 1985, the revenue collected from corporate oil taxes totalled a mere Rp. 6, 338 billion (or about 57.1 percent of total revenues) (World Bank 1993b: 185), which represented a decline of about 13.5 percent from the 1981 - 1982 period. Coupled with rising debts and a sudden decline in economic growth, Indonesia ended its decade of oil-financed growth and abundance (Hill 2000: 16). Due to the worrying state of the Indonesian economy, 'the World Bank began to press the Indonesian government to liberalise its economy and place less emphasis on [ISI]' (Chalmers and Hadiz 1997: 92). The World Bank, which had played a very important part in the policy-making networks during the first phase of the New Order period, was now growing uneasy about the state intervention mechanisms that had operated during the 1970s. The Indonesian government responded to the World Bank's concern by introducing a series of reform packages in the mid-1980s, which included the deregulation of the financial and trade sectors, the relaxation of foreign investment regulations, and the introduction of a privatisation process (Robison 1997: 34). However, this reform package was not entirely successful for two reasons. The first reason was that the Indonesian government persisted 'with a policy of import restrictions through more systematic and comprehensive licensing' (Booth 1998: 197). Although the Indonesian

government took progressive steps in tariff reduction, foreign investments still had to include a minimum domestic equity, whilst foreign investors continued to be excluded in a range of sectors, particularly some of the still-lucrative import substitution areas (Robison 1990: 113). The second reason was the fact that many Indonesian domestic business groups had become increasingly comfortable with the nationalist economic policies introduced during the previous decade (Robison 1997: 35). Due to the bureaucratic capitalism that had emerged in the previous decade, it was only large conglomerates with close connections to governmental officials that were capable of making offers for corporations previously under the control of the government.

The second phase of the New Order period also saw major changes in the way the Indonesian government conducted its FEP, particularly as regards regional economic co-operation within the ASEAN framework. Starting with the ASEAN Preferential Trading Agreement (ASEAN-PTA) in 1977, the following decade saw increasing regional economic co-operation in Southeast Asia, which was evident in initiatives such as the ASEAN Industrial Joint Ventures (AIJVs), ASEAN Industrial Projects (AIPs), and ASEAN Industrial Complementation (AIC). The first discussion to initiate such co-operations began during the Fourth ASEAN Ministerial Meeting (AMM) in 1971, where General Carlos Romulo, the Foreign Minister of the Philippines at the time, pointed out how important it was for the Association to have a new sense of direction rather than being simply a tool to bridge the political divide between the major powers. As a result, a plan to create an ASEAN Common Market was submitted, and the 1970s was declared the *Decade of Development* for ASEAN. In response to General Romulo's idea, the

Indonesian government agreed to get involved in an enhanced regional economic co-operation. At the same time, however, the Indonesian government remained convinced that 'it would seem more realistic for the ASEAN states to proceed with a more selective approach to co-operation' (Kartadjoemena 1976: 206). With increasing public demand for a nationalist economic approach, the Indonesian government maintained that it 'would like first to have a better grasp and control of the national economic life in order that the country's economic and social development could be directed towards the national objectives chosen' (Kartadjoemena 1977: 77). Given the strong influence that Indonesia had over the Association at the time, most of ASEAN's early attempts at economic co-operation failed to succeed.

Major economic liberalisation began to take shape again in the third phase of the New Order period (1986-1997). The economic policies introduced during this period were more market oriented, and the private sector was given the role of achieving economic growth (Gray 2002: 3). A more significant development that occurred in Indonesian economic policy was the shift from ISI to a more export oriented approach. The Indonesian government devalued the rupiah in 1986 to support the national export sectors. In the following year, a reform package was introduced to further reduce import barriers, remove export licenses and other barriers, improve incentives for foreign investors, and to revive the moribund domestic share markets (Booth 1988). Although the national economy appeared rather bleak in both 1987 and 1988, the Indonesian government was able to provide a more optimistic forecast for the coming decade at the end of 1989 (Booth 1992: 23). The Indonesian government's forecast was correct.

Investment values in 1994, for example, reached as much as US\$ 39.9 billion from about US\$ 23 billion between 1990 and 1993. On the whole, Indonesia experienced a major economic boom during this period, and this was to last until the economic crisis in 1997.

As a result of major economic reform in the mid-1980s, Indonesian pursued a more active FEP. The Indonesian government at the time were interested in enhanced economic co-operation in the Southeast Asian region, if not at the Asia-Pacific level. This indicated a major shift of interest amongst Indonesian FEP-makers from the traditional concentration on the Northern hemisphere to the Asian region, particularly Japan and the Asian Newly Industrialising Economies (NIEs). In Hill's (2000: 85) analysis, three rationales can explain such a shift. These were 'the rapid growth of the Northeast Asian economies; the ever stronger economic complementarities between a low-wage but resource rich Indonesia alongside the resource poor, high-wage economies of Japan and the NIEs; and political-institutional changes which have gradually weakened old ties to Europe in particular'. Another important factor that drove Indonesia to become more supportive of regional integration strategy (RIS) was the strengthening of regionalism in both Western Europe and North America. As a result, Australia's proposal to introduce regional trade liberalisation at the Asia-Pacific level was welcomed warmly by Indonesian policy-makers, and, subsequently, Indonesia became one of the APEC founders. In ASEAN, talks began on the possible development of established economic co-operation through AFTA, which was finally introduced in 1992.

To sum up, the New Order government made substantial changes to Indonesian FEP. Throughout its existence, the New Order government was committed to various forms of economic policy. From 1965 until 1974, economic liberalisation measures were undertaken by the New Order government. Subsequently, from 1975 until 1985, economic nationalism became a response to the domestic business interests who had enjoyed hardly any benefits from economic liberalisation. Following the stabilisation period after the oil price shocks of 1981 and 1985, the New Order government once again introduced liberalisation measures between 1986 and 1997. Economic growth reached its peak before the economic crisis of 1997. Since the economic crisis began the government has been blamed for the collapse of the Indonesian economy, but an open mind should be kept when analysing the Indonesian New Order government. On the whole, since the New Order government took control, Indonesia was able to develop its economy through the implementation of a number of effective economic policies.³⁴ The real per capita GDP, for instance, trebled in just one generation, whilst poverty levels decreased (Hill 1994: 56-7). During the last phase of the Guided Democracy period, the average growth of real per capita GDP was only -0.4 percent. In contrast, the New Order government was able to increase average real GDP growth by 8.1 percent by 1995. The New Order government was also successful in reducing poverty (Hill 1994: 57). In Java alone, the poverty level was slashed from 61 percent in the mid-1960s to only 10 percent by the 1990s. In various provinces outside Java poverty was reduced from 52 percent in the mid-1960s to only 7 percent by the mid-1990s.

³⁴ Suharto later proclaimed himself the *Bapak Pembangunan*, or father of development, in Indonesia.

5.3. Contemporary Indonesian nationalism and foreign economic policy

The economic crisis in 1997 marked the fall of the New Order government. By October 1997, Indonesia was forced to seek assistance from the IMF to counteract the economic crisis.³⁵ However, questions regarding President Suharto's health and increasing opposition and protests from different groups within society demanding political change exacerbated further the economic deterioration of the country. Indonesia was suddenly transformed from a miracle economy, which had been heralded by many foreign economists as a development model for other developing countries, into a *melt-down* economy, dependent on various international financial institutions and donor countries for its survival (Thee Kian Wie 2001: 164). Subsequently, leadership changes saw the appointment of Bachruddin Jusuf Habibie, then Abdurrahman Wahid, and finally Megawati Sukarnoputri as Indonesian Presidents over a five-year period. This analysis of contemporary Indonesian nationalism and FEP is based upon these last three Presidential periods. There were two important problems that challenged the Indonesian leaders following the demise of the New Order government, namely economic recovery and the threat of national disintegration. Consequently, Indonesian FEP was directed both towards the alleviation of the economic crisis and towards protecting national unity.

³⁵ The IMF-supported programme was initiated by the first Letter of Intent (LoI), which was submitted to the IMF on the 31st October 1997 and was approved by the IMF on the 4th November 1997. The first LoI was built around three areas, which included: (1) economic reforms in the real sector, including improved transparency in governance; (2) a strategy for comprehensive financial restructuring that would include the closure of insolvent banks; (3) a strong macroeconomic policy for balance of payment stability. For a detailed analysis of the first LoI signed between the Indonesian government and IMF see, *inter alia*, Djiwandono (2003: 200).

Habibie was appointed the third Indonesian President following Suharto's resignation on 21st May 1998, which had been forced by the massive demonstrations that took place throughout the country. Habibie had been one of Suharto's most trusted followers throughout the existence of the New Order government. Initially, he had been appointed as the Minister for Research and Technology in 1978, a position that he held until his appointment as Vice-President in March 1998. During his time as the Minister for Research and Technology, he was known as an eccentric, an arrogant *technolog* who was an advocate for notoriously expensive state-led projects that aimed to make Indonesia technologically self-sufficient. His views were criticised both within and outside Indonesia. When the news of his appointment as Vice-President was broadcast in January 1998, the value of the rupiah fell drastically (Hill 2000: 280) to around Rp. 17,000 against the US\$. After assuming the Presidency, Habibie wanted to include foreign policy in his overall agenda, but could not do so owing to the short tenure of his office and the fact that the post of vice president was vacant. Regardless of such setbacks, Anwar (2000: 2), a political and foreign affairs adviser to the President, has described Habibie's three overall objectives. These were laying 'the foundation for Indonesia's democratisation', resolving 'the East Timor issue once and for all', and securing 'international assistance for Indonesian economic recovery'. These three objectives were central to Indonesian foreign policy during Habibie's Presidency. In essence, these objectives were aimed at freeing Indonesia from the various foreign pressures that stood in the way of the government's attempt to achieve sustained economic recovery.

Habibie faced an immense challenge when he took the Presidency, particularly with regard to alleviating the economic crisis and trying to establish the foundations for democracy in Indonesia. By 1998, Indonesia's economic growth had contracted to an average of -15 percent, from an annual average of 7 percent per annum prior to the economic crisis. The value of the rupiah was also weakened against the US\$, from Rp. 2,400 in July 1997 to an average of Rp. 16,000 – Rp. 17,000, when Habibie took over (Abrash 1998: 1; Sunderlin *et al.* 2001: 767). The financial sector, in particular, was in a dire state with the total external debt of Indonesian private banks and businesses reaching as much as US\$ 73 billion, whilst the Indonesian government owed a further US\$ 66 billion. Moreover, unemployment, as a result of the contraction in the real sector of the economy, began to soar and inflation hit its highest level ever at about 80 percent (Abrash 1998: 1). The deepening economic crisis and the independence crisis in East Timor triggered nationalist sentiment in the country. Searching for possible scapegoats to take the blame for the economic crisis, the Indonesian authorities and media alike pointed their fingers at currency speculators (Henderson 1998: 155). The Indonesian Minister of Justice reportedly threatened that any currency speculators found conducting activities that might destabilise the country's economy would be guilty of subversion, whilst, at the same, a campaign of *defend the rupiah, defend the nation* was championed by the Indonesian media (Henderson 1998: 155). In economic terms, therefore, the Habibie administration faced the challenge not only of stabilising the economy, but also regaining the confidence of foreign investors in light of heavy political instability and the possible re-emergence of economic nationalism.

The appointment of Adi Sasono, a former Islamic NGO activist, as the Minister of Co-operatives, Small, and Medium Enterprises also raised fears over the possible re-emergence of economic nationalism in Indonesia. In the past, he had developed the concept of the *Ekonomi Kerakyatan* (People's Economy), which can be defined as a participative economy, which allows fair and equal access to all members of society in the processes of production, distribution, and national consumption without sacrificing human resources and the environment to support the people (Sasono 1999).³⁶ In principle, the concept of the People's Economy involved activities conducted from the people, by the people, and for the prosperity of the people. Members of the business community saw People's Economy as a signal for another wave of the nationalisation of foreign and ethnic Chinese capital. However, economic nationalisation was not the main aim of Sasono with regard to the concept of the People's Economy. In an interview with *Asiaweek* (1998), he emphasised that the main intention of the Habibie administration was not to 'nationalise [foreign-owned or ethnic-Chinese] assets, but ... to limit the degree of ownership, which can create social tension'. He further argued that 2 percent of Indonesians, most of whom were ethnic Chinese, controlled about 61 percent of the national GDP, which was not a healthy economic condition. True reform within the framework of the People's Economy, according to Sasono, would include the empowerment of the small and weak in order to create a strong middle class. Far from proposing a *racist* economic policy, Sasono's idea of the People's Economy, if implemented properly, would indeed foster not only economic stability, but also social equality for Indonesia.

³⁶ As quoted in Thoha (2000).

During the Habibie administration, Indonesia's relations with one of its closest neighbours, Singapore, went sour despite the administration's commitment to improving relations with Indonesia's immediate neighbours (Anwar 2000: 2). The ethnic issue was once again the main theme behind the conflict between the two countries. Not only had this conflict undermined the special relationship that had been built over the years between the two countries, it also jeopardised the flow of future financial aid from Singapore to Indonesia. The conflict began with Habibie's irritation at the slow response of Singaporean leaders towards his appointment as the third Indonesian President. It seemed to indicate that the Singaporean leaders expected Habibie's tenure to be short owing to his close association with the former President Suharto. The relationship between the two countries worsened when a row between Habibie and the Singaporean leaders broke out over sensitive ethnic issues in Singapore, and in Indonesia itself.³⁷ In an interview with *Taiwanese China Times*, Habibie accused Singapore of discriminating against the ethnic Malays, particularly in the military (Suh 1999). The Singaporeans reacted furiously towards this accusation and were only calmed following a statement by the Indonesian Education Minister, J. Sudarsono, that President Habibie was misinformed about the level of Malay representation in the Singaporean military service. In actual fact, however, the conflict between the two countries was mainly a result of the frustration of the Indonesian elite about Singapore's overall contribution to help overcome the economic crisis in Indonesia.

³⁷ These ethnicity issues have often been used as political propaganda in Southeast Asian politics, particularly in Indonesia, Singapore, and Malaysia. The racial diversity of these countries had apparently claimed the lives of many ethnic Chinese Indonesians, as evidenced by the May 1998 race riots in Indonesia. Since then the international community, particularly China and Singapore, had blamed the Indonesian government for failing to provide fair treatment for the Indonesian Chinese community. Although most national constitutions in Southeast Asian countries, with the exception of Malaysia with its New Economic Policy (NEP), do not specify special treatment for specific ethnic groups, racial issues continue to be used as propaganda by both the Singaporean and Indonesian governments.

Despite this major setback, Habibie's FEP was quite successful overall. Apart from his full commitment to the IMF's prescriptions,³⁸ the success of Habibie was also due to his ability to promote political democracy in Indonesia, which allowed the country to regain the necessary support from the international community to alleviate the economic crisis. The first move by the Habibie administration to achieve this objective was to release political prisoners taken by the New Order government and to guarantee freedom of speech for the press (Anwar 2001a: 8). The second major move of the Habibie administration to gain international support was to raise the issue of the future of East Timor. On 21st September 1999, President Habibie gave a speech before the People's Representatives Assembly (DPR – *Dewan Perwakilan Rakyat*), which revealed the President's policy on the question of East Timor (Mizuno 2003: 117-18). For Habibie, the question of East Timor, which had been a major embarrassment for Indonesia since its incorporation into the country, was particularly important to Indonesia. Habibie also believed that, by raising the question of East Timor, the international community would be more inclined to provide much needed aid and assistance to Indonesia during the economic crisis. Despite the resurgence of strong nationalistic sentiments, particularly amongst military officers and opposition leaders (Leifer 2000: 154), the Habibie administration continued to pursue this strategy. The third major move to secure economic support from foreign donors and international financial institutions was Habibie's intention to hold a fair and open election.³⁹ Finally,

³⁸ As reported by the *BBC News* (1998), or visit the *BBC News* official website at:

http://news.bbc.co.uk/1/hi/events/indonesia/latest_news/119700.stm

³⁹ On 13th November 1998, Habibie instructed his Minister of Home Affairs, Syarwan Hamid, to conduct a feasibility study on the implementation of a democratic election in the near future. Subsequently, the

at the regional level, during his short tenure, Habibie managed to make close contact with Mahathir Mohammad, the Malaysian Prime Minister. As a result, the future of ASEAN regionalism, and the progress of AFTA in particular, was no longer in jeopardy despite the strained relationship between Indonesia and Singapore.

Table 5.2.
Annual economic indicators

	1996	1997	1998	1999	2000
GDP at market prices (Rp.* bn)	532.6	625.5	1002.3	1119.4	1308.6
GDP (US\$ bn)	0.2	0.2	0.1	0.1	0.2
Real GDP growth (%)	8.0	4.5	-13.2	0.1	4.8
Consumer price inflation (avg. %)	7.0	6.2	58.4	20.5	3.7
Population (m)	196.8	199.9	204.4	209.3	212.6
Exports of goods fob (US\$ m)	50188	56298	50371	51424	65507
Imports of goods fob (US\$ m)	44240	46223	31942	30598	41001
Current account balance (US\$ m)	-7663	-4889	4096	5785	7072
Foreign exchange reserves excl gold (US\$ m)	18251	16587	22713	26445	22458
Total external debt (US\$ bn)	128.9	136.2	147.5	142.5	143.8
Debt service ration, paid (%)	36.8	30.0	33.2	32.6	25.3
Exchange rate (avg) Rp:US\$	2342.3	2909.4	10013.6	7855.2	8421.8

Source: Economist Intelligence Unit (2001: 5)

Abdurrahman Wahid finally took over the presidency following the 1999 election despite the fact that his party, the National Awakening Party (PKB - *Partai Kebangkitan Bangsa*) ranked only fourth in the election poll.⁴⁰ As with Habibie, Wahid was

government appointed a group comprising mostly of academics, also known as the Group of Seven, to assist in the drafting of new election laws. Indonesia finally experienced one of the most fair and open elections to be held in a developing country and became the third largest democracy in the world.

⁴⁰ The final result of the 1999 election was as follows: the nationalist Indonesian Democratic Party for Struggle (PDI-P - *Partai Demokrasi Indonesia untuk Perjuangan*) gained 153 seats; the incumbent Golkar took 120 seats; the Islamic United Development Party (PPP - *Partai Persatuan Pembangunan*) took 58 seats; the Islamic PKB 51 seats; National Mandate Party (PAN - *Partai Amanat Nasional*) 34 seats; and lastly the Islamic Crescent Moon and Star Party (PBB - *Partai Bulan Bintang*) gained 13 seats. Although his party ranked only fourth during the election, Wahid gained enough popular support to become the fourth Indonesian President heading a coalition government formed between his own party, Golkar, PAN, PBB, and another Islamic party, the Justice Party (PK - *Partai Keadilan*). Wahid was appointed President whilst Megawati took the vice-presidency post. They were sworn in on 20th and 21st October 1999 respectively.

considered eccentric, whilst at the same time different from Habibie in that he was considered a more moderate Islamic leader and a stronger supporter of democracy and pluralism. Shortly after his appointment as the head of state, President Wahid set out the main themes of his FEP, which included the promotion of foreign investment and free market reforms (Seymond 1999). This was President Wahid's nationalist appeal to build a stronger Indonesia in the face of the economic crisis. In addition, President Wahid also called for closer ties with Japan, China, and the member countries of ASEAN. The market reacted positively to the appointment of Wahid as the leader of Indonesia. The Jakarta Stock Exchange (JSE), for example, experienced a resurgence with a peak of US\$ 63.7 billion after the news of Wahid's appointment as the new President was broadcast (Smith 2001b: 7). Moreover, the country achieved substantial growth of 0.1 percent by the end of 1999 from -13.2 percent in the previous year, whilst the rupiah was stabilised at between Rp. 7,800 to Rp. 8,000 to the dollar (refer to table 5.2).

Another major FEP theme in the Wahid administration was a commitment to fully support the IMF rescue loan package, which was linked with the IMF LoI. The disbursement from the IMF was important because it could be 'taken as a measure of market confidence in the progress of economic reform. Therefore, ... the credibility of Indonesian economic reforms [was] reflected in the successful and consistent implementation of the IMF programme' (Feridhanusetyawan 2003: 238). The first LoI agreed between the Wahid administration and the IMF was signed on the 20th January 2000. This required the Indonesian government to achieve price stability in the market, to push for various restructuring measures including those related to corporate and

banking policies, to rebuild key public institutions, to implement economic and social policies, and, finally, to manage natural resources.⁴¹ However, the IMF did not enjoy a close relationship with the Wahid administration for long (Sadli 2003). The Indonesian government missed many deadlines and its commitment towards the agreed LoI was questioned (Feridhanusetyawan 2003: 238). The Wahid administration was also unable to maintain a close relationship with other international financial institutions and foreign donors (Sadli 2003: 190-3). The World Bank, the ADB, and the Japanese government, for example, have traditionally provided major development aid for the Indonesian government. However, during the Wahid administration, the World Bank scaled down Indonesia's rating from a 'high case' to a 'low (or base) case', which led to the incomplete disbursement of the much needed financial aid for economic recovery. These institutions claimed that they were dissatisfied over the progress of the Wahid administration whilst in power (Sadli 2003: 190-1). They were particularly unhappy with the Wahid administration's handling of the decentralisation process (i.e. Regional Autonomy Law - RAL), regarding the amount of freedom given to local authorities regarding taxes and expenditure in their districts, which might damage central government balances. President Wahid is often cited as having criticised these international financial institutions for helping his political opposition by delaying the disbursement of the loans.⁴² Therefore, throughout its short existence, the Wahid administration failed to create a suitable environment for the reform packages offered by these international financial institutions.

⁴¹ For further details concerning the content of the 20 January 2000 LoI, visit the IMF official website (accessed 2002) at:

<http://www.imf.org/external/NP/LOI/2000/idn/01/index.htm>

⁴² As reported in the Down to Earth (2000-2001) official website at:

<http://dte.gn.apc.org/Au11.htm>

Despite unstable relationships with some foreign donors, the overall FEP of the Wahid administration did encourage foreign investments and private sector growth in the country, which was a direct reflection of the administration's commitment to alleviating the economic crisis. Although the Foreign Capital Investment Law of 1967, which gave substantial incentives to foreign investors (i.e. tax holidays, etc), was still in effect as the basis for foreign investment in the country, the Wahid administration had amended the law to suit the overall objective of its FEP. Amongst other things, one major amendment was to remove unnecessary bureaucratic procedures that were considered problematic by foreign investors. In the past, for example, apart from dealing with the BKPM, foreign investors were also required to work closely with the relevant technical departments, such as the Ministry of Finance (MoF), the Directorate General of Custom and Excise (DGCE), the Ministry of Justice (MoJ), and so on.⁴³ The new investment regulations, however, meant that foreign investors could deal directly with BKPM. In addition, the Wahid administration also speeded up the Initial Investment Approval (IIA), which had previously taken a few months, to a maximum period of 15 working days. Nearly all industries were reopened, except for those industries stipulated in the Presidential Decree No. 96 / 2000, which were open to investment under certain conditions. The sectors that remained absolutely closed included mining and fishing, industry and trading, communications, and the energy sectors.⁴⁴

⁴³ Quoted from the official website of the US Embassy in Jakarta (2000):
<http://www.usembassyjakarta.org/econ/invest/investment2000-2.html#A1>

⁴⁴ The Presidential Decree No. 96 / 2000 can be read on the official BKPM website (2000) at:
<http://www.bkpm.go.id/bkpm/dni.php?mode=baca#ATTACHMENT%20I>

In order to implement an FEP that was accommodating to foreign investment, President Wahid attempted to make significant changes to the overall conduct of Indonesian foreign policy. Internally, a radical change was made in the Ministry of Foreign Affairs (MFA) and Dr. Alwi Shihab,⁴⁵ an outsider to the MFA bureaucracy, was chosen as the Foreign Minister. Externally, inspired more by 'Sukarno nationalism and high profile foreign policy than by Suharto's low profile' (Anwar 2003: 77), President Wahid shifted the overall Indonesian foreign policy by playing the *Asia Card*, in an attempt at lessening Indonesia's dependence on the West (Smith 2000b: 498). Apart from that, President Wahid also expressed his desire for a more international outlook or *ecumenical* foreign policy. This international outlook with regard to foreign policy was evident through his frequent travel abroad. The prime motive behind his policy was to provide the international community with comprehensive information regarding the real situation in Indonesia. Through this policy, the Wahid administration hoped that they would be able to regain the confidence of international investors. In a speech at a conference marking Indonesian National Press Day in Jakarta, Dr. Shihab (2000) reiterated President Wahid's foreign policy and maintained that Indonesian foreign policy would be geared to the economic situation, and to the realities of globalisation and interdependence.

President Wahid's first foreign visit was made shortly after his appointment as Indonesian President. He visited Indonesia's neighbouring countries, including Singapore, Cambodia, and Myanmar on 6th, 7th, and 8th November respectively. The visit

⁴⁵ Dr. Shihab was previously a scholar of comparative religions at the University of Harvard's Divinity School. Despite his appointment as Indonesian Foreign Minister, Shihab never had any experience in conducting diplomatic relations.

to Singapore was made for two reasons. The first reason was to restore the old bilateral relations that had been strained during the Habibie Presidency. The second reason was to persuade Indonesian business people who had transferred their wealth to Singapore during the economic crisis to return to Indonesia. Within four months of his Presidency, President Wahid visited nearly 26 countries, which made him the Indonesian head of the state who had conducted the most foreign visits within such a short space of time (Smith 2000b: 505). Throughout this time, he gave voice to numerous controversial ideas that were often unrealistic or too difficult to implement. For example, following his visits to China and India in late 1999 and early 2000 respectively, Wahid proposed establishing a triangular relationship between Indonesia, China, and India, aimed at lessening their dependence upon the West. However, sceptics have commented that although such a proposal is interesting, it is also challenging as a result of the bilateral problems that still exist between India and China (Anwar 2000: 5). Aside from that, President Wahid also proposed a West Pacific Forum, which would include Indonesia, Australia, New Zealand, Papua New Guinea, and East Timor (Anwar 2003: 78). Not only were these proposals too ambitious, costly, and potentially ineffectual, such new fora would also have undermined ASEAN and its recent economic regionalism attempt, AFTA.

On the surface, President Wahid implemented quite controversial foreign policies. Some scholars, such as Smith (2000b) and Anwar (2000), however, are sceptical, and suggest that Indonesian foreign policy during the Wahid administration was far more orthodox than others have indicated. Although the President was able to gain enormous support from the international community for Indonesia's efforts at national integration,

Indonesian foreign policy during the Wahid administration remained quite conventional and its main ideas were similar to the foreign policy conducted by the New Order government (Smith 2000b: 523).⁴⁶ Although President Wahid's frequent travels were quite successful during the early stages of his administration, most of his later foreign visits were ineffective (Anwar 2000: 4-5). Furthermore, Anwar indicates three main reasons for the failure of President Wahid's foreign policy. Firstly, with mounting domestic problems, President Wahid's frequent travels abroad led to conditions of lawlessness and lack of governance in the country. Secondly, it was illogical for Indonesia to conduct an ecumenical foreign policy when the country needed to focus on its immediate geo-strategic interests. Thirdly, President Wahid had to face allegations that pointed to his involvement in numerous scandals, which undermined the authority of his leadership in the government, MPR, and DPR. Moreover, it should be added that President Wahid's insistence on the *Asia Card* was overly ambitious. Economically, Indonesia was still dependent upon the West for financial assistance and had been even before the economic crisis. As a result, Indonesia would hardly benefit by conducting an FEP that was hostile towards the West.

The Wahid administration finally came to an end because of the opposition leaders' irritation over the inconsistency that the President had shown as leader of the country. It was decided through a vote in the Parliament that the President should step

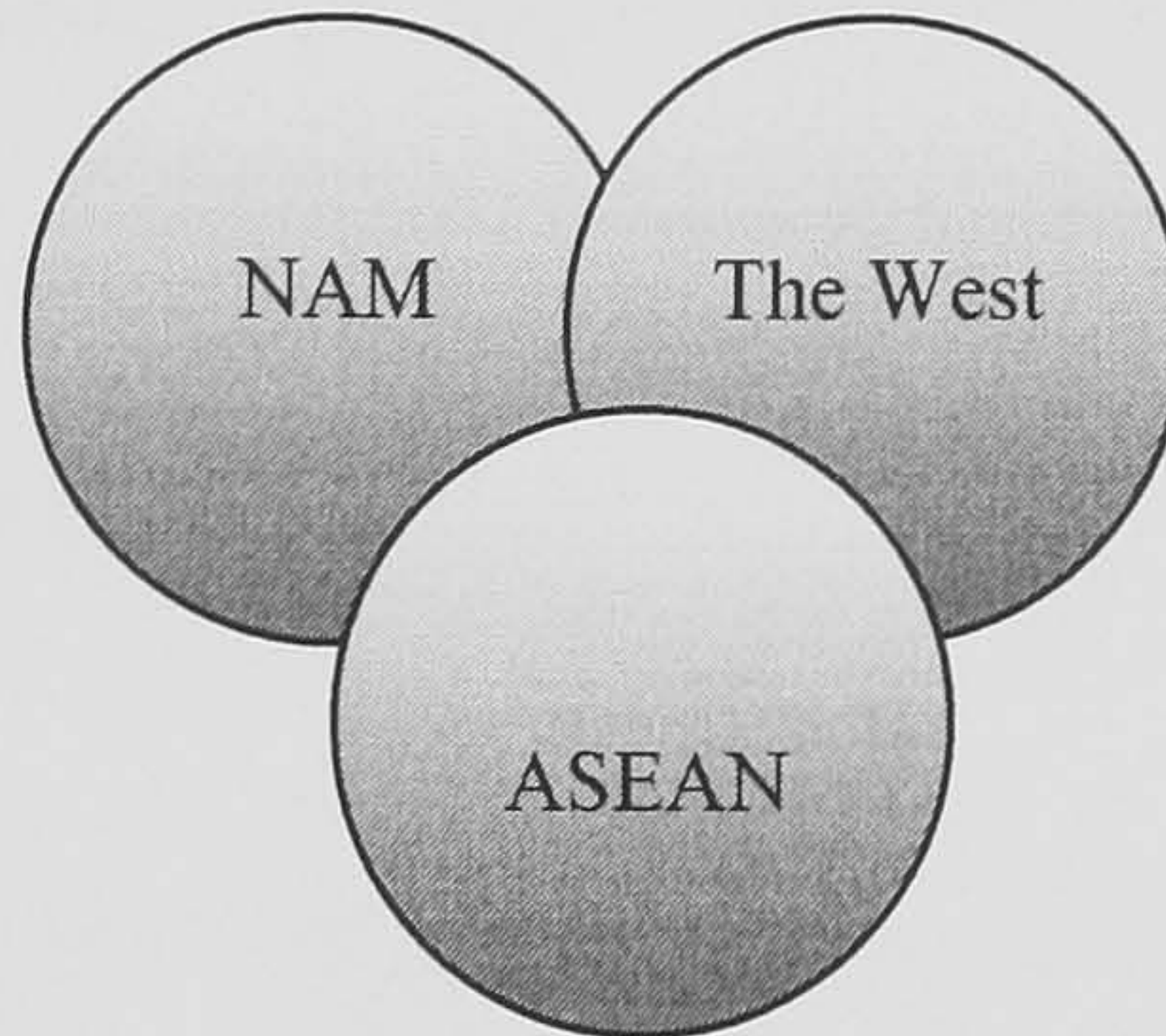
⁴⁶ The former Indonesian Foreign Minister, Alwi Shihab, further confirmed that ASEAN remained the cornerstone of Indonesian foreign policy and that Indonesian foreign policy was very much in line with the New Order's. For further details of Shihab's comments on Indonesia's foreign policy see *Time Asia* (1999), or visit the *Time Asia* official website at: <http://www.time.com/time/asia/magazine/99/1108/indonesia.interview.html>

down⁴⁷, and Megawati was sworn in to become the fifth Indonesian President on 23rd July 2001. As with her predecessors, the Megawati administration inherited the challenges of maintaining the country's integration, alleviating the economic crisis, and ensuring long-term political stability in the country. Her policy with regard to national integration was coherent and comprehensive. In this context, she insisted that national unity should be placed as a priority in her national agenda. As with her father, Sukarno, President Megawati has also known as a staunch nationalist who was reluctant to jeopardise the current geographical existence of the country by allowing any separatist movements within the country. The Megawati administration had been particularly relieved by the fact that its policy of national integration was fully supported by the world's major powers, particularly the US. The US, under the Clinton administration, had initially suspended its military aid to Indonesia due to the human rights violations that took place under the New Order government. Recently, however, both sides have tried for reconciliation and have resumed their military relations. This reconciliation was demonstrated by President Megawati's visit to the US shortly after the September 11th tragedy, which made her the first head of the state to visit the US after the event. The Bush administration expressed its wish 'to enlist Indonesia [as the] host to the world's largest Muslim population in the fight against terrorism' (Gershman 2001: 1).⁴⁸ However, as Gershman points out, US support of an integrated Indonesia might undermine the democratisation process in Indonesia because the Megawati administration is now capable of implementing stern, or even violent measures, to maintain the integration of the country.

⁴⁷ The assembly voted 591 to 0 to remove President Wahid from the office.

⁴⁸ The Bush Administration has also provided further support for the Indonesian military following the terrorist bomb attack on Bali in October 2002.

Figure 5.2.
Three concentric circles of Indonesian foreign policy



Source: Smith (2000a: 18)

In terms of improving economic conditions, Megawati appears to have put the appropriate FEP in place. One key feature of the Megawati administration's overall foreign policy has been a return to the traditional *concentric circle* formula (refer to figure 5.2.), which was abandoned by the Wahid administration that favoured instead the ecumenical approach to foreign policy (Anwar 2003: 78). This formula has identified ASEAN as the highest priority of Indonesian foreign policy.⁴⁹ Accordingly, President Megawati appointed Dr. Hasan Wirayuda as Foreign Minister, a senior career diplomat with vast experience of diplomacy who had served in the MFA since the mid-1970s. Soon after taking over from Dr. Shihab, the new Foreign Minister stated that the main Indonesian foreign policy was to restore relationships with neighbouring countries, thus, once again, emphasising the importance of ASEAN. Dr. Wirayuda's first step was to visit Singapore to conclude some major economic discussions for further bilateral co-

⁴⁹ The concentric circle, according to Smith (2000a: 17), places ASEAN as the first circle of the Indonesian foreign policy, whilst the member countries of the Non-Aligned Movement (NAM) and the West are placed as the second and the third circles of Indonesian foreign policy.

operation (Manning 2001: 2). Afterwards, President Megawati visited all nine ASEAN countries to reassure regional leaders that she could handle Indonesia's problems as well as re-establish strong relationships with other ASEAN countries. Therefore, the overall foreign policy of the Megawati administration was, and is, moderate and very much in line with that of the New Order government.

Indonesia's return to the concentric circle foreign policy formula dismissed speculation that Indonesia would abandon AFTA and other ASEAN regional economic integration initiatives. During her speech at the inaugural meeting of the ASEAN Business Advisory Council (ABAC), in Jakarta on 10th April 2003, President Megawati pointed out that much could be gained from enhanced economic co-operation in the region. Specifically, she stressed that each ASEAN country should outline their own potential and realise these potentials by teaming up with other ASEAN countries.⁵⁰ In the same speech, President Megawati also called upon other ASEAN countries to expand their market to include the member countries of the Non-Aligned Movement (NAM). Later on in the year, the Indonesian MFA also announced some adjustments made to the concentric circle formula of Indonesian foreign policy. ASEAN and the Western countries remain within the first and the third circles of Indonesian foreign policy overall. Major adjustments, however, have been made to the second circle, which indicates that Indonesia will concentrate its foreign policy on the member countries of the Pacific Island Forums (PIFs), the Southwest Pacific Dialogue, and the Tripartite Consultation between Indonesia, Australia, and Timor Leste, and the three close economic partners of

⁵⁰ As reported by *the Business ASEAN Newsletter* (2003: 6), or visit its online version at: http://www.aseansec.org/viewpdf.asp?file=/pdf/ba_jun03.pdf

Indonesia, which include Japan, China, and South Korea.⁵¹ The adjustments made to the concentric formula indicate Megawati's realisation of the growing need to strengthen regional economic co-operation with the countries of the Southwest Pacific and Northeast Asia. In this way Indonesian FEP is decided according to the overall foreign policy of the country.

In order to fulfil her overall FEP objectives, President Megawati appointed a number of economic experts in her cabinet. The appointments of Prof. D. Kundjorojakti as the Co-ordinating Economic Minister and Dr. Boediono as the Minister of Finance were central to the process of economic recovery due to their impeccable credentials in the international arena. Their international reputations will be useful in helping to reactivate the suspended IMF / World Bank loans of US\$ 400 million, which were suspended during the Wahid administration. Equally important for political stability in the country was the appointment of Dr. H. Haz as the Vice-President and the well-respected S. B. Yudhoyono as the Minister of Political and Security Affairs. The appointment of these two individuals will limit possible political manoeuvring from both Islamic political groups and the military.⁵² In sum, Megawati achieved a 'balance between political representation and professional expertise [within] the new cabinet' (Manning 2001: 2). The economic and political team within Megawati's cabinet has been a positive sign for economic recovery. To date, although economic growth has been lower than in 2000 and 2001 (refer to table 5.2. and table 5.3.), the economy is expected to grow at a moderate level in subsequent years.

⁵¹ As reported by the official website of the Indonesian Ministry of Foreign Affairs (2003) at: <http://www.deplu.go.id/2003/detail.php?doc=ef35e4a199b18665f3361e5bd3b7d173>

⁵² Dr. Hamzah Haz is from the PPP whilst Susilo B. Yudhoyono is from a military faction.

Table 5.3.
Indonesian economic indicators during Megawati's Presidency

Item	2001	2002	2003*
GDP growth	3.3	3.0	3.6
Gross domestic investment / GDP	17.0	17.0	17.0
Gross domestic savings / GDP	25.5	23.0	21.0
Inflation rate (consumer price index)	11.5	13.1	7.7
Money supply (M2) growth	17.5	18	18
Fiscal balance GDP **	-2.3	-2.5	-0.5
Merchandise export growth	-9.8	10.5	8.0
Merchandise import growth	-12.2	10	10
Current account balance / GDP	3.1	1.5	0.7

Note: * Expected
 ** For 1999, the ratio of the fiscal balance relates to 1st April – 31st March.
 For 2000, the ratio is estimated on an annual basis for 1st April – 31st December. Thereafter, the ratio refers to calendar year data.

Sources: Asian Development Bank (ADB) (2002).

Although the foreign press has often described Megawati's cabinet as the *dream team* (Sadli 2003: 185), the economy of Indonesia has remained unstable. As was the case with President Wahid, the market reacted positively when the news of Megawati's Presidency was broadcast. At the time, the rupiah was impressively strengthened at around Rp. 8,500 to the US dollar from around Rp. 11,500 during the last days of President Wahid's office. However, the rupiah weakened again by the end of 2002 at around Rp. 8,940 against the US dollar, and only appreciated again by the beginning of 2003 to Rp. 8,210 (Economist Intelligence Unit 2003: 10). Meanwhile, Indonesia also experienced major problems with foreign investments. Although investments improved in the second and third quarters of 2002, they remained about 20 percent below the pre-crisis level (Waslin 2003: 10). In a press release issued in February 2003, the BKPM Chairman, T. Teomion, made a statement about the current investment performance of

Indonesia, and added that the approved foreign and domestic investment levels for the year 2003 will be the lowest since the economic crisis began in 1997.⁵³

The main obstacles to investment in Indonesia were international as much as domestic. At the international level, aggressive US foreign policy towards Afghanistan and Iraq has had a damaging effect on the Indonesian economy. These two events stimulated threats and demonstrations against the US and its allies in Indonesia (Anwar 2003: 75). At the domestic level, issues such as regional security, law enforcement, labour market problems, the overlapping responsibilities of central and provincial government, regulatory burdens, and distortions in the tax system remain major problems to be confronted by potential investors in Indonesia (Bappenas 2003).⁵⁴ In response to gloomy international economic conditions and domestic economic uncertainty, the Megawati administration declared the year 2003 as *Indonesian Investment Year*. During the launching of the programme in early 2003, President Megawati promised that her administration would create a favourable climate for investment and would continue to introduce reforms in various sectors, particularly the fiscal and economic sectors (Sulistiyowati 2003). This programme was hoped to trigger more conducive conditions for the recovery of the national economy. Amongst other issues, improvements in the year 2003 and subsequent years will include a revision of the investment laws, tightened security, as well as an attempt to co-ordinate the regulations of the central and provincial governments.

⁵³ For further details regarding the BKPM Chairman's report on Indonesian investment performance visit the BKPM (2003) official website at:

http://www.bkpm.go.id/bkpm/pubs.php?mode=read&info_id=133

⁵⁴ As quoted in Waslin (2003: 10).

In sum, the collapse of the Indonesian economy in 1997 brought significant changes in the way that nationalism and FEP were integrated by the state. The conventional approach of implementing economic nationalism was no longer applicable. Faced with an ever-increasing dependency on various international financial institutions and other foreign donors, all the post-economic crisis Indonesian governments were forced to follow stringent measures to secure loans from these international institutions. The agreements made between these Indonesian governments and the IMF through the signing of LoI, in particular, have been particularly demanding. However, there have also been debates amongst the Indonesian political elite as to whether Indonesia should continue its relationship with the IMF, which officially expired at the end of 2003 (Economist Intelligence Unit 2003: 22). On the one hand, the Indonesian political elite is concerned that the Indonesian government will continue to lose its sovereignty by following IMF measures. On the other hand, the presence of the IMF has, indeed, improved the macroeconomic condition of Indonesia. Although the final outcomes have yet to be seen, the Indonesian public has shown growing dissatisfaction towards the IMF's stringent conditions. As regards Indonesian FEP in ASEAN, the shift of leadership from Wahid to Megawati allowed Indonesia to return to its more traditional focus on its immediate neighbours. As a result, Indonesia remains committed to the progress of ASEAN economic regionalism, particularly AFTA. After all, it has always been in the interests of Indonesia to put ASEAN at the cornerstone of its overall foreign policy.

5.4. Conclusion

This chapter has dealt with two fundamental issues, namely Indonesian nationalism and FEP. It is clear that, from crisis to crisis, and from government to government, nationalism has played and still plays a major role in shaping Indonesian FEP. The first section of the chapter provided a detailed analysis of Indonesian nationalism and FEP during the post-independence period. This historical analysis is crucial because it allows for greater understanding of policy-makers' attitudes when making certain political decisions (Weinstein 1976: 362). During the Sukarno administration, in particular, nationalist doctrine was the major determinant of Indonesia's hostile FEP. The large-scale expropriation of Dutch and ethnic Chinese capital was conducted to promote indigenous capitalists. The demise of the Old Order government led to an economic deterioration that forced the country to seek assistance from various international financial institutions. The subsequent Indonesian government, led by Suharto, did not use economic nationalism until the increase in oil prices in 1974. Another economic adjustment was needed after the sudden collapse of the oil price in 1985. In response, the New Order government reacted wisely by allowing trade liberalisation to take place, which helped to create an economic boom afterwards. In the early 1990s, Indonesia once again had a more active FEP. International relations were diversified and economic co-operation at the regional level was strengthened.

The sudden emergence of the economic crisis in 1997 brought significant changes to the Indonesian government's FEP. Indonesia was once again forced to seek assistance

from both the IMF and the World Bank. Fear of reawakened economic nationalism grew. However, despite their nationalistic ideals, Indonesian policy-makers were no longer able to impose protectionist measures due to the IMF's stiff conditions for economic recovery, which demanded the removal of trade and investment barriers (Feridhanustyawan 2003: 236). At the regional level, Indonesia's relations with its immediate neighbours were at a low point. The economic crisis stimulated debate on the future relevance of ASEAN (Tay and Estanislao 2000). During the Habibie administration, Indonesian policy-makers were frustrated by the lack of assistance provided by the Association during the crisis. As a result, friction emerged between Indonesia and its immediate neighbours, particularly Singapore. Indonesia's relations with its neighbours improved following the change of leadership from Habibie to Wahid. However, questions arose as to whether President Wahid's ecumenical foreign policy would undermine the existence of ASEAN and attempts for regional economic integration. It was only during the Megawati administration that Indonesia returned to its concentric circle formula, which redirected Indonesian FEP towards the member countries of ASEAN.

Chapter 6: Indonesia in the ASEAN Free Trade Area (AFTA)

6.1. Introduction

The ASEAN Free trade Area / Agreement (AFTA) is an agreement to liberalise trade amongst the member countries of ASEAN. This agreement was initiated in 1992 and was first implemented in January 2002. Specifically, AFTA has the objective ‘to increase the international competitiveness of ASEAN industries and [to make] the ASEAN region an investment location’ (Tongzon 2002: 182). In the early 1990s, the Southeast Asian region saw significant changes as a result of global political and economic conditions. These new situations resulted in alterations in the way in which ASEAN conducted its economic co-operation. There were also calls to use the term *economic integration* in the region from economists from both within and outside the region during this period (Chirativat *et al.* 1999: 30). The major catalyst for such calls was the demise of the Cold War, which resulted in an increase in the formation of regional groupings throughout the world. Significant moves towards regional economic integration were strengthened not only within ASEAN, through the creation of AFTA, but also in terms of the Association’s external relations, with the most significant move being the creation of the Asia-Pacific Economic Co-operation (APEC) and possible economic integration with the Northeast Asian countries of Japan, China, and South Korea through ASEAN Plus Three (APT).

The main objective of this chapter is to provide a detailed analysis of AFTA. The primary focus of the chapter is the evolutionary process and the current development of AFTA as well as Indonesians' initial perspectives towards the creation of this regional trade scheme. This chapter is divided into six main sections. Section 6.2 analyses the historical background to AFTA. More comprehensively, this section explores the rationales that drove ASEAN leaders to promote enhanced economic integration in the region. In addition, this section will also provide an analysis of some of the basic mechanisms that have been used in the implementation of AFTA. Section 6.3 and section 6.4 analyse the prospects and challenges that confront the implementation of AFTA and other economic co-operation initiatives beyond this agreement. Issues such as the regional economic crisis, membership expansion, and the incorporation of the three Northeast Asian countries, Japan, China, and South Korea, into the ASEAN framework (i.e. APT) are some of the major challenges that ASEAN will face in the future. Meanwhile, section 6.5 provides an analysis of the Indonesian political elite's perceptions of the creation of AFTA in the past. Finally, section 6.6. presents a conclusion and highlights some of the main findings of this analysis of AFTA.

6.2. The history of AFTA

AFTA was first proposed at the Eighteenth ASEAN Economic Ministerial Meeting (AEM), which took place in the Philippines on the 28th – 30th August 1986. At that time, the Filipino delegation proposed a reduction in tariffs as well as the imposition of common external tariffs (CET), which were intended to drive ASEAN into forming a

Custom Union. Indonesia and Singapore, however, rejected this idea for two contrasting reasons (Bowles 1997: 222). On the one hand, Indonesia was not very keen on either the idea of imposing a deadline to phase out tariffs, nor CET. Singapore, on the other hand, rejected the idea on the grounds that it did not wish to impose CET in its already tariff-free international trade. It was only at the Twenty-Second AEM in 1990, in Bali, Indonesia, that ASEAN Economic Ministers agreed upon the application of a Common Effective Preferential Tariff (CEPT) scheme on selected industrial items, such as fertiliser, pulp, and cement. By November 1990, the first Interim Technical Working Group (ITWG) meeting was held in Jakarta to further discuss the idea of AFTA. A year later, Thailand proposed the formation of AFTA during the ASEAN Senior Official Meeting (SEOM) in Kuala Lumpur.

There were two main motives that propelled ASEAN leaders to the pursuit of a trade liberalisation strategy. These were: first, the changes in the international political economy during the late 1980s and the early 1990s and ASEAN's desire to maintain its position as an important organisation in light of these changes; and second, the rise in the influence of economic actors' interests throughout the ASEAN region and their predisposition towards regional trade measures (Bowles and Maclean 1996: 327). To begin with, it was substantial change in the international arena that acted as the catalyst in making AFTA a reality in ASEAN. Some of the most important international political-economic changes that occurred during the 1980s were the appreciation of the Japanese Yen, the economic rise of China and the new emerging markets of the former Soviet bloc. The appreciation of the Japanese Yen began since the signing of the Plaza Accord

in 1985, which led to substantial increases in Japanese investment in Southeast Asia. Japanese firms supported the idea of a free trade area in the Southeast Asian region due to possible cost minimisations in the production process and capital movement across the region (Webber 2001: 349). Meanwhile, the rise of the Chinese economy and the newly independent states of the former Soviet Union in the early 1990s also posed a threat to the overall competitiveness of the Southeast Asian states (Yew 2000: 382; Lim 2001: 191-2). It is for these reasons that ASEAN countries agreed to establish AFTA in 1992.

Other contributing factors that led to AFTA were the rise of new trading arrangements in North America and the strengthening of regional economic integration in Western European countries (Means 1995: 149-53). Southeast Asian countries were concerned about the possible trade-diversion effects that these regional groupings would pose towards the economies of Southeast Asia. A study conducted by Michigan State University, for example, estimated that the formation of the North American Free Trade Agreement (NAFTA) would produce a trade-diversion effect of about US\$ 484 million, which would account for about 4 percent of ASEAN's total exports to North America. The trade-diversion effect would likely reach 8 to 12 percent of Southeast Asian exports in food, chemicals, textiles, metals, and electronics sectors.¹ To address this threat, ASEAN countries devised with three possible solutions. The first was that each individual country should support the GATT system and the completion of the Uruguay Round. The second was to enhance regional economic integration, whilst the third

¹ As quoted in Means (1995: 149). However, Means also notes that analysts came to rather diverse conclusions about the impacts of NAFTA on Southeast Asian exports. A Canadian study, for instance, forecast that the trade-diversion effects would be less than 0.5 percent of all East Asian exports to the US. A similar study conducted by the East-West Centre in Honolulu also claimed that the trade-diversion effect would affect less than 1 percent of ASEAN's total exports, which may vary for individual countries.

possible solution was to take initiatives to enhance economic co-operation with the North American and European integration mechanisms. Over time, it was clear that the third option was more feasible for ASEAN since member countries had longed for greater economic co-operation in the region, and had been unable to conduct such measures in the past for various political reasons.

Economic actors also played an important role in pushing the formation of AFTA. The role of the ASEAN Chambers of Commerce and Industry (ASEAN-CCI) was particularly crucial in influencing the governments of Southeast Asia to create AFTA (Bowles 1997: 221). Following the surge of trade liberalisation in the mid-1980s, ASEAN economic actors began to realise the increasing diversification of the production structure and complementarity of ASEAN economies, which were a result of the growing activities of transnational corporations (TNCs) and the strengthening industrialisation process within most ASEAN countries (Tongzon 2002: 182). More importantly, however, ASEAN economic actors were worried about the aforementioned threats that might jeopardise the competitiveness of the Southeast Asian economies. In Malaysia, for example, economic actors were concerned about China and its capacity to alter both the strategic balance and the economic growth patterns of Southeast Asia (Means 1995: 163). Economic actors in both Singapore and Indonesia, on the other hand, worried about the future trade-diversion effects from NAFTA and the EU. Indonesian economic actors, in particular, feared that the creation of NAFTA would bring about major changes to the general system of preferences (GSP), which would affect Indonesia's exports to North American markets (Means 1995: 168). It is for these reasons that ASEAN economic

actors pushed the ASEAN member governments, through the ASEAN-CCI, to create AFTA.

In addition, AFTA was also created to replace or to complement the previous economic co-operation initiatives that were conducted by ASEAN, particularly the ASEAN Preferential Trading Arrangement (ASEAN-PTA), ASEAN Industrial Project (AIP), ASEAN Industrial Complementation (AIC), and the ASEAN Industrial Joint Ventures (AIJV) schemes.² Apart from a lack of economic complementarity, the failure of these schemes was due primarily to divergent national interests as well as the high levels of bureaucracy in ASEAN member countries. The ASEAN-PTA, for example, was a failure because it was effectively negated by a vast exclusion list (Lim 2001: 185). Although the number of items set in the inclusion list had expanded to 18,907 by 1986, the scheme was unable to significantly increase intra-regional trade. In fact, Chng's (1985: 33) examination proves that the trade flows of 1981 that covered some 9,000 preferences only accounted for about 10 percent of total ASEAN intra-trade.

The problem of divergent national interests was particularly clear in the case of both the AIP and AIC schemes (Suriyamongkol 1988: 118; Lim 2001: 189). The allocation of projects under the AIP initiative, for example, generated conflict amongst

² Initial discussions regarding the implementation of economic co-operation initiatives in ASEAN began at the Fourth AMM in 1971. As mentioned in Chapter 5, it was General Romulo, the President of the Philippines, who initiated closer economic co-operation amongst ASEAN member countries. General Romulo's view was later supported through an ASEAN-United Nations Development Programme (UNDP) project that involved 41 international experts assisting ASEAN to conduct closer economic co-operation. This two year long project finally resulted in the *Kansu Report*, which became the major backbone for ASEAN co-operation in industrial development, agriculture and forestry, transport, finance, monetary, and insurance services. The *Kansu Report* also suggested that the creation of a Common Market was overly optimistic, and that member states of ASEAN should foster its infant industries through the use of ISI policies (Soesastro 2000: 204).

member countries. This was particularly evident in the allocation of the Diesel Engine Project in Singapore, which later drew criticism from Indonesia who was also trying to develop a similar line of production (Anwar 1994: 76).³ On the whole, therefore, there was a lack of compatibility in production facilities in all ASEAN member countries (Rao 1996). Furthermore, the AIC scheme also encountered similar problems because 'most ASEAN members have their own domestic automotive industries in collaboration with [various] multinational corporations' (Lim 2001: 189).⁴ Meanwhile, the implementation of the AIJV was not supported by a strong enough bureaucratic process at both the national and regional levels (Narongchai 1992). The process of approval, for example, sometimes took up to one year or more, which made the scheme appear unattractive. In Indonesia alone, the business community was not particularly interested in ASEAN projects, although this can be explained by the fact that ASEAN governments themselves were reluctant to disseminate proper information to the business communities in the region (Pangestu *et al.* 1992: 335). To date, however, only the ASEAN-PTA and the AIJV schemes are complimented by the CEPT scheme. Those products covered under the ASEAN-PTA scheme may be transferred to the CEPT scheme⁵, whilst products

³ The conflict between Indonesia and Singapore resulted in the latter's insistence on having only a 1 percent stake in Indonesia's Urea Project. Another dispute also prevailed between Indonesia and the Philippines over the production of superphosphate. To date, only the Urea projects in Indonesia and Malaysia have continued, which is largely due to the fact that the allocated plants in both countries were commercial long before the AIP scheme was initiated.

⁴ Due to such problems, the AIC scheme was later replaced with the Brand-to-Brand Complementation (BBC) scheme, which allowed ASEAN member countries to provide incentives for automotive multinationals to relocate their production to lower cost countries within the Association. To date, the BBC scheme remains the most successful amongst all ASEAN's economic co-operation initiatives prior to AFTA.

⁵ However, it is important to note that concessions under the CEPT scheme should not be less favourable to the PTA concessions, which existed as of 31st December 1992. Moreover, all products covered under the ASEAN-PTA scheme, but are not transferred to the CEPT scheme, will continue to enjoy the existing Margin of Preference (MOP), or the ASEAN-PTA's main mechanism, as of 31st December 1992.

covered by the latter may be allowed to slide in accordance to the benefits of the AIJV scheme (ASEAN Secretariat 1993).

In light of these new international challenges, the heads of ASEAN states finally agreed on the establishment of AFTA during the Fourth ASEAN Summit in Singapore in 1992, with the main objective of increasing 'ASEAN's competitive edge as a production base geared for the world market' (ASEAN Secretariat 1993: 1). In order to implement AFTA, the ASEAN Economic Ministers also agreed on the CEPT as the main mechanism in which intra-regional tariffs and non-tariff barriers would be removed within a fifteen-year period. In 1993, member countries agreed upon the moderation of the CEPT scheme whereby all manufactured goods would reach tariffs of between 0-5 percent by 2008.⁶ However, due to deepening economic challenges, ASEAN countries also agreed to reduce the target date for the realisation of AFTA by five years, from 2008 to 2003, during the Twenty-Seventh AEM meeting in Chiang Mai.

The CEPT scheme is composed of four main product categories, which include the *inclusion list* (IL), *temporary exclusion list* (TEL), *sensitive list* (SL), and *general exception list* (GEL), all of which fall within either the Fast Track Programme or the Normal Track Programme of tariffs reduction. Under the Fast Track Programme it was agreed that all products with tariff rates above 20 percent would be reduced to 0-5

⁶ Apart from all manufactured goods, CEPT also covers capital goods and processed agricultural products. The CEPT, however, does not cover unprocessed agricultural products, including agricultural raw materials and all agricultural products that involve minimal change from original products. Further details on the implementation of AFTA and the CEPT scheme can be obtained from the *AFTA Reader*, published by the ASEAN Secretariat (1993).

percent level within ten years (January 2003)⁷ whilst those with tariff rates of 20 percent or below would be reduced within a period of seven years (January 2000) to 0-5 percent level. Under the Normal Track Programme, on the other hand, items with tariff rates above 20 percent can be cut in two ways. Firstly, the tariff rates of these products can be reduced to 20 percent in five to eight years, and, secondly, the tariff rates are reduced to 0-5 percent in seven years. Finally, those goods with tariff levels of 20 percent or below are reduced to 0-5 percent within ten years. It is hoped that, eventually, the average tariff rates attached to inclusive products will reach 2.68 percent (refer to table 6.1. below).

Table 6.1.
Average AFTA / CEPT Tariff Rates

	1998	1999	2000	2001	2002	2003
Brunei	1.35	1.29	1.0	0.97	0.94	0.87
Indonesia	7.04	5.85	4.97	4.63	4.20	3.71
Laos	5.0	5.0	5.0	5.0	5.0	5.0
Malaysia	3.58	3.17	2.73	2.54	2.38	2.06
Myanmar	4.47	4.45	4.38	3.32	3.31	3.19
Philippines	7.96	7.0	5.59	5.07	4.80	3.75
Singapore	0.0	0.0	0.0	0.0	0.0	0.0
Thailand	10.56	9.75	7.40	7.36	6.07	4.64
Vietnam	6.06	3.78	3.30	2.90	2.89	2.02
ASEAN	5.37	4.77	3.87	3.65	3.25	2.68

Source: ASEAN Secretariat official website (accessed 2003) at:
<http://www.aseansec.org/13100.htm>

The *inclusion list* category is largely composed of products that are undergoing immediate liberalisation under the CEPT programme, and should be included in the Fast Track Programme tariff-reduction measure. Meanwhile, the *temporary exclusion* category is composed of products that were protected for a short-term period and then transferred into the *inclusion list* by January 1996 in order to reach the tariff level of 0-5

⁷ This, however, varies for new ASEAN members whereby Vietnam would have to comply with this agreement by 2006, Laos and Myanmar by 2008, and Cambodia by 2010.

percent. The *sensitive list*, on the other hand, is made specifically to reduce tariff rates for agricultural products as well as other non-tariff barriers. The sensitive list exists because ASEAN economies are composed mainly of agricultural producers and consumers. Therefore, some ASEAN countries, such as Indonesia and Thailand, may wish to postpone trade liberalisation for their agricultural products. Lastly, the *general exception list* category involves all products that are excluded from the trade liberalisation programme for national security reasons. Unlike its predecessor, Margin of Preferences (MOP), that only covered about 19,000 items, before February 2000, the CEPT had covered about 53,026 items, or about 82.5 percent of total ASEAN trade. At present, the six major ASEAN countries have submitted 42,939 items on to the inclusion list out of a total of 43,636 items (refer to table 6.2. below).

Table 6.2.
CEPT Product List for the Year 2000, ASEAN 10

Country	Inclusion List-	Temporary Exclusion List	General Exclusion List	Sensitive List	Total
Brunei	6,276	-	202	14	6,492
Indonesia	7,158	21	69	4	7,252
Malaysia	9,092	-	63	73	9,228
Philippines	5,571	35	27	62	5,695
Singapore	5,739	-	120	-	5,859
Thailand	9,103	-	-	7	9,110
Cambodia	3,114	3,523	134	50	6,821
Laos	1,247	2,126	90	88	3,551
Myanmar	2,356	2,987	108	21	5,472
Vietnam	3,573	984	219	51	4,827
ASEAN Total	53,229	9,676	1,032	370	64,307

Source: ASEAN Secretariat official website (accessed 2003) at:
<http://www.aseansec.org/13100.htm>

Since the implementation of AFTA on 1st January 1993, there have been significant initiatives to improve the level of economic co-operation amongst ASEAN

countries. One of these additional measures has been the introduction of the ASEAN Industrial Co-operation (AICO) scheme and ASEAN Investment Area (AIA), which was introduced during the Fifth ASEAN Summit in Bangkok on 15th December 1995. Both schemes were expected to complement the progress of AFTA. The establishment of AICO was primarily to replace the unsuccessful BBC and AIJV schemes, and the objective of the new scheme was to promote investment from technology-based industries (Lim 2001: 190). The AICO scheme is essentially open to all ASEAN companies with two main requirements. First, the co-operation should be incorporated and operated in ASEAN countries. Second, the ASEAN nationals involved in the co-operation should own at least 30 percent of the equity.⁸ Third, resource sharing, such as technology and market sharing, has to take place between the involved parties. The scheme is based on the earlier established CEPT programme, particularly with regard to the *rules of origin*, which requires a minimum of 40 percent ASEAN content. The AICO scheme became effective on 1st January 1996, whilst ASEAN's newest members, Laos and Myanmar, agreed to join the scheme in 1997. The Fifth ASEAN Summit also endorsed an important AIA document with the objective of enhancing greater investment in the region. Under the AIA agreement, ASEAN countries agreed to commit themselves to lower tariff barriers in line with the AFTA scheme, an improved liberalisation of various strict regulations, and to making an effort to provide the necessary incentives for foreign investors coming into the region.

⁸ This requirement, however, may be waived under certain circumstances. Consultation between the involved parties is normally carried out to settle such differences.

6.3. Prospects and challenges for AFTA

There have been many scholarly analyses on the challenges and the future prospects of AFTA since its implementation in 1993. Proponents of AFTA primarily argue that the deepening of regional economic integration in the region will ‘help to attract foreign investment and ... strengthen Southeast Asia’s global trading position’ (Petri 1997: 191). Such an analysis draws largely upon the insistence that AFTA is not an isolationist policy enforced by ASEAN member countries to create a trading bloc, as some have previously suggested. In addition, Chirathivat (1999: 31) maintains that AFTA will enable member countries to extend and to combine their natural resources, thereby limiting national barriers. Equally important is the fact that the formation of AFTA can help the Association prepare itself for further regional and global trade liberalisation programmes. This, in turn, will help member states to realise the necessity of having ASEAN, in that it helps them to address and solve various regional issues and problems. Moreover, AFTA was deemed crucial in increasing ASEAN’s global competitiveness. In Soesastro’s (2000: 24) analysis, for example, ASEAN represents more than AFTA and the objectives of free trade are not merely to increase intra-regional trade or to support regional import substitution schemes. AFTA is only a stepping-stone, which enables the Association to achieve a necessary competitive edge in the global economy. This is why ASEAN continues to expand its economic co-operation framework, which can be seen in the concept of *AFTA Plus*. The AFTA Plus concept involves mainly the expansion of agreements made within the AFTA framework. To date, such expansion includes the formation of various measures to reduce tariff and non-

tariff barriers for products that are not covered by the original CEPT agreement, which can be seen in the aforementioned enhanced economic co-operation initiatives, such as in service, intellectual property, AICO, AIA, custom harmonisation, etc. Therefore, according to such an analysis, AFTA is a necessary stepping-stone towards greater economic co-operation in the region and to prepare ASEAN for further global multilateralism.

Table 6.3.
ASEAN-6 Exports 1999-2001 *

	Intra ASEAN Trade			Extra ASEAN Trade			Total Exports		
	1999	2000	2001	1999	2000	2001	1999	2000	2001
BD**	375	634	775	1,965	1,529	2,775	2,340	2,163	3550
Ind	8,278	10,883	9,507	40,387	51,240	46,810	48,665	62,123	56,317
Mal	21,885	24,408	21,024	62,402	73,745	67,007	84,287	98,153	88,031
Phi	4,989	5,982	4,986	30,047	32,095	27,164	35,036	38,077	32,150
Sin	29,369	37,783	32,815	85,355	100,668	88,871	114,724	138,451	121,686
Tha	9,901	15,099	14,356	46,208	54,154	50,761	56,109	69,253	65,117

Note: * Value in thousand US\$

** Brunei Darussalam

Source: ASEAN Secretariat official website (accessed 2002) at:

<http://202.154.12.3/trade/publicview.asp>

There are also many critics of AFTA. Some of the important critics are Imada *et al.* (1991), who have pointed out the prevailing heterogeneous nature of ASEAN economies. It is hypothesised that such an economic condition will result in economic competitiveness rather than complementarity, which is an inadequate measurement for any regional economic integration scheme. Although tariff levels in ASEAN countries are relatively low by comparison to other developing countries, the region is only able to generate roughly a 20 percent intra-trade level, most of which is owing to its bilateral

economic relationship with Singapore.⁹ On the positive side, however, the competitive nature of ASEAN economies also means that it is very unlikely that ASEAN will generate a trade diversion effect to third countries. Table 6.3 demonstrates ASEAN exports within and beyond the region.¹⁰ Other scholars, such as Denoon and Colbert (1998: 516), have also concentrated on the issue of the trade-creation and trade-diversion effects of AFTA and the relative size of the ASEAN economies. Owing to the small size of the ASEAN market, the level of trade-creation and trade-diversion effects will also be small in this region. Therefore, ASEAN will benefit more if the Association remains in a larger economic co-operation scheme, such as APEC. Another critic of AFTA is Pangestu *et al.* (1992), who are concerned with the scheme's ability to provide a larger market in the region through intra-trade and investments. These scholars argue that AFTA will remain a matter of mere political rhetoric despite member countries' agreement on the realisation of AFTA by specified dates. The long process of negotiations on the products included will remain the most significant problem during AFTA's implementation phase. Another major problem is the excessive number of items included in the exclusion category, which further undermines the effectiveness of AFTA's progress.

After over a decade since AFTA was first initiated, ASEAN remains committed to its regional economic liberalisation programmes. Nevertheless, there have been substantial challenges facing the Association during the phase of tariff liberalisation,

⁹ According to Imada *et al.* (1991: 4), for example, in the absence of Singapore, the total of intra-ASEAN trade only amounted to 5 percent. However, Plummer (1997: 206) also adds that it is difficult for a regional grouping to meet the normal determinant of a 50 percent intra-trade level. To date, it is only the EU that has exceeded that mark, although this level was reached through 40 years of co-operation. Even the US led economic integration, NAFTA, has only been able to achieve a 33 percent intra-trade level.

¹⁰ See also Appendix 6 for details concerning ASEAN's 5 major trading partners as of 2001.

which include the issue of membership expansion, the regional economic crisis, and the expansion of ASEAN economic regionalism within the framework of APT. The first important challenge was the entrance of new members into the Association. There has been great concern over the entrance of ASEAN's four new members, particularly with regard to politics and security (Takeshi 1999). More specifically, there is fear about the impact of the inclusion of new members into the ASEAN trade liberalisation process under the AFTA scheme. One problem is that the admittance of Vietnam, Laos, Myanmar and Cambodia into ASEAN might sabotage the Association's earlier efforts to achieve meaningful integration (Bello 1997). Enlargement might jeopardise the already established development of AFTA since it is largely driven by political factors. Another problem is that the process of enlargement means that the Association will have to adopt measures and schemes that are acceptable for the new members (Akrasanee 2000). The new members are quite fortunate in that the AFTA schedule remains flexible. However, their entrance into the Association could also be detrimental to ASEAN since AFTA will have to be modified to suit the interests of the new members. On the other hand, in his comparative study of the EU's and ASEAN's enlargement processes, Pomfret (1998: 8) concludes that the entrance of new members into the Association will be generally beneficial for the Association, apart from some minor discussion regarding the new member countries' lack of experience in dealing in the WTO type tariff reduction measures. At the same time, internal trade disputes between the old and the new members will be minimal since the issue of intra-trade remains an issue of only minor importance for ASEAN. One major benefit that the enlargement will bring is the enhancement of ASEAN's international bargaining position in international fora.

The second issue that challenges the progress of AFTA is the regional economic crisis of 1997. The economic crisis is particularly important especially where ASEAN's post-crisis role is concerned (Tay and Estanislao 2000). ASEAN's performance in alleviating the economic crisis has been limited, if not poor, and few measures to deal with the crisis have been implemented. In his analysis of the theoretical and empirical implications of the economic crisis on the Southeast Asian regionalisation process, Ruland (2000: 428) argues that the 'emerging symptoms of crisis were regarded as purely national problems'. His analysis primarily stems from the fact that prior to the economic crisis much of ASEAN's policy mix was closer to a realist standpoint than to an institutionalist pole of a realism / institutionalism continuum. Since ASEAN's inception, efforts to conduct economic co-operation have been largely driven by political factors. This has been the primary reason behind the Association's poor performance in implementing the necessary measures to handle the economic crisis. The impact of the economic crisis on the progress of regionalism in Southeast Asia has been significant. In mainland Southeast Asia, for instance, Ruland (2000: 437) believes that the economic crisis will jeopardise various sub-regional mechanisms, such as BIMP-EAGA, IMS-GT, IMT-GT, SIJORI, etc, due to a lack of investment, aside from the fact that co-ordination of these projects has been largely absent. A similar argument has also been posed by Webber (2001: 365), whose analysis of ASEAN and APEC during the economic crisis, postulates that although 'there will be no 'funeral' for ASEAN or APEC, there is a high risk that the two organisations will remain to a greater or lesser extent incapacitated'. With regard to ASEAN, Webber holds that the crisis has led to the loss of Indonesia as

ASEAN's natural leader, whilst, at the same time, ASEAN's efforts at collective action to manage the crisis have been overshadowed by the relatively low economic development of ASEAN member countries.

ASEAN has indeed been rather slow in taking measures to alleviate the economic crisis, and it took more than six months for the Association to actually come out with any concrete measures to deal with the economic crisis. Two initial steps were the Hanoi Plan of Action (HPA) and the Statement on Bold Measures, which were finalised during the Sixth ASEAN Summit in Hanoi, on 15th - 16th December 1998.¹¹ During the Summit, ASEAN's Heads of States collectively agreed on various issues to enhance greater economic and financial co-operation in the region. Specific to the economic crisis, ASEAN leaders also agreed upon the introduction of the ASEAN Surveillance Process (ASP), as well as the enhancement of the process of ASEAN economic integration through the acceleration of AFTA's schedule. The ASP deals mainly with efforts to maintain regional macroeconomic and financial stability through the liberalisation of the financial service sector, the intensification of co-operation in money, tax and insurance matters, as well as the plan to develop an ASEAN capital market. Although the ASP might be effective in alleviating the economic crisis, it is difficult to implement owing to the conflicting political and national interests of each member country. Since its conception, it has been suggested that the scheme's survival is largely dependent upon member countries' willingness to step aside from their national political considerations and interests (Monzano 2001: 96). As an institution, it is widely acknowledged that the

¹¹ For further details on the content of the ASEAN Sixth Summit, especially on the Hanoi Plan of Action and Statement of Bold Measures, refer to the ASEAN Secretariat (1999).

‘ASEAN Secretariat [is] nothing more than a glorified post office’ (Anwar 2001b: 39), which lacks the necessary authority to implement any regional policies without prior consent from member governments. Moreover, staff members of the ASEAN Secretariat often complain about the member countries’ inability to pass on the necessary and accurate information in a timely fashion. Therefore, it is unlikely that the Secretariat could issue any warning signs to prevent a possible future economic crisis in light of the heavy bureaucracy that exists at the national level.

Meanwhile, enhanced regional economic integration was envisioned in the Statement of Bold Measures, which called for the acceleration of the AFTA schedule. Under this initiative, the six original signatories of AFTA had to agree to advance the implementation of AFTA to 2002 from the originally agreed date of 1st January 2003. Moreover, member countries were required to reach a consensus on at least 90 percent of all products included in the CEPT scheme to meet the tariff requirement of 0-5 percent by 2000, which would account for nearly 90 percent of total ASEAN trade. The logic of such a policy lies in the realisation that the region desperately needs to regain the confidence of both the business community and international investors. In line with the acceleration of AFTA’s schedule, ASEAN also reiterated its earlier intention to implement the AIA to ‘attract greater FDI into the region from both ASEAN and non-ASEAN sources. [It is also hoped that] the goal of a liberal and transparent investment environment for ASEAN investors by 2010, and all investors by 2020’ (Heinrich and Konan 2001: 143) can be achieved. Specifically, Article 4 of the Framework Agreement on the AIA sets out several guidelines for the improvement of the region’s investment

climate.¹² Firstly, ASEAN will co-ordinate its investment co-operation programme to generate investments from both ASEAN and non-ASEAN investors. Secondly, all ASEAN investors will receive *national treatment* by 2010 whilst all other investors will receive this privilege by 2020. Thirdly, member countries must also commit themselves to opening all their industries to ASEAN investors by 2010 and other investors by 2020. Fourthly, ASEAN will also allow the private sector to play a greater role in various activities related to ASEAN investment issues and any other ASEAN activities. Finally, member countries also agree to promote various measures to allow the freer flow of capital, skilled workers, and technology amongst ASEAN members.

Further attempts to improve the investment climate are also spelt out in the Statement of Bold Measures, which specifies several additional short-term measures in relation to the AIA scheme. These measures include: first, a minimum three year corporate income tax exemption or a minimum 30 percent corporate investment tax allowance; second, 100 percent foreign equity ownership; third, duty-free imports of capital goods; fourth, domestic market access; fifth, a minimum industrial land leasehold period of thirty years; sixth, employment of foreign personnel; and seventh, speedy custom clearance. At the institutional level, the AIA Council has been set up to monitor the progress of the AIA. However, it is important to note that each member country is expected to develop its own investment policy, which will nonetheless be subject to continuous review by the AIA Council every two years. As with the AFTA, member countries are expected to place their industries either on the TEL or the SL. All the

¹² For further details on the Framework Agreement on the AIA visit the ASEAN Secretariat official website (accessed 2003) at:

<http://www.aseansec.org/2280.htm>

original ASEAN-6 countries and Myanmar are expected to phase out their industries in the TEL category by 2003 whilst the remaining three members are expected to achieve this goal by 2010. Therefore, the implementation of AIA is hoped to improve the investment climate in the ASEAN region, which has deteriorated as a result of the crisis. Total ASEAN FDI has slumped from US\$ 27 million prior to the economic crisis to a mere US\$ 14.3 million in 1999 (refer to table 6.4.). To date, the progress of AIA is expected to go in line with that of AFTA. It is for this reason that ‘most members’ sensitive list will be fairly short, as the terms of AFTA provide for tariffs to be below 5 percent in most sectors by 2002’ (Freeman 2001: 85).

Table 6.4.
Foreign direct investment in ASEAN, 1990-99
(in million US\$)*

	1990	1995	1996	1997	1998	1999
Cambodia	-	150.8	293.6	204.0	121.0	125.5
Indonesia	1093.0	4346.0	6194.0	4677.0	-356.0	-2745.0
Lao PDR	4.0	95.4	160	86.0	45.0	79.0
Malaysia	2333.0	4178.2	5078.0	5136.5	2163.4	1552.9
Philippines	530.0	1478.0	1517.0	1222.0	2287.0	573.0
Singapore	5574.7	7206.4	8984.1	8085.2	5492.9	6984.3
Thailand	2444.0	2068.0	2335.9	3894.7	7315.0	6213.0
Vietnam	16.0	2349.0	2455.0	2745.0	1972.0	1609.0
Total FDI	11994.7	21871.4	27017.6	26050.4	19040.3	14391.2

Note: *Brunei and Myanmar are not included

Source: Asian Development Bank – ADB (2001a: 71)

6.4. Prospects and challenges for Southeast Asian regionalism beyond AFTA

Southeast Asian RIA, whilst facing the challenge of the regional economic crisis, is also facing the new prospect and challenge of ASEAN’s proposed expansion to include the three Northeast Asian countries, namely Japan, South Korea, and China, in the

framework of APT. The idea was initiated by the Malaysian Prime Minister, Dr. Mahathir and was developed in the early 1990s. The idea proposes greater economic integration in the East Asian region through the formation of the East Asia Economic Caucus (EAEC), 'whose memberships would exclude all the Western members of APEC including Australia, Canada, and the US' (Acharya 2002: 28).¹³ There have been many attempts to include the three Northeast Asian countries in ASEAN's regional integration discussions during meetings held under the auspices of the ASEAN-Europe Meeting (ASEM). It was expected that a strong impetus for the formation of a regional mechanism might come from the Northeast Asian countries through such an informal meeting (Soesastro 2000: 221), but this initiative failed to bring together the Southeast and Northeast Asian countries. Concrete moves towards the creation of APT began in 1997, when the three Northeast Asian countries were invited to the Second ASEAN Informal Summit in Kuala Lumpur. At that time the Foreign Ministers of the countries involved agreed to meet annually to strengthen the foundation of the APT. A year later, during the Sixth ASEAN Summit, President Kim Dae-Jung of South Korea proposed the creation of the East Asia Vision Group (EAVG), which would provide a long-term vision for East Asian regional co-operation. In addition, it was also suggested that an East Asia Study Group (EASG) should be established to conduct a feasibility study on EAVG. The Northeast Asian countries involved finally sent positive signals after their Economic and Finance Ministers met with their Southeast Asian counterparts to discuss the possibility of APT in April 1999. Initial efforts at co-operation began in 2000, following the Fourth ASEAN Finance Ministers' Meeting (AFMM), whereby ASEAN countries agreed with

¹³ The EAEC was originally known as the East Asian Economic Group (EAEG). Initially, the EAEG was developed to pool the pan-Asian sentiments towards the Western members of APEC. EAEC, however, was developed as a compromise solution placed within APEC (Öjendal 2001: 168).

their Northeast Asian counterparts to conduct financial co-operation, otherwise known as the ASEAN Swap Arrangement (ASA). This mechanism sought to prevent or to minimise the possibility of future economic crises.

After a three-year feasibility study, the EAVG's report was finally approved by the EASG and became the fundamental vision for greater co-operation in the region. There were three main areas of co-operation highlighted in the report, which included economic, financial, and institutional co-operation. In the area of economic co-operation, it was suggested that the APT should establish the East Asia Free Trade Area (EAFTA) as well as calling for the establishment of an East Asia Investment Area (EAIA) as an extension of the already established Southeast Asian AIA. Another important recommendation also included the formation of the East Asian Monetary Fund (EAMF), in line with Japan's prior suggestion to create an Asian Monetary Fund (AMF) at the onset of the regional economic crisis in 1997. For some observers within the region, the development of APT, especially during the recent economic crisis, is seen as a 'fresh infusion of political stability and economic dynamism' (Alatas 2001: 1). Moreover, Alatas also holds that enhanced regional economic integration under the APT mechanism is logical for several reasons. First, it increases economic interdependence and complementarity in the region. Second, both regions have previously signified their intentions to implement such a co-operation. Thirdly, it is a response to the challenges that globalisation poses to the East Asian region. Some examples of economic interdependence and complementarity in the region can be found in various analyses of the Japanese and Overseas Chinese network building throughout Asia (Sang-Ho 2001:

407-12). Both regions have indeed already indicated their intentions to implement greater co-operation and as far back as the 1960s, Japan proposed the idea of East Asian regional institutions, which would strengthen regional economic co-operation in the region. Throughout the 1960s there were several regional economic arrangements in the Asia-Pacific region, such as the Pacific Economic Co-operation (PEC), the Asian Development Bank (ADB), the Asian and Pacific Council (ASPAC), the UN initiative of the Economic Commission for Asia and the Far East (ECAFE), the Ministerial Conference on Economic Development in Southeast Asia (MCEDSEA), and so on. Some of these projects failed to succeed either due to internal conflicts amongst the countries involved or serious objections from the West.

There can be no doubt that the formation of APT provides a sound base for enhanced regional economic integration in the East Asian region. Aside from the highly complementary nature of the grouping, APT can also act as leverage for member countries in the international fora. However, internal conflicts amongst countries in each respective region remain a major problem for the future of APT. Some major constraints within the Northeast Asian region reflect those in the Southeast Asian region. As with the countries of Southeast Asia, the relationship amongst Northeast Asian countries has been blanketed by conflicts and the issue of excessive nationalistic interests. The deep mistrust between Northeast Asian countries, as a result of their shared histories, which is evident in the case of Sino-Japanese relations, has been a major setback to the process of regionalism (Cai 2001: 15). During much of the twentieth century, for example, Japan's colonisation of Northeast Asia left an 'indelible, brutal imprint on a generation' (Dent

2002b: 5). Another important factor worth noting is that, unlike their counterparts in Southeast Asia, regionalism has largely been absent in the history of Northeast Asian countries.¹⁴ Furthermore, it is also important to question the extent to which APT would accommodate additional new members in East Asia, such as Taiwan and North Korea. To date, Taiwan has been participating as an observer in the APT framework whilst discussions on the involvement of North Korea have been largely absent. The inclusion of these new members would present a new challenge, and may threaten the continued existence of APT. The Sino-Taiwanese relationship, for example, has recently soured by the sale of US weapons to Taiwan. Meanwhile, despite South Korea's implementation of the *Sunshine Policy*¹⁵ towards the neighbouring North Korea, it is still unclear if North Korea will guarantee reciprocity in security and other areas to its southern neighbour (Sang-Ho 2001).

In addition to the APT framework of co-operation, Japan, South Korea, and China have recently proposed a bilateral FTA with either ASEAN or each individual country within the Association. During the Eighth ASEAN Summit on 5th November 2002, in Phnom Penh, for instance, the ASEAN-China Framework Agreement on Comprehensive Economic Co-operation was signed between China and its Southeast Asian partners. The agreement, which was implemented on 1st July 2003, aims to liberalise trade on goods

¹⁴ The exception to this is the Tumen River Area Development Programme (TRADP), which is primarily concerned with large-scale transport and energy infrastructure projects (Dent 2002c: 71).

¹⁵ The Sunshine Policy was first introduced by the South Korean President, Kim Dae Jung, in order to underline the peaceful management of the the division of the Korean Peninsula. Previous South Korean governments had sought the containment of North Korea. This policy envisions greater interactions between South Korean and North Korea through the funnelling of economic assistance and diplomatic favours from South Korea to North Korea. For further information regarding the Sunshine Policy visit the *The Korean Times* (2003) official website at:

http://www.korea.net/report/kt/xcontent.asp?color=RW&cate=02&serial_no=20020524025

and services, as well as create a transparent and liberal investment regime between all parties. This ASEAN-China FTA will open up a market for nearly 1.7 billion consumers, with a combined GDP of US\$ 1.5 trillion and a two way trade level of US\$1.2 trillion.¹⁶ Prior to the signing of this agreement, both Japan and South Korea also announced their interest in negotiating bilateral FTAs with some ASEAN countries. In early 2002, for example, Japan signed a bilateral FTA with Singapore, which was implemented on 30th November 2002. The agreement is historical since it is the first time that Japan has ever agreed to conduct an FTA with other countries. The proposed scheme covers some 3,400 items and eradicates tariffs on about 94 percent of Singapore's exports into Japan. Singapore, on the other hand, has eliminated the remaining tariffs on imports from Japan, mainly on alcoholic drinks.¹⁷

In response to China's effort to form an FTA with ASEAN, Japan also attempted to push its Comprehensive Economic Partnership Programme (CEPP) with ASEAN, with elements of an FTA to be completed within ten years (ASEAN Secretariat 2003). The agreement was made at the ASEAN-Japan Summit, following the Eighth ASEAN Summit in Cambodia. The decision to implement the CEPP was based on the report of the ASEAN-Japan Closer Economic Partnership Experts Group, which was earlier commissioned by the AEM and Japan in September 2001. It is expected that the agreement will increase economic interactions between ASEAN and Japan.¹⁸ Whilst

¹⁶ For further analysis of the ASEAN-China Framework Agreement on Comprehensive Economic Co-operation, visit the ASEAN Secretariat (2002) official website at:
http://www.aseansec.org/8thsummit/8thsummit_china.htm

¹⁷ This scheme, however, does not apply to some sensitive agricultural and fisheries products, nor to petrochemical and petroleum goods.

¹⁸ For details concerning Japan's major trading partners as of 2001 see Appendix 7. The data in Appendix 7 shows that, recently, Singapore and Thailand were ranked seventh and ninth respectively amongst the top

ASEAN aims to boost its exports to Japan by US\$ 20 billion, Japan is expected to increase its exports to ASEAN countries by US\$ 20 billion (ASEAN Secretariat 2003: 3). Some areas of co-operation included in the agreement are financial services, information and communication technologies, sciences, the development of small and medium enterprises (SMEs), tourism, energy, human resources development, and transportation. Leaders from both sides share the view that the programme will facilitate greater economic ties between the two parties. Along with the already agreed Japan-Singapore's FTA, the Japanese government also intends to implement an FTA with the Philippines. To date, the free trade pact is still under negotiation between the two parties, and is expected to be concluded by 2004. In addition, in 11-12 December 2003, the Japanese government held the Japan – ASEAN Commemorative Summit in Tokyo, which made it the first ASEAN Summit ever to be held in a non-ASEAN country.

Meanwhile, as bilateral economic co-operation between ASEAN and China, and ASEAN and Japan increases, the South Korean government also announced its intention to conduct an FTA with ASEAN in September 2002. Earlier that year, the former South Korean Foreign Minister, Han Sung Joo, is reported to have claimed that the creation of an FTA pact between ASEAN and South Korea is more than likely as the agreement would boost additional foreign investments and competitiveness in the region (Fore 2002). The current South Korean Trade Minister, Hwang Doo-Yun, also added that his government was carrying out a feasibility study about implementing an FTA with all Southeast Asian countries (Maneerungsee 2002). Unlike its Northeast Asian neighbours,

ten major destinations for Japanese exports, whilst Indonesian and Malaysia were ranked fourth and eighth respectively.

China and Japan, the South Korean government is rather cautious in taking major steps to conduct an FTA with ASEAN countries. However, the South Korean government is alarmed by the current development of other free trade pacts that have been implemented between ASEAN, Japan, and China. As a result, it is very likely that an FTA between ASEAN and South Korea will be implemented soon.

Moreover, ASEAN countries are increasingly interested in conducting FTAs with non-ASEAN member countries, which has been evident in a number of initiatives towards closer economic co-operation between ASEAN and the US, India, and the Australia-New Zealand Closer Economic Relations (CER) (ASEAN Secretariat 2003). To start with, closer economic co-operation between ASEAN and the US began at the APEC Summit in Los Cobos, Mexico, on 26th October 2002. At the time, the US proposed the establishment of the Enterprise for ASEAN Initiative (EAI), 'which aims to build a network of FTAs between the US and individual ASEAN countries' (ASEAN Secretariat 2003: 6). The deal was made possible due to the close economic relations between the two parties. The US has been ASEAN's major trading partner, accounting for about 15.8 percent of ASEAN's total trade with the world in 2001 or about US\$ 108.4 billion.¹⁹ Meanwhile, US imports from ASEAN accounted for about 17 percent in 2001, although ASEAN accounts for only 5-7 percent of total US trade with the rest of the world. Moreover, the institutionalisation of the free trade agreement between the two parties was significant because it was the first time the US had ever conducted a bilateral FTA pact with any Asian country. The first stage of the agreement will involve a free trade arrangement between the US and Singapore, which will not be implemented until

¹⁹ For details concerning the US' major trading partners as of 2001 refer to Appendix 7.

2004 since the U.S. government is still drafting the agreement and has to present it to Congress. To date, according to the US Trade Representative, Robert Zoellick, there is only one major problem that has to be resolved, namely the free transfer of capital.²⁰ The deal to implement an FTA with Singapore is hoped to be a blueprint for similar bilateral economic co-operations with other Southeast Asian countries.

An important discussion between ASEAN and India also took place at the Eighth ASEAN Summit in Cambodia. This was the first ASEAN-India Summit to be held where both parties agreed to broaden and deepen the economic linkages between each other (ASEAN Secretariat 2003: 4). However, the first consultation between the Economic Ministers of ASEAN and India actually took place a month earlier in Bandar Seri Begawan, Brunei Darussalam, on 15th September 2002. Previously, the Indian government had initially announced its desire to reduce its peak tariff rates to the East Asia tariff levels within a three year period. Subsequently, a Joint Study on AFTA – India Linkages for the Enhancement of Trade and Investment was conducted, which recommended that the formation of an India-AFTA Regional Trade and Investment Area (RTIA) was feasible.²¹ One of the reasons for the creation of an India-AFTA RTIA was the increase of trade linkages between the two parties. Between 1993 until 2001, for example, two-way trade between the two parties doubled from US\$ 2.9 billion to US\$ 9.9 billion. At the moment, both parties have an ASEAN – India Economic Linkages Task Force (AIELTF), which is preparing a Framework Agreement to Enhance ASEAN –

²⁰ As reported by the Business Day official website (2002). For further details visit: www.bday.co.za/bday/content/direct/1,3523,1228609-6078-0,00.html

²¹ A report concerning the ASEAN-India Economic Linkage can be found in the ASEAN Secretariat's (2002c) press release, or visit the ASEAN Secretariat official website at: <http://www.aseansec.org/12315.htm>

India Economic Co-operation for future consideration during the ASEAN-Indian Economic Co-operation that will take place on October 2003.

A month prior to the opening of the Eighth ASEAN Summit, a Joint Ministerial Declaration on the AFTA – CER Closer Economic Partnership (CEP) was also signed in Brunei Darussalam, on 14th September 2002. This is expected to increase the two way trade between the involved countries by up to US\$ 40 billion by 2010. Moreover, it is also hoped that the CEP framework will be incorporated into the AFTA framework so that greater economic co-operation will be made possible between ASEAN countries and the CER group. Initially, the AFTA – CER linkage was developed in 1995. However, it was only at the Fifth AEM – CER Consultation in Chiang Mai, Thailand, in October 2000 that Economic Ministers from both regions agreed to the formation of the High Level Task Force to conduct a feasibility study on the formation of the AFTA – CER Free Trade Area and other relevant issues surrounding closer integration between ASEAN and CER countries.²² Subsequently, the AFTA – CER CEP Implementation and Co-ordination Group (ACCICG) identified seven areas of economic co-operation, including (1) the protection for intellectual property; (2) standards and quality assessment; (3) trade in services; (4) the implementation of the CEPT scheme; (5) the development of small and medium enterprises; (6) industrial co-operation; and (7) E-ASEAN²³ (ASEAN Secretariat 2003: 4-5).

²² As reported in the ASEAN Secretariat (2000b) official website at:
<http://www.aseansec.org/14005.htm>

²³ E-ASEAN is an attempt 'link up ASEAN members by internet and electronic means so ASEAN becomes one cyberspace' (Tay and Estanislao 2000: 19).

Apart from those developments, ASEAN countries are also attempting to strengthen their own regional integration. On 8th October 2003, in Bali, for example, ASEAN member countries agreed to expand ASEAN co-operation by establishing an ASEAN Community (AC) by 2020. The Declaration of ASEAN Concord II will reinforce three elements of co-operation, namely political and security co-operation, economic co-operation, and socio-cultural co-operation, which were all included in the 1976 Declaration of ASEAN Concord I.²⁴ ASEAN's main objective in forming an AC was to ensure lasting peace, stability, and prosperity in the Southeast Asian region. Moreover, ASEAN leaders also agreed to form the ASEAN Security Community (ASC), the ASEAN Economic Community (AEC), and the ASEAN Socio-Cultural Community (ASCC) as frameworks to help achieve the objective of a dynamic, cohesive, resilient, and integrated ASEAN Community. A spokesman from the ASEAN Secretariat declared that ASEAN has subscribed to the notion of democratic peace whereby member countries rely on democratic peace to promote regional peace and stability.²⁵ Despite this, ASEAN Secretariat officials and regional leaders refused to admit that the AC would lead to the creation of a military bloc or a political union. The Head of External Relations of the ASEAN Secretariat, Sundram Pushpanathan, for example, assured that an AC would not become a *Fortress of ASEAN*.²⁶ Similarly, the Prime Minister of Malaysia, Dr. Mahathir, also confirmed that the AC would never become an ASEAN Union.²⁷ However, given the slow progress of ASEAN in the past, the Indonesian President, Megawati, stated that

²⁴ Details of the Declaration of ASEAN Concord II are available at the ASEAN Secretariat official website (accessed 2004) at:

<http://www.aseansec.org/15159.htm>

²⁵ As quoted in Luard (2003).

²⁶ As quoted in Parameswaran (2003).

²⁷ As quoted by the Jakarta Post (2003) or visit the Jakarta Post official website at:

<http://www.thejakartapost.com/detailweekly.asp?fileid=20031008.@01>

the signing of the Declaration of ASEAN Concord II was ‘a watershed in the history of ASEAN’.²⁸

All these developments suggest that ‘international policy is changing rapidly[,] and it will continue to develop as negotiations proceed on various bilateral, regional and multilateral fronts’ (Lloyd 2002: 12). However, it remains to be seen whether states involved in these schemes will be able to implement the agreements fully. Before retiring, the former ASEAN Secretary General, Rudolfo Severino, expressed his frustration over some ASEAN countries’ reluctance to make significant changes to their nationalistic FEP, which consequently stalled many ASEAN’s economic integration initiatives.²⁹ The challenges that ASEAN has to confront today are not merely to maintain the current regional integration initiatives amongst member countries, but also to conduct greater co-operation with its Northeast Asian, West Asian, and other non-Asian counterparts. Despite greater complementarity within the economic relationships between these regions, Southeast Asian countries are faced with the challenge of setting aside their national economic interests for the sake of regional economic integration. The bilateral FTA between China and ASEAN, for example, will be overshadowed by the strained relationship that has existed between some ASEAN member countries and China in the past. It is by no means clear that this agreement will signal an end to ASEAN member countries’ suspicion of China. Nevertheless, greater integration between Southeast Asian countries and their Northeast Asian counterparts is inevitable because of

²⁸ As quoted by the *BBC News* (2003b), or visit the *BBC News* official website at: <http://news.bbc.co.uk/1/hi/world/asia-pacific/3167120.stm>

²⁹ As quoted by the *ABC News International* (2002), or visit the *ABC News International* official website at: www.abcnews.go.com/wire/World/reuters20021104_128.html

the greater benefits to be accrued from such arrangements. In fact, the scope of many RIA initiatives between the two regions will most likely expand in the future.

6.5. Indonesian state and non-state actors' perceptions of the creation of AFTA

Since the inception of the ASEAN Preferential Trading Arrangement (ASEAN-PTA) in 1977, Indonesia has always demonstrated a rather ambiguous attitude towards ASEAN regional economic integration initiatives. As mentioned in Chapter 5, Indonesia always wanted better control over its own economy before agreeing to greater levels of economic co-operation with its neighbouring states (Kartadjoemena 1977: 71). This attitude persisted even when Indonesia undertook trade liberalisation measures during the early 1990s. In a subsequent analysis of Indonesian FEP, Anwar (1994) confirmed the ambiguity in Indonesian attitudes towards ASEAN regional economic integration initiatives. Specifically, in the area of economic co-operation, Indonesia has been rather pessimistic about relying on ASEAN for several reasons, all of which are still valid when examining the perceptions of Indonesian state and non-state actors of the creation of AFTA. Firstly, in the early period of economic co-operation, Indonesia was a relatively poor country in comparison to its neighbouring partners. Indonesian economists at the time were convinced that it was necessary for Indonesia to conduct a protectionist economic policy in order to achieve an appropriate level of economic development. Secondly, Indonesia preferred to protect its infant industries and conducted trade mostly with non-ASEAN member countries, mainly Japan and the US. Thirdly, the majority of Indonesian entrepreneurs were reluctant to enter the ASEAN regional market since Indonesia itself was already a large nation composed of over 100 million people during

the 1980s. Fourthly, Indonesia had always regarded regional economic co-operation projects as a way for richer ASEAN countries, particularly Singapore, to exploit the large Indonesian market. Finally, Indonesians also recognised the highly competitive nature of the ASEAN market. As a result, many Indonesians were pessimistic about the Association's proposed regional economic integration mechanisms. Therefore, many state and non-state actors during the New Order period thought that the country should not focus on ASEAN economic co-operation.

On the whole, however, the majority of the Indonesian population has been unaware of the development of ASEAN economic integration initiatives. This is both because of the minimal attempt made to disseminate information on ASEAN's development to the public, and the public's lack of interest towards the issue of foreign affairs in general. At the same time, only a few members of the governmental elite, particularly during the New Order period, were aware of the development of ASEAN. Decisions on ASEAN were largely the concern of President Suharto, the army, staff at the Ministry of Foreign Affairs (MFA), and a small academic circle, especially the Centre for Strategic and International Studies (CSIS). The overall perception of the political elite towards their country's involvement in ASEAN was relatively positive. However, it is also important to note that, as Leifer (1983: 153) observes, 'Indonesia was caught between aspiration and achievement' in ASEAN and its regional economic integration initiatives. On the one hand, Indonesia's involvement in the Association was regarded as important owing to ASEAN's potential to establish an extensive economic relationship between Southeast Asian countries. On the other hand, many Indonesians have also been

frustrated over their country's inability to influence other ASEAN member states' foreign economic policy (FEP). It has been widely acknowledged that the Indonesian political elite can be nationalistic, particularly in discussions over Indonesia's position in ASEAN. National aspirations concerning regional entitlements exist owing to the sheer size of the country in terms of land mass and population. The military has also continued to express nationalistic pride over Indonesia's past heroic struggle against the imperialist powers. However, Indonesia still cannot exert much influence over other member states' behaviour, including within the economic field.

The perceptions held by Indonesian domestic constituents towards AFTA in the past have been largely centred around the policy-makers. There has been limited analysis of the perceptions of the wider Indonesians public, such as domestic non-governmental organisations (NGOs) and civil society organisations (CSOs), of the creation of AFTA. Generally, during the New Order administration, non-state actors did not participate in the FEP decision-making process. The only interest groups capable of influencing the policies of the Indonesian government were members of the academic community and the business community. During the process of the creation of AFTA, for example, the Indonesian Chambers of Commerce and Industry (KADIN – *Kamar Dagang dan Industri Indonesia*) was the only interest group large enough to present the views of the Indonesian business community on the formation of AFTA. However, in general, the attitude of KADIN towards the formation of AFTA remained passive due to the heavy centralisation of the FEP-making process. At the same time, the views of other interest groups in the country were largely ignored. The New Order's heavy centralisation of

power and the ability of the state apparatus to repress or to neutralise dissident opinions has raised some doubts over the ability of Indonesian NGOs or CSOs to influence the country's overall direction (Eldridge 1995: 5). There are also many Indonesian NGOs or CSOs that serve the government by acting as a channel for social and political participation (Budiman 1988). As a result, the support shown towards the creation of AFTA at the time primarily represented the economic interests of those in power.

Therefore, in general, the majority of Indonesians remained somewhat indifferent towards ASEAN (Anwar 1994: 200) and AFTA. One of the major reasons for this indifference was because the Association was still largely considered an intergovernmental organisation. Many actions conducted within the ASEAN framework were perceived to come largely from the wishes or perceptions of the government elite concerning the direction that should be pursued by the Association. Indonesian leaders were also concerned about enhancing Indonesia's influence over other ASEAN member countries. It was clear that Indonesia's leadership in the region was somewhat imaginary. Indonesia, despite its vast geographical size and large population, has kept a rather low profile with regard to foreign policy in ASEAN and has not been able to provide a sense of direction to the Association. Apart from heavy bureaucratisation in the initial implementation of AFTA, Indonesian support towards this scheme was also limited because of a lack in appropriate information being disseminated to the public.

6.6. Conclusion

This chapter has provided a detailed analysis on the development of AFTA, ASEAN's regional economic integration initiatives beyond the Southeast Asian region, and Indonesian state and non-state actors' perceptions towards the creation of the AFTA scheme. Despite the indifferent attitude amongst Indonesians towards ASEAN regional economic integration in the past, the introduction of AFTA in 1992 signalled a significant improvement within ASEAN regional economic integration. AFTA was considered a milestone in ASEAN co-operation due to its capacity to act as a catalyst for a greater co-operation or, perhaps, integration in the region. It is one of the most ambitious regional projects that ASEAN has proposed to date. However, just as previous ASEAN regional economic integration initiatives (i.e. ASEAN-PTA, AIP, AIC, and AIJV) failed owing to the divergent national economic interests amongst ASEAN member countries, it remains questionable whether AFTA will survive. The economic crisis of 1997, in particular, was a major setback to the progress of AFTA. The economic crisis did not only paralyse some ASEAN countries' economies, but also fragmented the political and social structures of these countries. At the onset of the economic crisis, some Southeast Asian countries wanted to postpone the implementation of AFTA. In contrast, however, ASEAN decided that the schedule of AFTA should instead be accelerated to 1st January 2002, from the initially agreed date of 1st January 2003.³⁰

³⁰ As reported in the ASEAN Secretariat (1998a) official website at: <http://www.aseansec.org/1619.htm>

The acceleration of the AFTA schedule was the only logical and rational thing to do for ASEAN, although this move was against popular opinion (Severino 1999). The acceleration of AFTA was hoped, *inter alia*, to bring back a supportive investment climate in member countries as well as to provide a positive sign to the world economy of ASEAN's intention to remain open economically. Further initiatives were also conducted to improve economic relations with non-ASEAN countries, which were evident in the discussions over the future possibility of the APT as well as other bilateral negotiations with the US, India, and the CER countries. All these developments suggest that policy-makers in the Southeast Asian region are increasingly interested in expanding current ASEAN economic co-operation beyond AFTA. However, it is too early to suggest that the scope of ASEAN's activities will be expanded into the APT framework in the near future. The Indonesia government, for example, supported the development of APT, but refused to elaborate further on the way in which co-operation within the APT framework can be expanded. Co-operation with non-ASEAN countries, in Jakarta's point of view, should always be treated cautiously.

Chapter 7: Contemporary Indonesian Perceptions of AFTA: An Empirical Analysis

7.1. Introduction

One of the main issues highlighted in New Regionalism Theory (NRT) is the spontaneous nature of regionalisation, which emphasises the role of domestic actors in the regionalism process (Hettne 1999; Schulz *et al.* 2001a). The present chapter deals with this issue, and provides a detailed analysis of empirical data findings which demonstrates the symbiotic nature of the relationship between Indonesian nationalism and ASEAN regional economic integration. In a more specific manner, this chapter provides an analysis of the perceptions held by Indonesian state and non-state actors towards their country's involvement in AFTA. Apart from being the result of intergovernmental agreement, regionalism may also be perceived as the outcome of the demands made by various domestic interest groups whose participation in the policy-making process has been increasing throughout the world (Grossman and Helpman 2002: 1). Therefore, this analysis of the contemporary perceptions of Indonesian state and non-state actors of AFTA will include the views held by governmental officials, non-governmental agencies (i.e. business associations and various non-governmental organisations (NGOs)), and selected foreign embassies in Jakarta.

In order to facilitate the analysis, this chapter is divided into seven sections. Section 7.2. attempts to identify some background factors that influence the contemporary perceptions of Indonesian state and non-state actors of ASEAN's regional economic integration initiatives. More specifically, this section analyses

their perceptions of ASEAN's regional economic integration schemes prior to the economic crisis of 1997. Meanwhile, the main analysis, from section 7.3. to 7.6., is based on the conceptual framework laid out in Chapter 3, which include: first, ASEAN regionalism and Indonesia's economic development; second, ASEAN regionalism and Indonesian nationalism; third, ASEAN regionalism and Indonesia's international autonomy, bargaining power, and the ability to contain the negative forces of globalisation; and, fourth, the process of dissemination regarding ASEAN and AFTA. Finally, the chapter concludes with an overall analysis of the perceptions of Indonesian state and non-state actors of the current implementation of AFTA.

7.2. The contemporary attitude of Indonesians towards AFTA

The perceptions of Indonesian state and non-state actors of AFTA in recent years have been changing. The emergence of the regional economic crisis in 1997, in particular, has played a major role in changing their attitudes towards ASEAN regional economic integration schemes. This change of attitude was actually stimulated by the economic crisis in that there was a consensus amongst Indonesian policy-makers that enhanced regional economic integration in the Southeast Asian region would provide a fundamental mechanism to alleviate the economic crisis. As a result, the Indonesian government welcomed ASEAN's initiative to accelerate the AFTA schedule as envisioned in the Statement on Bold Measures.¹ This statement reflected the realisation of ASEAN leaders that the economic crisis would have disastrous effects on the business dynamics and the economies of ASEAN member

¹ Specific details concerning the Statement on Bold Measures can be obtained from the ASEAN Secretariat (1998b) official website at:
<http://www.aseansec.org/8756.htm>

countries. It is for this reason that the member countries of ASEAN agreed to initiate some concrete measures to minimise the negative effects of the economic crisis.² Although AFTA in itself was not able 'to address the regional upheaval and was certainly not designed to deal with such events' (Narine 2002: 186), ASEAN leaders were convinced that the acceleration of AFTA would stimulate economic growth and renewed business confidence, which, in turn, would speed up the process of economic recovery in the region. As it stood, Indonesia managed to place as many as 6,346 items (88.43 percent) on to AFTA's inclusion list (IL) in 2000, and 6,461 items (90.04 percent) in 2001 (Depperindag 2000: 27), which reflected Indonesia's genuine commitment towards AFTA.

Apart from a need to alleviate the economic crisis, Indonesian state and non-state actors were also inclined to strengthen ASEAN economic regionalism through AFTA for the overall benefits accrued from regional integration strategy (RIS), which have already been analysed in Chapter 3. The field research also reveals that, because of their nation's commitment to AFTA, Indonesian state and non-state actors were convinced that the country could move closer to achieving its objectives of sustained economic development and the maintenance of national unity. With its capacity to promote economic growth and competitiveness, AFTA will have positive knock-on effects on the overall economic development of Indonesia, leading to prosperity. This nationwide prosperity will help the Indonesian government to minimise the threat of national disintegration presently posed by several ethno-nations (i.e. Aceh, Papua,

² Apart from the acceleration of the AFTA schedule, the 1998 Statement on Bold Measures also postulates other mechanisms that are useful to economic recovery, which include short-term measures to enhance the investment climate (i.e. an agreement between each ASEAN country to extend additional special privileges to qualified ASEAN and non-ASEAN investors, which was to be effective for applications made between 1st January 1999 and 31st December 2000) and the establishment of the ASEAN Industrial Co-operation (AICO) scheme.

etc), which has become a serious post-crisis phenomenon in Indonesia. Moreover, the Indonesian government will also be able to increase its autonomy and bargaining power in the international arena through its full commitment in the ASEAN regional economic integration schemes. In the age of an increasing drive towards multilateralism, pressure groups (i.e. the business community, the academic community, NGOs and Civil Society Organisations (CSOs)) in Indonesia are demanding that their government should play an active role in the international arena. Greater prosperity throughout the Southeast Asian region will also increase the prestige and power of other ASEAN member countries. Such conditions, in turn, will give ASEAN member countries greater autonomy and bargaining power when dealing with major powers (i.e. the US and the EU) in many multilateral negotiations. In the long-term, this RIS is also hoped to contribute to the promotion of Indonesian culture and identity at both regional and international levels. Therefore, the need to minimise the negative impacts of the economic crisis and the other important incentives outlined above have acted as stimulants to promote the speeding up of the AFTA schedule.

However, the Indonesian government's commitment towards the implementation and the schedule acceleration of AFTA drew some criticisms from various sources in Indonesia. Indonesian domestic pressure groups (i.e. business associations, NGOs, CSOs), for example, were very sceptical of Indonesia's entrance into the AFTA scheme. A year prior to the implementation of the AFTA scheme in January 2002, for example, the Indonesian Chambers of Commerce and Industry (KADIN – *Kamar Dagang dan Industri Indonesia*) expressed its concern about AFTA and made an official demand that the Indonesian government should delay

Indonesia's entry into the scheme until 2005.³ Almost a year after its implementation, the Indonesian government was still receiving stiff criticism over its commitment to AFTA. In the face of possible increases in fuel, power, and telephone prices in early 2003, for example, various Indonesian labour organisations and members of the Indonesian Business Association (APINDO – *Asosiasi Pengusaha Indonesia*) maintained that the Indonesian government's commitment to AFTA was proof that the government was more concerned about the country's global position than the welfare of its people (Guerin 2003). The anti-AFTA elements in Indonesia contended that the government should be more concerned about domestic problems rather than giving priority to regional trade liberalisation issues.

Equally important in analysing contemporary Indonesian attitudes towards AFTA was the introduction of the Regional Autonomy Laws (RAL), which challenged the AFTA scheme. In 1999, the Habibie administration issued Act No. 22 / 1999, which is a regional government law,⁴ and Act No. 25/1999,⁵ which is concerned with the fiscal balance between central and regional governments. Both regulations were officially implemented in January 2001. As analysed in Chapter 3, these two Acts were aimed at decentralising the heavily centralised system employed by the New Order regime.⁶ More comprehensively, Act No. 22 was used to make a fundamental shift in government functions from the central to the regional level, whilst Act No. 25 was employed in conjunction with the former Act to focus upon the

³ As reported in *Kompas* (2001a).

⁴ Also known as the Provincial Government Act (UUPD – *Undang-Undang Peraturan Daerah*).

⁵ Also known as the Financial Balance between Central and Provincial Governments Act (UUPKPD - *Undang-Undang Perimbangan Keuangan Pusat dan Daerah*).

⁶ The New Order regime's policy of centralisation has often been criticised on the grounds that it increased socio-economic inequalities between regions by transferring wealth from resource-rich provinces to Jakarta (Tadjoeddin *et al.* 2001: 283). One of the New Order's main reasons for pursuing such a policy was that the existence of the Indonesian state has been challenged throughout history by various ethnonationalist movements. During the Old Order and the New Order periods, both governments used centralisation to limit and control such separatist movements.

fiscal relations between the central and regional governments (Silver *et al.* 2001: 346). These two acts have generated great concern, particularly over the issue of ethnonationalism. In KADIN's view, for example, the RAL will complicate the investment climate in Indonesia as a result of several new provincial tax collection laws that could hinder business transactions.⁷ Following the implementation of these regulations, many provincial governments have issued numerous provincial laws which have greatly bureaucratized the relationship between officials and the business sector. The Indonesian government, on the other hand, argues that such changes are a natural result of political transition in Indonesia, and should be considered *reform euphoria*.⁸ Nevertheless, in the short run, diverging investment laws across the country do create a substantial challenge to the central government's commitment to AFTA.

7.3. ASEAN regionalism and Indonesia's economic development

One main motive behind the Indonesian government's support for a regional integration strategy (RIS) is the achievement of sustained economic development. Although attitudes towards ASEAN have been generally positive, the majority of respondents interviewed remained cautious about ASEAN's current project, AFTA, and Indonesia's involvement in the scheme. The majority of respondents were convinced that Indonesia was not ready to get involved in the AFTA scheme due to

⁷As reported in *Kompas* (2001b), or visit the *Kompas* official website at: www.kompas.com/business/news/0102/10.htm

⁸As postulated by Mr. Kadjatmiko, who at the time held the position of the Director of Balancing Fund of the Directorate General of the Fiscal Balance Committee of Provincial Autonomy (DPOD – *Dewan Perimbangan Otonomi Daerah*), during an interview conducted on the 10th August 2001. The DPOD is a branch of the Ministry of Finance (MoF) that deals solely with the financial aspects of provincial autonomy. Reform euphoria refers to the condition in which the majority of the population demand greater democratisation in all aspects of domestic politics. In contemporary Indonesia, such euphoria resulted from the economic crisis and the resignation of Suharto as President, which led to demands for further democratisation and greater autonomy amongst Indonesian provinces.

the economic crisis of 1997. This was the prevalent view amongst the majority of respondents who took a convergence standpoint. However, those in the maximalist camp argued that Indonesia was ready to enter the AFTA scheme, and felt that this scheme would help Indonesia to escape from the current economic crisis, apart from other benefits that will be analysed in the following sections (i.e. strengthening Indonesian nationalism, increasing bargaining power, international autonomy, and the ability to resist the negative forces of globalisation). Minimalists, on the other hand, rejected this idea and argued that Indonesia should focus on its domestic economic problems before any further commitment to ASEAN and its AFTA scheme. Some representatives from Indonesian NGOs and CSOs, for example, believed that certain trade liberalisation measures, such as AFTA, may be detrimental to the well-being of many Indonesians. Accordingly, rather than as a means to promote sustained economic development, regionalism was viewed as detrimental to Indonesia's domestic economy. Nevertheless, the symbiotic nature of the relationship between regionalism and nationalism in the context of ASEAN and Indonesia was demonstrated by the fact that the majority of respondents fell within the maximalist and convergence categories.

7.3.1. Maximalist

Those within the maximalist camp viewed ASEAN and Indonesia's commitment to ASEAN and its AFTA scheme as positive. Maximalist respondents believed that ASEAN regionalism should be strengthened because, amongst other things, it contributes to the achievement of sustained economic development in member countries. On the whole, the majority of government officials and representatives from the ASEAN Secretariat and foreign embassies were convinced

that ASEAN and its AFTA scheme are crucial to sustaining Indonesia's sustained economic development. To start with, all the governmental officials from the eleven central governmental institutions and two provincial government institutions interviewed had no hesitation in expressing their support of strengthening regionalism in Southeast Asia.⁹ ASEAN, in the eyes of most governmental officials, is still regarded as the main pillar of Indonesian foreign policy. Indonesia is expected to continue to enhance its activities at the regional level. One official from the Ministry of Foreign Affairs (MFA)¹⁰ affirmed how important it was for Indonesia to conduct a *good neighbouring* policy towards other ASEAN member countries. By prioritising ASEAN, the objectives of regional stability, harmony, and prosperity can be achieved. This, in turn, creates the necessary space for Indonesia to focus on its progression beyond its current status as a developing country. Therefore, it is seen to be in the national interests of Indonesia to co-operate closely with other ASEAN member countries. This line of argument was shared by officials at various different governmental institutions. Some officials, such as those from the Ministry of Industry and Trade (Depperindag – *Departemen Perindustrian dan Perdagangan*)¹¹ and the

⁹ Each governmental institution has one ASEAN Unit that functions as a tool to synchronise the policies issued both at the regional and domestic levels. The ASEAN Unit at the Ministry of Foreign Affairs (MFA), for example, deals with the general issue of ASEAN co-operation, whilst similar units at the Ministry of Trade and Industry (Depperindag) and the Ministry of Finance (MoF) deal with, respectively, trade and finance related matters within ASEAN co-operation. There is also an AFTA Unit in the MFA, which deals specifically with AFTA-related matters. The only governmental institutions interviewed that do not have an ASEAN Unit are the State Logistic Agency (Bulog) and the Indonesian Bank Restructuring Agency (IBRA). This is because such governmental institutions focus solely on domestic issues. Despite this, officials at both BULOG and IBRA were able to participate in the research interview as a result of the recently expanded scope of their activities. BULOG, for instance, has consistently expressed its concerns over the possibility of trade liberalisation measures in the agricultural sector, both at the regional or the international level. Similarly, the scope of IBRA's activities has indirectly gone beyond the national level. The sale of troubled Indonesian banks and their assets has recently attracted the interest of many conglomerates from neighbouring countries, particularly from Malaysia.

¹⁰ An interview was conducted on the 13th December 2000 in Jakarta. The interview was conducted with a representative of the Sub-Directorate of Commodity and Natural Resources who wished to remain anonymous.

¹¹ An interview was conducted on the 19th February 2001 with Ketut Suwarko, Head of the Sub-Division of ASEAN Regional Co-operation, in Jakarta.

Ministry of Finance (MoF),¹² even expressed personal support for Indonesia's involvement in ASEAN regional co-operation.

The majority of government officials interviewed also expressed a maximalist attitude towards the development of AFTA and Indonesia's participation in this scheme. Officials at the MFA and the Depperindag, for example, have been leading supporters of AFTA, and regard this scheme as representative of Indonesia's national interests at the regional level. The same officials also believed that there is a general consensus amongst policy makers that Indonesia would be left behind if participation in AFTA was discarded. Moreover, it was also hoped that AFTA would help alleviate Indonesia's internal economic problems, particularly those associated with good corporate governance, lack of skilled workers, and so on. AFTA has essentially aimed to increase the level of efficiency and competitiveness in the region, which means that Indonesia is obliged to solve its own internal problems immediately. Criticism concerning AFTA to date mostly came from local entrepreneurs. The official respondents, however, thought that it was very unlikely that the government would ever get a positive response about trade liberalisation from local entrepreneurs. A recent report issued by the Depperindag reveals that 46 percent of commodities exported to the ASEAN market are ready to compete within AFTA.¹³ As far as the Depperindag officials were concerned, many Indonesian industries are ready to compete in AFTA. In fact, by 2001 Indonesia was able to comply with AFTA's requirements by putting nearly 90 percent of the items included in the inclusion list.

¹² An interview was conducted on the 3rd March 2001 with Dr. Bambang Marsoem, Head of International and Regional Economic Co-operation, and his assistant, Solehudin Masyar, in Jakarta.

¹³ As reported in *Kompas* (2001d: 13). The article also reveals that the high rate competitive sectors include the metal, machine, and electronic industries. Meanwhile, the low rate competitive sectors are the chemical, agricultural, and forestry industries.

Other governmental officials at other institutions, such as the Central Bank of Indonesia (BI)¹⁴ and MoF, were also enthusiastic about AFTA. These institutions were acting in compliance with AFTA. The BI, alongside the MFA and the Depperindag, is regarded as one of the main pillars of AFTA. This is in spite of the fact that the AFTA scheme is solely concerned with the eradication of tariffs amongst member countries, which is irrelevant to the BI's main activities. Nevertheless, according to the respondents at the BI, AFTA was a stepping stone for Indonesia towards competing in the international market. The BI itself had been active in preparing Indonesia to enter AFTA in monetary terms. Past arrangements with other Southeast Asian Central Banks have been sustained to support the realisation of AFTA, such as the ASEAN Swap Arrangement (ASA) and the Bilateral Swap Arrangement (BSA).¹⁵ The Southeast Asian Central Banks (SEACEN)¹⁶ has also extended its monetary co-operation in the form of the ASEAN Surveillance Co-ordinating Unit (ASCU), which has had the objectives of strengthening the implementation of AFTA and acting as a buffer to prevent future crises. However, officials at the MoF were more optimistic about the progress of AFTA and criticised

¹⁴ An interview was conducted with two officials from the International Trade Co-operation Division and two officials from the International Economic and Institution Studies of BI on the 20th February 2001, in Jakarta. All respondents wished to remain anonymous.

¹⁵ The ASA scheme actually began in 1978 following the signing of the Memorandum of Understanding (MoU) amongst Southeast Asian countries' Central Banks. The scheme aims to provide short-term liquidity reserves for ASEAN members who have difficulties with their balance of payment, as well as to increase the level of monetary co-operation amongst member countries. Following the economic crisis of 1997, the ASA facility was increased from an initial US\$ 200 million to US\$ 1 billion. Whilst the founding fathers of ASEAN and Brunei contributed a total of US\$ 900 million, or US\$ 150 million each, the new members of ASEAN contributed US\$ 50 million, US\$ 28 million, US\$ 17 million, and US\$ 5 million respectively. The ASA scheme was later extended into the BSA scheme, which was initiated following the ASEAN Finance Deputy Ministers Meeting (AFDM) with their three Northeast Asian counterparts, Japan, South Korea, and China (a follow-up meeting of the Chiang Mai Initiative of 2000). The BSA aims to provide short-term support in the form of swap arrangements between ASEAN countries and their three Northeast Asian partners.

¹⁶ SEACEN was formed into a legal entity in 1982, and is composed of eight central banks from both ASEAN and non-ASEAN member countries (Bank Indonesia, Bank Negara Malaysia, Central Bank of Myanmar, Nepal Rastra Bank, Bangko Sentral ng Pilipinas, Monetary Authority of Singapore, Central Bank of Sri Lanka, and Bank of Thailand). In recent years membership was expanded to include the Central Bank of China, Taipei, and the Bank of Mongolia. The headquarter of the SEACEN Research and Training Centre is located in Kuala Lumpur, Malaysia.

the Depperindag for its rather conservative measures to liberalise the Indonesian market. The respondents argued that the Depperindag had often implemented policies to protect various Indonesian industries, such as those evident in the steel, clove, and sugar industries. Officials from the MoF felt that AFTA should be taken very seriously, and the ministry regarded the scheme as a positive contribution to the economic development of the country. On the whole, therefore, respondents from both institutions believed Indonesia was ready to enter AFTA.

Other respondents who held a maximalist standpoint were representatives from the ASEAN Secretariat¹⁷ and from various foreign embassies. To start with, as the best informed and most closely involved in the Association's activities, the representatives of the ASEAN Secretariat were by far the biggest supporters of ASEAN's regionalism attempts. The most prevalent concern expressed by the representatives of the Secretariat concerned the limitations imposed on the Secretariat's operations. Since its conception, the Secretariat has been criticised by the academic circle and the general public about its ineffectiveness in realising the aspirations of Southeast Asian people. In their defence, however, the respondents argued that the public was unaware that the main functions of the Secretariat were limited to initiating, monitoring, and implementing the policies decided on by the member governments. The Secretariat, therefore, only works for ASEAN member governments and is incapable of setting up its own policies without prior consultation with all ASEAN member governments. These limitations persist despite attempts to upgrade the position of Secretary General to a Ministerial level in 1992. Although most integration schemes are normally tied into member countries' political interests,

¹⁷ An interview was conducted on the 7th December 2000 with the officials at the Bureau of Trade, Industry and Services, in Jakarta who wished to remain anonymous.

the Secretariat has arguably been successful in maintaining the progress of regional integration in Southeast Asia.

Meanwhile, the representatives of ASEAN and non-ASEAN foreign embassies also gave their views about Indonesia's participation in ASEAN and AFTA and their country's experiences in dealing with regionalism. To start with, the representatives of both the Royal Embassy of Thailand¹⁸ and the Embassy of Brunei Darussalam¹⁹ also expressed their government's enthusiasm towards the strengthening of regionalism in Southeast Asia.²⁰ The Ambassador of Thailand, in particular, stressed that support for regionalism is prevalent amongst both state and non-state actors in Thailand. His country's contributions to ASEAN have been significant since the Association's conception. Aside from being one of the founding fathers and the birthplace of ASEAN, Thailand has been active in proposing a number of schemes to enhance regional integration measures. The former Thai Prime Minister, Anand Panyarachun, for example, initiated AFTA in the early 1990s. ASEAN has also influenced the majority of foreign policies in Thailand since the Association's creation in 1967. Although relationships with neighbouring countries have generally been good, Thailand's Prime Minister, Thaksin Shinawatra, endorsed a foreign policy that will allow Thailand to take a more proactive role at the regional level.²¹

¹⁸ An interview was conducted on the 17th October 2000 with Somphand Kokilanon, the Ambassador of Thailand for the Republic of Indonesia, in Jakarta.

¹⁹ An interview was conducted on the 21st August 2001, in Jakarta, with a respondent who wished to remain anonymous.

²⁰ Attempts to conduct interviews with the representatives from other ASEAN countries' embassies were made but were rejected on the grounds of the sensitivity of the issues discussed. Meanwhile, other non-ASEAN countries' embassies were also approached, including the Embassy of Japan and the Delegation of the European Commission in Jakarta, but both declined to give interviews.

²¹ As reported by the Thailand Ministry of Foreign Affairs (2001), or visit the Thailand Ministry of Foreign Affairs official website at: <http://www.mfa.go.th/web/32.php>

Although trade relationships have been positive between Thailand and Indonesia,²² the respondent expressed his concern regarding a number of issues that may create problems in the immediate future if not properly handled by the Indonesian authorities. Amongst some of the most pressing issues are the complex bureaucracy of local authorities, security issues, and the question of Indonesia's leadership, which has been waning in ASEAN since the economic crisis began.

As with Thailand and Indonesia, Brunei Darussalam also place ASEAN at the cornerstone of its foreign policy. Brunei's contribution to regionalism in Southeast Asia is large. Apart from hosting a number of important ASEAN meetings and other activities, Brunei is also one of the major co-ordinators for ASEAN's dialogue partners, such as ASEAN - New Zealand (1985-88), ASEAN - Canada (1988-91), and so on, all of which reflect Brunei's commitment towards regional co-operation in Southeast Asia.²³ The representative of the Brunei Embassy in Jakarta felt that both his government and the Indonesian government saw the increasing regionalism in Southeast Asia as positive. The respondent also seemed to suggest that both his government and the Indonesian government have been very committed to ASEAN and its AFTA scheme. Since the economic crisis in 1997, for example, there has been an acceleration in economic integration, apparent in the context of AFTA and in the increased number of joint investments amongst ASEAN entrepreneurs. In 2001

²² The level of FDI that comes from Thailand to Indonesia has been relatively high. In 2000 alone, for instance, thirty-eight Thai projects were approved by the Indonesian government with a total investment value of US\$ 2.3 billion, which ranked Thailand as the 15th largest investor in Indonesia (BKPM 2000). In the following year, or 2001, the total value of Thailand's investment in Indonesia increased to US\$ 3 billion, which came from only three projects (BKPM 2002). On the other hand, however, the Board of Investment of Thailand (BOIT) reported that there was only one Indonesian project approved by the Thai government, amounting to US\$ 28.6 million. For detailed data regarding foreign investment in Thailand, visit the BOIT official website (accessed 2003) at: http://www.boi.go.th/english/tid/data/BOI_statistics_fi.html

²³ The representative of the Embassy of Brunei, however, refused to comment on the question of Indonesia's involvement in ASEAN due to the sensitivity of the subject.

alone, many entrepreneurs from both Indonesia and Brunei expressed their interest in conducting joint investments in agribusiness. Despite this, the representative of the Brunei Embassy also noted that some problems still existed between Brunei and its ASEAN counterparts. Brunei is a relatively small country that relies on oil as its main source of income. As a result, there was a limited amount of space and few natural resources available for foreign investment to take place in Brunei. Meanwhile, the majority of Brunei's economy was comprised of small and medium size enterprises (SMEs), which cannot compete with the many multinationals that operate in other ASEAN countries. Consequently, economic initiatives between Brunei and its ASEAN counterparts remain modest.

As with other respondents in this category, the representatives of the US Embassy,²⁴ the German Embassy,²⁵ and the British Embassy²⁶ also regarded the Southeast Asian regionalism process as positive. The US, in particular, saw the growing Southeast Asian market as having potential for foreign investments. The US automotive industry, for example, is deeply interested in the Southeast Asian region. According to the representative from the US Embassy, the three largest US automotive companies, Chrysler, Ford, and General Motors, have recently been in the region to conduct feasibility studies for investment, acknowledging that the Southeast Asian region is important to US economic interests. In a speech made by the former US Trade Representative, Charlene Bershefsky, at the US Ambassadors Tour Annual Dinner in Washington D.C. in 2000, it was clear that the US regarded the US-ASEAN

²⁴ An interview was conducted on the 11th October 2000 with David C. DiGiovanna, the Economic Officer of the US Embassy, in Jakarta.

²⁵ An interview was conducted on the 30th November 2000 with Alex Stedtfelt, the First Economic Officer of the German Embassy, in Jakarta

²⁶ An interview was conducted on the 23rd March 2000, in Jakarta, with a representative of the British Embassy who wished to remain anonymous.

relationship as mutually beneficial. The Southeast Asian region has recently been the recipient of nearly US\$ 42 billion of American investment, whilst the US is the central market for exports from the region with a value exceeding US\$ 80 billion in goods and services in 1999 alone. It is, therefore, only logical for the US to continue to support strengthening regionalism in the Southeast Asian region.

At the same time, both Great Britain and Germany also agreed with their American counterpart, but provided a rather more idealistic explanation for the logic of regionalism in Southeast Asia. They felt that regionalism clearly reflects the needs of member countries to forge a relationship. In this context, ASEAN has been successful and has been able to play a major role in enhancing the interest of its member countries in the international fora. The German government encouraged the strengthening of the regionalism process in Southeast Asia, and argued that the benefits of an integrated region will exceed the benefits that individual states might have in managing alone. The British Embassy official, on the other hand, argued more from the point of view of economics to explain his government support towards regionalism in Southeast Asia. As with the US, Britain has substantial investments in the region. In Indonesia alone, the UK is the second largest foreign investor after Japan, with total investments amounting to US\$ 50 billion in 2000. The British government was, therefore, very committed to the agreement made within ASEM. There has been recent concern about the growing economic uncertainty in the region, particularly in Indonesia. It was felt that the move towards regionalism has somehow been halted since the economic crisis began, and most countries in the region have been more concerned with domestic rather than regional issues. Despite this, the

respondent remained optimistic about the future of regionalism in Southeast Asia, although could not guarantee any deepening regional integration in the region.

In terms of AFTA, officials from the ASEAN Secretariat and ASEAN foreign embassies believed that the implementation of AFTA and Indonesia would benefit substantially from its commitment in the AFTA scheme. Although since the economic crisis began member governments have been engrossed with domestic problems, relationship amongst them remain relatively stable. Commitment to the AFTA's schedule shows that the economic crisis has not damaged the relationships between member countries. In addition, it was felt that there was little to suggest that the progress of CEPT had been disrupted by the recent economic crisis. The only disruption caused to CEPT came from certain members' insistence on protecting some of their industries, such as the Malaysian automotive industry. Despite this, it was felt that AFTA, as of 2001, was still on track, which proved that the economic crisis had been the major catalyst in the ASEAN regionalisation process. Similar views were also expressed by the representatives of non-ASEAN foreign embassies.²⁷ The US representative, in particular, applauded the progress of regionalism in Southeast Asia and the Indonesian government's efforts to maintain its position in AFTA despite the economic crisis. The only concern expressed by the majority of non-ASEAN foreign embassy representatives was about Indonesia's passivity in the Association in recent years. This was seen to have affected the regionalisation process in Southeast Asia and also the relationships between member countries. Indonesia did not seem to have either the financial capacity or the time to assume leadership in the region in the short-term, as most resources were allocated to manage

²⁷ The representative of the British Embassy, however, claimed that his government did not have any specific points of view regarding Indonesia's involvement in AFTA, although his government had been very keen about the development of AFTA to date.

domestic problems, such as eradicating poverty, corruption, threat of national disintegration.

7.3.2. *Minimalist*

Minimalist respondents did not feel that ASEAN regionalism contributes much to Indonesian economic development. As a result, they opposed regionalism, or at least the concept of open regionalism to which ASEAN subscribes, and argued that the Indonesian government should focus more on domestic problems. Those who opposed the concept of regionalism were generally the representatives of Indonesian NGOs and CSOs. Pressure groups, such as the Urban Poor Consortium (UPC),²⁸ the National Front for Indonesian Labour Struggle (FNPBI – *Front Nasional Perjuangan Buruh Indonesia*),²⁹ the Association of Indonesian Muslim Intellectuals (ICMI – *Ikatan Cendekiawan Muslim Indonesia*),³⁰ and the International Financial Development (INFID),³¹ believed that regionalism had never contributed significantly to Indonesia's economic development. For the representatives from both UPC and FNPBI, for example, Indonesia needed to concentrate on its internal problems before embarking upon regional or international adventures. They felt that Indonesia's current problems extend beyond that of the economic crisis. One of Indonesia's persistent problems has been the poor quality of its human resources, which has been exacerbated since the economic crisis began in 1997. Indonesia's ability to compete with its ASEAN counterparts has been undermined partly because the human resource

²⁸ An interview was conducted on the 9th October 2000 with Wardah Hafidz, the Head of UPC, in Jakarta.

²⁹ An interview was conducted on the 23rd November 2000 with Dita Indah Sari, the Head of the FNPBI, in Jakarta

³⁰ An interview was conducted on the 2nd February 2001 with Adi Sasono, the Head of ICMI. Previously, Adi Sasono held the position of Minister of Co-operative, Small and Medium Enterprises during the Habibie administration.

³¹ An interview was conducted on 18 January 2001 with Boni Setiawan, an INFID activist, in Jakarta.

problem has not been adequately addressed. The world economy normally regards developing countries, such as Indonesia, as a good place for foreign investments owing to its abundance of cheap labour. The minimalist respondents, however, strongly criticised the government's decision to use cheap labour as a tool in marketing campaigns to attract foreign investment. Southeast Asian countries such as Malaysia and the Philippines are still able to attract foreign investment despite higher labour costs in total production costs (roughly around 20 percent in comparison to Indonesia's 5-8 percent). Moreover, the minimalist respondents also believed that Indonesia should reconsider its position in ASEAN, to prevent the country becoming a *consumer market* (major importer) in the Association's economic co-operation schemes. However, others in the minimalist group paid more attention to trade liberalisation at the global level. For ICMI, ASEAN was not particularly significant for Indonesia, aside from creating regional stability and security. It was felt that ASEAN countries have traditionally conducted trade with other non-ASEAN countries. Therefore, regionalism was not excessively important at the present time. The idea of regionalism had somehow changed in recent years as countries have become more open to the world market. A closed form of regionalism, such as trade bloc, was seen by the ICMI to be preferable since Indonesia was not yet capable of competing in the world market.

The same representatives of Indonesian NGOs and CSOs also held a minimalist standpoint towards the development of AFTA. Reasons for opposition varied according to the different concerns of each individual pressure group. On the whole, however, there were four major reasons why they resisted AFTA. Firstly, the majority of Indonesian NGOs and CSOs were pessimistic about AFTA since ASEAN

economies are still highly competitive amongst one another. Apart from that, it was felt that many ASEAN countries were overly preoccupied with their national interests, such as in the agricultural sector, which is still considered a sensitive area in need of protection by most member countries. As a result, it was felt that ASEAN still lacked economic openness in comparison to other regional organisations. It was thought, therefore, highly unlikely that the Indonesian economy would be positively impacted by the implementation of AFTA. Secondly, even if AFTA did influence the economic activities of member countries, the impact of the scheme would be limited in comparison to policies pursued by other multilateral bodies, such as the WTO. A third problem was seen to lie in the Association's reluctance to allow the active participation of civil society groups in the decision-making process. To date, as pointed out earlier by respondents in the maximalist camp, issues such as labour, the environment, human rights, and democracy have hardly been discussed by the Association. ASEAN is criticised by most representatives of Indonesian NGOs and CSOs for having placed too much emphasis on trade-related issues in AFTA. They also argued that concentration on trade alone would only benefit a small proportion of the ASEAN community. The Association should widen the focus of its co-operation schemes, particularly those related to issues such as development, the environment, and so on. Finally, although some information regarding ASEAN-related activities was indeed available, it was felt that the amount of information passed on to the general public was limited, highly technical and expensive to obtain.

As regards Indonesia's participation in AFTA, the majority of respondents in the minimalist camp also noted that the economic situation in Indonesia during the post - 1997 economic crisis was not conducive to the country's involvement in AFTA.

Apart from being a consumer market (major importer) for other ASEAN countries, there was also a shortage of skilled human resources in Indonesia, which would make the country less competitive to other ASEAN countries. If the government insisted on pursuing its position in the scheme, the majority of respondents predicted that Indonesia would become a consumer market (i.e. major importers) for other ASEAN countries. Another problem was seen to be the shortage of Indonesian skilled human resources, which could not compete with other ASEAN countries. It was reported in 2001 that 76 percent of the Indonesian workforce had attended only primary education (through to sixth grade) and did not possess the technological training or knowledge for the numerous positions open (Gross 2001: 1). As an agrarian country, about 50 percent of the Indonesian labour force consists mainly of farmers.

Despite this, the Indonesian agricultural industry, such as rice production, has not prospered as well as those in neighbouring countries, such as Thailand. Food shortages are very common these days whilst the prices of agricultural products have been very expensive. Moreover, ASEAN was also criticised for its inability to cope with the concerns of the Indonesian people. The Indonesian government has been concentrating on national economic recovery and, at the same time, neglecting its commitment to AFTA. The government was criticised for not being more aggressive at the regional level. Some minimalists were also concerned about the Indonesian political elite and their influence on government decisions in ASEAN and AFTA. The economic interests of the political elite were thought to influence the Indonesian government's pursuit of protectionist measures, such as that being imposed on agriculture industry, in AFTA. If this is indeed the case, the scheme may turn out to be useless.

7.3.3. Convergence

A Convergence standpoint was generally held amongst a handful of government officials, members of Indonesian business associations, the academic community, and representatives of some Indonesian NGOs and CSOs. All respondents within the convergence category held a generally pragmatic attitude towards Indonesia's commitment to ASEAN and its AFTA scheme. Support for ASEAN regionalism would prevail as long as ASEAN and its AFTA scheme contributed towards the achievement of sustained economic development in Indonesia. In general, however, the majority of respondents within the convergence category believed that Indonesia's commitment to ASEAN and AFTA would improve the country's economic development.

To start with, government officials from the Ministry of Co-operative, Small and Medium Enterprises (MoC-SMEs),³² the Investment Co-ordinating Board (BKPM – *Badan Koordinasi Penanaman Modal*),³³ the Custom and Excise Office,³⁴ the National Logistic Agency (BULOG – *Badan Usaha Logistik*)³⁵ expressed their enthusiasm about ASEAN regionalism. They were convinced that the strengthening of ASEAN regionalism would have a tremendous effect on Indonesia's sustained economic development. Despite this, the same government officials were quite cautious about commenting about AFTA and their country's involvement in the

³² An interview was conducted on the 16th November 2000 with Dr. Noer Soetrisno, Special Staff for Production Division, in Jakarta.

³³ An interview was conducted on the 18th December 2000 with Darmawan Jayusman, Director of International Promotion Division, in Jakarta.

³⁴ An interview was conducted on the 9th August 2001 with Dr. Permana Agung, the Directorate General of Custom and Excise, in Jakarta.

³⁵ An interview was conducted on the 14th August 2001 with Widjanarko Puspoyo, the Head of BULOG, in Jakarta.

scheme. With regard to AFTA, respondents from these four institutions were concerned about the competitive nature of ASEAN economies, the speedy implementation of AFTA, and the potentially exploitative nature of trade liberalisation in general. Moreover, the same officials were also concerned about the lack of information regarding AFTA and Indonesia's readiness to join in the scheme. At the same time, Indonesia's readiness to join AFTA was generally felt to depend on the country's immediate, internal problems. With regard to the development of AFTA, respondents disagreed about competitiveness amongst ASEAN economies. The BULOG representative was also concerned about the impact of AFTA and AFTA's timeframe on the agricultural sector. The respondent believed that both the content and the schedule of the AFTA agreement should be re-studied. At present, it appears that most countries are being forced to speedily expand their inclusion list. If this approach continues, it was felt that it would benefit only the countries in the region that were fully equipped to face trade liberalisation measures, such as Singapore. Despite this, officials from the four government institutions above felt that AFTA has the potential to promote economic development in the country due to its capacity to create efficiency and to attract foreign investment.

Meanwhile, out of the four representatives of business associations interviewed, only the representative from the Association for the Advancement of Small Business (PUPUK - *Perkumpulan Untuk Peningkatan Usaha Kecil*) showed reservation towards ASEAN.³⁶ For the majority of these representatives, such as those from the Indonesian Chambers of Commerce and Industry (KADIN - *Kamar*

³⁶ The interview with the representative of PUPUK was conducted on the 3rd September 2001 with the Executive Director, Alam Putra, in Surabaya, East Java.

Dagang dan Industri Indonesia),³⁷ the Association of Indonesian Entrepreneurs (APINDO – *Asosiasi Pengusaha Indonesia*),³⁸ and the Indonesian Society of Small and Medium Scale Entrepreneurs (KUKMI - *Kerukunan Usahawan Kecil dan Menengah Indonesia*),³⁹ ASEAN remains the main focus in the Indonesian economy. The Head of KADIN, for example, continuously reiterated how important it was to *be ASEAN and to think ASEAN*.⁴⁰ According to the respondent, globalisation has been the rhetoric of most major Western powers which have been implementing protectionist measures to serve their own national interests. In response, it was felt that the Indonesian government should take a more active role in pushing other ASEAN countries to counter unbalances created by the West. For the majority of the representatives from Indonesian business associations, the Southeast Asian region was still better off with than without ASEAN.

Enthusiasm towards ASEAN was equally reflected towards AFTA. Such support was even present amongst members of KADIN who had previously been major critics of AFTA. KADIN had persistently asked the government to delay

³⁷ KADIN was formed on the 24th September 1968, to work in partnership with the Indonesian government and other national development institutions. It was also intended to function as a forum for Indonesian state-owned enterprises, co-operatives, and private businesses. KADIN was officially acknowledged by the government under Presidential Decree No. 1 / 1987, and was legalised under Law No. 1 / 1987 (Kompas 2004: 44). It is important to note that most Indonesian business associations are also members of KADIN, which is the largest and the most influential business association in Indonesia. Therefore, the views of KADIN, to some extent, represent the general view of the majority of Indonesian business associations. Two research interviews were carried out with the representatives of KADIN, one with the Head of the ASEAN Committee Section, Iman Taufik, on the 26th November 2000, and the other with the Head of KADIN, Aburizal Bakrie, on the 23rd August 2001. Both interviews took place in Jakarta.

³⁸ An interview was conducted on the 19th October 2000 with Djimanto, the Vice-President of APINDO, in Jakarta.

³⁹ An interview was conducted on the 25th August 2001 with Dr. Mohammad Syargawi, the Vice-President of KUKMI, in Jakarta.

⁴⁰ KADIN is a member of the ASEAN Chamber of Commerce and Industry (ASEAN-CCI). It was decided during a meeting attended by forty-nine members of the ASEAN-CCI Committee in Bangkok, on December 1995, that the permanent ASEAN-CCI Secretariat should be established in Jakarta. Subsequently, the Indonesian Head of KADIN, Aburizal Bakrie, took over the ASEAN-CCI presidency from 1996-1997 (Kompas 2004: 44).

Indonesia's entry into the scheme for several reasons.⁴¹ Firstly, KADIN argued that most Indonesian entrepreneurs were not prepared to join AFTA. Secondly, KADIN also insisted that the weak security and poor economic situation in the country would compromise the implementation of AFTA. Thirdly, there was also a growing consensus amongst members of KADIN that Indonesia, as the largest ASEAN market, would be a competing ground for both domestic and foreign entrepreneurs. It would not be in the interests of many domestic interest groups to allow the demise of local SMEs. The representatives of KADIN also felt that there was miscommunication between the Indonesian media and KADIN. KADIN had asked the government to delay the AFTA schedule only in certain sectors, such as the retail sector, from the originally agreed 2002 to 2005. In regard to the retail sector, members of KADIN disagreed with government officials who insisted that the binding nature of the AFTA agreement should be respected. In contrast, KADIN argued that it has never asked the government to pull back fully from AFTA as such an action would have a detrimental effect on Indonesia's position at the global level. A binding agreement or commitment cannot be broken, but it can be delayed. Within many international agreements there is the recognition of a nation's right to defend its own national interests first, and this also applies to AFTA. In the view of the respondent, the US has often been reluctant to open up its agricultural sector in the WTO since such this would undermine its own national interest. The Indonesian economy is far smaller than the American economy, but still has its own national interests and should be able to defend them. The recent wave of large retail TNCs entering the country has not created favourable conditions for local retailers.

⁴¹ As reported in *Kompas* (2001a).

As for the remaining industrial sectors, KADIN believed that Indonesia would be ready for AFTA. This also applies to other ASEAN member countries, even to those that have been severely hit by the economic crisis. Thailand, for instance, has been very supportive towards AFTA by opening its agricultural sector, which has been liberalised since 1995. In recent years, Thailand has become one of the major exporters of rice and sugar to other ASEAN countries. IMF prescriptions have meant that many Southeast Asian economies have remained open. Indonesia will also adopt such an approach despite domestic concerns over the country's involvement in AFTA. Since the signing of the first Letter of Intent (LoI) with the IMF on 31st October 1997, Indonesia has been forced to open up even its traditionally protected agricultural sector. Although this has a detrimental effect on domestic prices, the Indonesian government and major interest groups will remain committed to the IMF's prescriptions. This, in turn, should have a positive result on the country's commitment to AFTA.

However, other Indonesian business associations did not share KADIN's views. For example, the representative from APINDO was convinced that Indonesia would be negatively affected if it continued with its commitment to AFTA. The respondent also argued that Indonesia, even long before the economic crisis, could not compete with other ASEAN countries or at the global level. Indonesia's export growth in wood products and apparels, for example, had decreased by about 21 percent and 11 percent respectively between 1989 and 1996.⁴² It was thus deemed unrealistic for Indonesia to become involved in any regional trade liberalisation measures. The respondent felt that Indonesia was behind in terms of good corporate

⁴² This data was also confirmed by Aswicahyono and Pangestu (2000: 471-2) in their analysis of Indonesia's exports and levels of competitiveness.

governance, competitive technical skills, and the flexibility needed to achieve efficiency. Moreover, PUPUK was also concerned about the increasing tendency for large TNCs to decentralise their production and distribution activities which, in turn, might have a very damaging effect on local Indonesian entrepreneurs. The remaining respondents in the business community generally regarded the development of AFTA as positive, although they thought that the government should take a very cautious approach towards further economic liberalisation in the country. They also stressed that the government would face difficulties in gaining support from the Indonesian business community if planning was not in their interests.

As with the representatives of Indonesian business associations, members of the academic community in Indonesia also expressed their support for ASEAN regionalism. In the view of Dr. Hadi Soesastro from the CSIS, the existence of ASEAN remained important for Indonesia.⁴³ In the last thirty-five years, ASEAN's contribution to the region's development has been significant, particularly as a major stabilising force in Southeast Asia. Because Southeast Asia was more stable, countries in the region were able to focus on their own development. His associate at the CSIS, Dr. Cornelis Luhulima, also felt that Indonesia had always supported regionalism in Southeast Asia.⁴⁴ The former President Suharto was possibly one of the first people to coin the term an *integrated Southeast Asia*. The New Order government's pragmatic approach towards ASEAN was primarily due to senior military officers' preoccupation with preserving sovereignty and nationalism. Furthermore, Dr. Dewi Anwar was even more optimistic about Southeast Asian

⁴³ An interview was conducted on the 6th December 2000 in Jakarta. Dr. Hadi Soesastro the Executive Director of the CSIS at the time of the interview.

⁴⁴ An interview was conducted on the 21st August 2001 in Jakarta. Dr. Cornelis Luhulima was a Senior Researcher at the CSIS at the time of the interview.

regionalism, and implied that her ideal would be to have an ASEAN Community in the near future, although she admitted that such an ideal may be somewhat unrealistic.⁴⁵

Despite the prevalence of positive views about ASEAN, some members of the academic community also retained certain scepticisms, particularly on the issue of ASEAN's capacity to find economic complementarity amongst its members. As a supporter of a macro-regionalism at the Asia-Pacific level, Prof. Lepi Tarmidi argued that the search for economic complementarity was more feasible at the APEC level than at the ASEAN level.⁴⁶ Most ASEAN member countries have traditionally been trade partners with APEC's non-ASEAN members and he felt that it was logical for Indonesia to focus more upon the development of APEC than on ASEAN. The original six ASEAN members were initially sceptical about entering the APEC forum, but later changed their minds owing to the non-binding nature of the agreement, which offered ASEAN countries the chance to pull back from APEC. For Dr. Bustanul Arifin, on the other hand, it was not a question of which regional grouping Indonesia should belong to.⁴⁷ He felt that specific attention should be given to enhanced co-operation outside the economic field, since economic co-operation had largely failed to generate any substantial improvements for member countries.

⁴⁵ An interview was conducted on 24th January 2001 in Jakarta. Dr. Dewi Fortuna Anwar was the former Assistant Minister for Foreign Affairs during the Habibie Administration. At the time of the interview, she held the position of the Executive Director for Research at the Habibie Centre, Research Associate at the Indonesian Institute for Sciences (LIPI – *Lembaga Ilmu Pengetahuan Indonesia*), and a Senior Researcher at the Centre for Information and Development Studies (CIDES).

⁴⁶ An interview was conducted on the 5th March 2001 in Jakarta. Prof. Lepi Tarmidi was a Senior Lecturer of Economics and the Director of APEC Study Centre at the University of Indonesia at the time of the interview.

⁴⁷ An interview was conducted on the 7th September 2001 in Jakarta. Dr. Bustanul Arifin was the Director of the Institute for the Development of Economics and Finance (INDEF) at the time of the interview.

Members of the academic community also gave varying responses regarding the development of AFTA and Indonesia's participation in the scheme. With regard to the development of AFTA, nearly all respondents agreed that it had been very positive, although some held a convergent standpoint on the issue. The majority of members of the academic community believed that AFTA had made a positive contribution towards the development of ASEAN member countries. One of the most important contributions highlighted was AFTA's capacity to provide a much needed stepping stone for member countries to compete in the world market. AFTA was, after all, intended to transform the conservative, protectionist, and inward-looking economic policies of member countries. The majority of respondents from the academic community also agreed that it was not the intention of ASEAN member countries to conduct trade liberalisation at the regional level *per se*. AFTA would make ASEAN member countries more confident that they will eventually become one of the major economic powers in Asia, if not in the world. Despite this, the majority of respondents also agreed that the issues of nationalism and sovereignty still limit the development of AFTA. Dr. Soesastro, in particular, criticised member countries' excessive persistence in protecting their own national interests. He felt that Malaysia, for instance, had continued to take protectionist measures to defend the national interests of its automotive industry. For the benefit of its two national cars, Proton and Perodua, the Malaysian government has postponed the liberalisation of its automotive industry until 1st January 2005. As of February 2004, tariffs imposed on the Malaysian automotive industry were between 42 and 300 percent. The Malaysian government planned to cut these tariff rates to 20 percent only, instead of the 5 percent imposed in other ASEAN countries (Shari 2003). Generally, therefore, it was felt that ASEAN countries remained closed.

Although the majority of members of the academic community viewed the existence of ASEAN as positive, many of them also showed reservation about the development of AFTA and Indonesia's participation in the scheme. In the view of Dr. Anwar, for example, many people were unhappy with the government's decision to implement AFTA. Indonesia was simply not ready to enter the AFTA scheme as a result of the economic crisis. It was, therefore, rather unrealistic to ask many Indonesian domestic industries to participate in AFTA since they needed time to recover. In the worst case scenario, Indonesia would be flooded with foreign goods if the government maintained its policy on AFTA. On the whole, Dr. Anwar believed that AFTA would be difficult to implement in Indonesia. Even if the country had not been hit by the economic crisis, Indonesia had a long tradition of protectionism in the region. It could even be argued that there is no reason for Indonesia to participate in AFTA when the country itself already constitutes a large market. The amount of investment conducted by Indonesian entrepreneurs in other ASEAN countries was limited. In 2003 alone, for example, the Board of Investment of Thailand (BOIT) only noted one foreign investment from Indonesia.⁴⁸ It was felt to be difficult to persuade Indonesians that AFTA would be beneficial to the national economy. Moreover, it would also be difficult to convince Indonesians that trade liberalisation at the ASEAN level would provide a training ground for competition in the world market. Moreover, Prof. Tarmidi also added that the economic crisis will create problems for member countries which fail to reach the agreed targets. As of February 2000, for example, there were about 53,229 items listed into the inclusion list.

⁴⁸ As reported in the BOIT official website at:
http://www.boi.go.th/english/tid/data/BOI_statistics_fi.html

However, the crisis will undermine AFTA targets since developing member countries will find it difficult to follow the developed countries in liberating their economies.

On the whole, however, the majority members of the academic community believed that Indonesia was definitely ready to join AFTA, although the scheme should be treated cautiously. For Dr. Soesastro, Dr. Luhulima, and Prof. Tarimidi, Indonesia was far more ready than its ASEAN counterparts, such as Malaysia and Thailand, to join the AFTA scheme. The Indonesian market was liberalised in 1995, when the AFTA arrangement was still in its infancy. Dr. Soesastro also added that, prior to 2002, nearly 60 percent of Indonesian traded items had already reached a 0-5 percent tariff level. The respondent felt optimistic that the remaining 30 percent of traded items would reach a tariff level of below 10 percent by the time AFTA was implemented. Generally, therefore, Indonesia's tariff levels are relatively low, although there are some exceptions, such as those in the automotive, chemical, iron, and steel industries, where tariff rates are still above 50 percent.⁴⁹ In addition, Dr. Luhulima also postulated that lowering the Indonesian tariff rates to 0-5 percent would have little impact on the overall domestic economy as the average tariff rate of Indonesia at the time of the interview (2001) was 8 percent. He even criticised some Indonesian business associations, particularly KADIN, for insisting that the government should postpone the AFTA schedule to 2005. Instead of pulling back from AFTA, he felt it would be better to differentiate between the industrial sectors that were ready, such as garment and electronics, and those that were not ready, such

⁴⁹ Indonesia's automotive industry has the highest tariff rates to date. Reports by the Asian Automotive Business Review (2000), for instance, indicated that import tariffs for passenger cars could reach as much as 65 percent plus 30 percent luxury tax. Prior to 1999, the tariff rate for the same item was 200 percent, plus 35 percent luxury tax.

as agriculture sector, to join AFTA.⁵⁰ Meanwhile, although Prof. Tarmidi remained sceptical that AFTA would be implemented fully by 2002, he was convinced that the Indonesian market was by far one of the most liberated markets in the region. Many of the liberalisation measures in the country have been in line with the country's commitment to the WTO and other multilateral agreements. Moreover, owing to the recent chaotic domestic economic conditions, he felt that Indonesia was bound to liberalise further, and the level of trade would increase following trade liberalisation, thus increasing the growth potential of the country.

Apart from members of various Indonesian business associations and members of the academic community, there were also some representatives of Indonesian NGOs and CSOs who held a convergence standpoint on the issue. Indonesian NGOs and CSOs, such as the Pesticide Action Network Indonesia (PANI),⁵¹ the Federation of the Indonesian Workers Union (FSPSI - *Federasi Serikat Pekerja Seluruh Indonesia*),⁵² Indonesian Consumer Organisation (YLKI)⁵³, the Leadership for Environment and Development (LEAD)⁵⁴, the Uni-Social Democrat

⁵⁰ According to the respondents from the BKPM, the Indonesian government, until now, classified foreign investment into three categories, which were open, semi-open, and closed. The classification depends upon the capacity of the industry to compete with foreign competitors. Industries categorised as closed, such as agriculture and communication industries, are normally in their infancy level, whilst those categorised as open, such as textile and garment, are capable of competing with foreign competitors.

⁵¹ PANI was originally formed following a meeting of various civil society groups in Penang, Malaysia, in 1982, under the auspices of the International Organisation of Consumers Union (IOCU). The meeting was held to discuss concern over the irrational use of pesticides. To date, the group is committed to protect the health and safety of the people and the environment from pesticides and genetic engineering. The interview with the Director of PANI, Reza Tjahyadi, was conducted through electronic mail. The information sent to the author was received on the 8th February 2001.

⁵² FSPSI has been traditionally known as the government's supported trade union. Despite the recent rise in the number of trade unions, FSPSI claims to have the largest membership in Indonesia. Yacob Nuwa Wea, who at the time held the position of the Head of FSPSI, was interviewed on the 20th January 2001 in Jakarta. He is currently the State Minister of Manpower and Transmigration under the Megawati administration.

⁵³ An interview was conducted on the 9th September 2001 with Indah Sukmaningsih, the Director of YLKI, in Jakarta.

⁵⁴ An interview was conducted on 25th August 2001 with M. Kismadi, the National Programme Director of LEAD, in Jakarta

(UNISOSDEM),⁵⁵ and Information and Civic Studies (KLIK – *Kajian Layanan Informasi untuk Kedaulatan Rakyat*),⁵⁶ generally support the concept of regionalism in Southeast Asia as long as it serves Indonesia's national interests. At the same time, however, the representatives from these NGOs and CSOs also felt rather indifferent about ASEAN. Regional issues, after all, have not been on the agenda of many Indonesian NGOs and CSOs. Amongst these NGOs and CSOs, only PANI that showed genuine interest about both national and regional issues.⁵⁷ For the remaining NGO and CSO workers, the main reason for overlooking regional issues was the limited amount of information disseminated on Southeast Asian regionalism issues by both the ASEAN Secretariat and the government. Another reason has been that NGOs and CSOs did not see ASEAN as a potential threat to the national development of the country. The majority of NGOs and CSOs interviewed were convinced that larger international institutions, such as the WTO and the IMF, pose a greater threat to the preservation of national sovereignty and the national interests of the country.

Unlike PANI, other NGOs and CSOs that fall within convergence category were largely uninformed about the development of ASEAN, in spite of their knowledge of the history of ASEAN. As the Head of the Federation of the Indonesian Workers Union (FSPSI) postulated, Indonesia is presently experiencing acute internal problems, which makes it impossible for local NGOs and CSOs, including FSPSI, to focus on Indonesia's foreign policy or ASEAN. Despite this, they were still

⁵⁵ An interview was conducted on the 25th September 2001 in Jakarta with Bambang Warih Koesoema, the Executive Director of UNISOSDEM.

⁵⁶ An interview was conducted on the 20th July 2001 with the Head of KLIK, Yasir Alimi, in Hull, UK.

⁵⁷ The activities of PAN Indonesia cover the whole Asia-Pacific region. In 1988, for example, PAN Indonesia, along with similar organisations in other Southeast Asian countries, formed the Southeast Asian Sustainable Network (SEASAN). Subsequently, in 1996, the group also became a board member of the Southeast Asian Council on Food Security and Fair Trade (SEACFSFT), which was formed in Quezon City, Philippines. In general PAN Indonesia has traditionally supported the notion of regionalism in Southeast Asia.

interested in the development of ASEAN, although most information concerning this issue had come mainly from the media. FSPSI was mainly concerned with possible trade liberalisation measures both at regional and international levels, which would have significant impacts on the well-being of domestic workers. Meanwhile, the representatives from YLKI, LEAD, UNISOSDEM, and KLIK maintained that negotiations between governments and pressure groups were easier to conduct at the ASEAN level than at the macro-regional level, such as APEC. Experts at the macro-regional level mainly consist of those trained in developed countries whose opinions often neglect the main concerns of local consumer protection groups. Negotiations with other consumer protection groups at the ASEAN level are more effective since problems encountered amongst groups in the region would have more similarities than those encountered at the broader Asia-Pacific level. Despite this, all the maximalist respondents interviewed criticised the government for its lack of interest in involving local NGOs and CSOs in dealing with regional problems. This has been evident, *inter alia*, in the lack of attempts made by the government to properly disseminate information regarding ASEAN-related matters to local NGOs and CSOs.

The representatives from PAN, FSPSI, YLKI, LEAD, UNISOSDEM, and KLIK, also supported the development of AFTA and Indonesia's participation in the scheme. In the view of representative of PANI, for example, AFTA was preferable to other multilateral trade liberalisation measures, such as those of the WTO. In 1996, PANI and other similar pressure groups in Southeast Asia conducted a preliminary study on the feasibility of AFTA. Although the study showed positive results, PAN has recently raised concern over the proposed decrease in Indonesia's tariff levels on agricultural products when AFTA is implemented. At the same time, the country is

also expected to reduce its import tariffs on rice to zero percent. Despite this, AFTA was seen to be inevitable, and, as a result, PANI has made significant efforts to study the scheme further. Despite their support towards AFTA, some NGOs and CSOs that fall within the convergence category also expressed concerns over the items in AFTA's inclusion list and over the public reaction towards the government's decision to accelerate the schedule of the scheme. The representatives from UNISOSDEM, FSPSI, and the Indonesian Human Rights Group (Komnas-HAM – *Komisi Nasional untuk Hak-Hak Asasi Manusia*),⁵⁸ for example, believed items included in the scheme's list should be added on step-by-step. It was felt, therefore, that there should be more meetings amongst ASEAN member governments' officials in order to increase the efficiency of AFTA. In addition, they also criticised decisions made within the AFTA framework as highly illogical. Southeast Asian leaders, for example, had been very reluctant to discuss any important issues apart from trade, such as labour and the environment. By neglecting these important issues, it was expected that the implementation of AFTA would likely face stiff opposition from many domestic forces.

7.4. ASEAN regionalism and Indonesian nationalism

The question of Indonesian nationalism versus ASEAN regionalism has been the central analysis of this thesis. The importance of this question lies in whether Indonesian nationalism acts as an impediment to the development of ASEAN regionalism. Those respondents categorised as maximalists contended that Indonesian nationalism can be strengthened through the country's commitment in

⁵⁸ An interview was conducted on the 10th August 2002 with Dr. Charles Himawan, a member of the Board of Directors of the KOMNAS-HAM. He is also a faculty member of the Department of Economics at the University of Indonesia.

ASEAN. On the other hand, Indonesian minimalists maintained the opposite, and argued that Indonesian nationalism is gradually weakening today as a result of increased trade liberalisation. All respondents within the convergence category held a rather pragmatic view on the subject, and insisted that emphasis should be placed on the concept of *logical nationalism*, in which regionalism is perceived as an enhancement of Indonesian national interests, rather than *romantic nationalism*. On the whole, however, the relationship between nationalism and regionalism was once again proven to be symbiotic since the majority of respondents could be placed within the maximalist and convergence camps.

2.4.1. Maximalist

The respondents within the maximalist camp believed mainly that ASEAN regionalism is crucial to the well-being of Indonesian nationalism. In addition, ASEAN regionalism was thought to be useful in helping the Indonesian government eradicate its many domestic problems, particularly the threat of national disintegration. The maximalist camp consisted mainly of two representatives from Indonesian government institutions, officials from the ASEAN Secretariat and representatives from various foreign embassies. The majority of these respondents supported the argument that Indonesian nationalism would be strengthened through further commitment to the ASEAN regionalisation process. Amongst governmental officials, only officials at the Ministry of Foreign Affairs (MFA) and the Ministry of Finance (MoF) expressed a maximalist attitude on the issue of the relationship between Indonesian nationalism and ASEAN regionalism. The official respondent from the MoF argued that Indonesia has so far been committed to the process of

regionalisation in Southeast Asia and the Indonesian government has given no indication that it might take any drastic moves that may jeopardise its commitment in AFTA. Many Indonesians have begun to realise that ASEAN and its AFTA scheme will serve Indonesia's overall national interests at the domestic and global levels. At the domestic level, Indonesia's participation in AFTA will help Indonesia achieve sustained economic development, which is a necessary ingredient of national stability and unity. At the international level, Indonesia's participation in AFTA will give the country a much needed stepping stone towards wider multilateral trade agreements, such as those within WTO frameworks.

An official from the MFA also believed that, to a large extent, the majority of Indonesians still perceive the tariff elimination measures within the AFTA agreement as positive. The official respondent interviewed, for example, convinced that AFTA would contribute significantly to the economic development of Indonesia. The more prosperous Indonesia, the more likely that the Indonesian government would be able to eradicate many domestic problems, particularly those associated with the threat of national disintegration. The rise of ethnonationalism in Indonesia has been associated with unequal economic distribution throughout the country. Therefore, AFTA has become part of Indonesia's national interests. Another encouraging aspect of AFTA has been ASEAN countries' attempts to overcome the problem of economic competition. The small markets of Singapore and Brunei, for example, are becoming increasingly dependent on their neighbours as sources of natural resources. Even a large country such as Indonesia has become increasingly dependent on Thailand for rice imports. This is a starting point from which ASEAN's initiatives for further regionalism can be taken up. Another way to increase the levels of intra-trade is to

focus upon the development of finished goods production rather than on raw materials. A number of Southeast Asian countries have initiated such projects in the past but failed to sustain them as a result of their incapacity to produce and to sell high quality products. This issue remains a challenge for the participants of AFTA. Indonesians are now increasingly aware of the positive outcomes that regional trade liberalisation will bring to the country. It is, therefore, unlikely that nationalism will present a major stumbling block to the progress of regionalism.

Meanwhile, the representatives of the ASEAN Secretariat and foreign embassies also gave their perceptions about Indonesian nationalism and ASEAN regionalism. Most representatives of the ASEAN Secretariat and foreign embassies convinced that Indonesia has still followed through on its commitment at the regional level. There is no significant evidence to suggest that Indonesia will be withdrawing from any arrangements made at the ASEAN level. The representatives of the ASEAN Secretariat in particular noted that even in the past Indonesia has never actually withdrawn from ASEAN's regionalism initiatives. The failure of past projects has led to an agenda of compromise that will accommodate the interests of all member countries. It is important to point out that ASEAN is still relatively young and is learning to accommodate the differences between its members. The respondents expected that the Association would come up with new and fresh ideas to promote further integration. As regards the AFTA agenda, Indonesia is still one of the most open countries in the region. By the end of 2000, for example, Indonesia was ranked third amongst AFTA participants, behind only Thailand and Malaysia for the number of items listed for inclusion under the CEPT scheme.⁵⁹ In addition, the respondents

⁵⁹ Data for the CEPT Product List for the year 2000 is provided in Chapter 6, Table 6.2.

also thought that the Indonesian public is becoming increasingly aware that their country's commitment to ASEAN and AFTA will help the Indonesian government manage the many domestic problems that have emerged since the economic crisis in 1997. The threat of national disintegration, for example, has been mounting since Suharto stepped down from presidency in 1998. Uneven economic prosperity throughout Indonesia could be better dealt with if Indonesia remained focused on its foreign economic policy (FEP), particularly on AFTA.

Moreover, the representatives of the US embassy also added that the Indonesian government is still able to balance its interests at the regional level. It was felt, therefore, inappropriate to refer to nationalistic sentiments amongst Indonesian citizens against ASEAN. The respondent also added that the most negative reactions were directed towards international institutions, such as the IMF, the World Bank, and developed countries, such as Australia, Britain and the US. The respondent referred to the number of demonstrations held in front of the US and the British embassies since the start of the economic crisis. The representatives of the Thai and the Brunei Embassy also held a maximalist standpoint on the issue. It was argued by both respondents that most people in the Southeast Asian region have probably realised that they no longer live in isolation. Collective attempts to cope with the challenges of globalisation are therefore inevitable. To that end, the Thai government proposed a flexible engagement system in 1998, which will enable each member state to deal solely with its own problems. Consultation at the regional level will only be conducted if the troubled member government is unable to cope with the problems on hand. The notion of nationalism and regionalism should, therefore, be balanced out, depending on each individual country's need at that time. Despite this, both

respondents convinced that ASEAN has been able to maintain member countries' sovereignty and national unity. In light of possible threat of disintegration Indonesia, for example, the Thai government, as noted in Chapter 3, was committed to support Indonesia's national unity. The representative of the Brunei Embassy similarly insisted that nationalism has not caused problems in the development of ASEAN. On the contrary, most ASEAN countries realise the necessity of regionalism initiatives to handle regional problems.

2.4.2. Minimalist

Those in the minimalist camp did not believe that ASEAN regionalism has contributed much to the preservation of Indonesian nationalism. Many respondents in the convergence category felt that ASEAN's continued pursuit of open regionalism has threatened Indonesian culture and identity. The majority of respondents within the minimalist camp consisted mainly of representatives from Indonesian NGOs and CSOs. One prominent nationalist figure during the research interview was Adi Sasono, the Head of ICMI. Sasono convinced that nationalism has been a quite significant force in Indonesia in recent years. As mentioned in Chapter 5, Sasono was once regarded as the nationalistic figure who introduced the *People's Economy (Ekonomi Kerakyatan)* system when he held the post of Minister of Co-operatives and SMEs during the Habibie administration. The people's economy system was regarded as highly nationalistic as it did not favour the development of large conglomerates, which were mainly composed of ethnic Chinese Indonesians and foreigners. At the time it was feared that such a policy would hinder the development of foreign investment in the country. On the contrary, the Indonesian economy in fact

improved when the policy was implemented. The Indonesian economy is mainly composed of many SMEs, although their contribution was only about 14 percent of the total national GDP in 2001.⁶⁰ Unemployment was at a high of 20 percent at the time, and the poverty level reached 39 percent in 1999. The People's Economy system was introduced at that time to balance the economy by making it more efficient and preventing monopolisation of the distribution and production processes. Sasono, therefore, rejected the nationalist tag attached to his policy. The policy worked reasonably well and created a significant change in the economy. By the time Habibie was removed from office in September 1999, the inflation level was down to about 10 percent, from an initial 77 percent, whilst the poverty level was slashed to about 14 percent.

Despite this, Sasono still regarded nationalism as a significant force in Indonesia and Indonesia does not necessarily benefit from ASEAN's attempt to promote open regionalism. Open regionalism in Southeast Asia has prompted the Indonesian government to open up its market, which has allowed transnational corporations (TNCs) to take charge of the Indonesian economy. Not only is Indonesia now flooded with foreign goods, Indonesians are increasingly influenced by foreign cultures. Therefore, it was hardly surprising to find nationalist sentiments in Indonesia, particularly since TNCs have begun to threaten Indonesian national identity. The respondent also mentioned the conflict between IBRA, Guthrie Ltd., and Indonesian local farmers as another example of the negative relationship between nationalism and regionalism. Nationalist sentiments against multinational companies

⁶⁰ In 2001 alone, there were 40,195,516 SMEs, which accounted for about 99.9 percent of total enterprises in Indonesia. Detail statistics of Indonesian SMEs can be obtained from the official website of the Ministry of Co-operative – Small and Medium Enterprises (MoC-SMEs) (2001) at: http://www.depkop.go.id/situs/dt/dtukm/index_data_ukm_2000.asp

normally occur when companies threaten the livelihood of local people. Although IBRA insisted that such nationalist sentiments were provoked by members of the local company involved, the respondent was convinced that nationalism amongst local people still exists although it may not be virulently expressed. On the whole, Indonesia is experiencing problems of governmental mismanagement, which are caused mainly by the lack of strong leadership. The current government's foreign policy has been very vague in comparison to those of the Old Order and the New Order governments. It is very unfortunate that Indonesia lacked a foreign policy focus at the start of the economic crisis.

Other respondent categorised within the minimalist camp was the representative of the National Student League for Democracy (LMND – *Liga Mahasiswa Nasional untuk Demokrasi*).⁶¹ The respondent believed that Indonesian nationalism and ASEAN regionalism have been used rhetorically by certain group of people to protect their economic interests. As with the Head of ICMI, the representative of LMND also argued that ASEAN regionalism is nothing more than a trade block that makes up the current capitalist system. Indonesian nationalism and the creation of ASEAN and its AFTA scheme have not only represented the economic interests of certain groups,⁶² but they have also been transformed in order to accommodate the interests of developed countries and large TNCs. The economic crisis has played a major role in eroding Indonesian nationalism and sovereignty as

⁶¹ An interview was conducted on the 20th December 2000 with Reindhardt Sirait, an activist of LMND, in Jakarta.

⁶² The military's involvement in Indonesian daily economic life was often cited as a case in point. The Indonesian military has often used nationalistic themes for the purpose of securing their economic interests in the country. The involvement of the Indonesian military in business has been prevalent since the early 1970s, through the formation of the *Kartika Eka Paksi Foundation*. To date, the foundation owns a total of 26 firms and seven joint ventures (Langit 2002), most of which support the welfare of military personnel and their families.

Indonesia was forced by international actors and institutions to remain economically open. During the early stage of the economic crisis, the government itself was unable to turn to its closest allies in ASEAN, as they too were facing domestic problems. It is, therefore, reasonable to suggest that Indonesian nationalist sentiments have abated and do not pose any immediate impediment to the progress of ASEAN's regionalisation process. The representative of LMND also pointed out that the work of ASEAN has been limited to talks and discussions only. Therefore, even if Indonesia has insisted on conducting a strong protectionist policy, it remains very unlikely that the progress of AFTA will be halted. As with the concept of nationalism itself, the concept of regionalism is regarded by many in the pressure groups as having an urban bias and being full of rhetoric.

7.4.3. Convergence

The majority of respondents interviewed held a convergence standpoint, arguing that the ASEAN regionalisation process can be perceived as an extension of Indonesian national interests at the regional level. Many respondents in this category believed that most Indonesians subscribed to a more logical concept of nationalism. In this context, Indonesians today were not necessarily inward-looking, but more aware of regional and international issues. This has been a common view amongst the representatives from most governmental institutions, business associations, members of the academic community, and Indonesian NGOs and CSOs. For Indonesian government officials, ASEAN is considered important to the Indonesian government owing to the Association's ability to, amongst other things, maintain regional harmony and security. In addition, a large proportion of government officials

also believed that regionalism is necessary to oppose the challenge of the globalisation. Some respondents also held a very pragmatic approach towards the issue, claiming that Indonesia should reassess the benefits of entering into multilateral arrangements, including ASEAN. However, the same pragmatists also argued that ASEAN is the only multilateral organisation that Indonesia should belong to, at least at the present time. It was further argued that through its presence in ASEAN, Indonesia is better able to preserve its national sovereignty. The representative of the Investment Co-ordinating Board (BKPM), for example, stressed that it is impossible for each ASEAN country to struggle on its own in an era of globalisation. Similarly, the representatives from the Ministry of Co-operative, Small and Medium Enterprises (MoC-SMEs) also added how important it was to control nationalism because it might hinder Indonesia's own development.

During the post-crisis period, two issues were controversial in relation to the debate over the rise of nationalistic sentiment in Indonesia. The first issue was the Indonesian Banking Restructuring Agency's (IBRA)⁶³ dealings in the sale of Indonesian assets to a Malaysian palm oil company, Kumpulan Guthrie Ltd.⁶⁴ The deal struck between the two parties involved a palm oil plantation, which covered about 265,777 hectares of land across several Indonesian provinces⁶⁵ and was previously owned by one of the largest Indonesian conglomerate groups, Salim

⁶³ Two interviews were conducted with the representatives from the IBRA, the first was with Noegroho Soetardjo, Head of Agency Planning and Secretariat Division, on the 7th March 2001, and the second was with Swasti Sawitri, an Economic officer of the IBRA Jakarta Branch, on the 31st July 2001. Both interviews took place in Jakarta.

⁶⁴ The IBRA is a special government agency that was established in 1998 and is responsible for the rehabilitation of the Indonesian banking sector after the economic crisis. The main activities of IBRA are to control assets previously owned by the troubled private sector and to sell those assets within the mandated timeframe of 2004. Although the IBRA preferred to sell these assets to other Indonesian entrepreneurs, the economic crisis made it impossible for other Indonesian conglomerate groups to purchase these assets. As a result, many of the troubled assets were subsequently offered to foreign investors.

⁶⁵ The largest palm oil plantation was in Riau, North Sumatra.

Group. Initially, the Salim Group promised local farmers that they would acquire control of over 70 percent of the land in the near future. However, the agreement between the local farmers and the Salim Group soon became invalid when IBRA took over the plantations and the Salim Group was forced to deal directly with the new owner. The sale of this asset provoked major debates amongst Indonesian politicians. Key nationalist figures argued that the sale ignored the interests of local farmers. More importantly, they were also concerned that Malaysia would become the major palm oil producer if the asset was handed over to the Malaysians.⁶⁶ Apart from that, the agreement also violated a 1999 forestry law, which restricts a company's control to only 20,000 hectares of land in one province, or a total of 100,000 hectares throughout the country. Nationalist sentiments were not only prevalent in the capital, but also amongst provincial government officials and local farmers. In Riau, for example, members of the provincial parliament played the nationalist card by threatening the security of potential foreign investors. However, some supporters of Kumpulan Guthrie in the Indonesian government argued that the cancellation of the sale agreement would be a major blow to Indonesia's efforts to regain the confidence of foreign investors, which had been fading since the economic crisis began.

The IBRA was indeed facing a dilemma, torn between the concerns of the provincial governments and local farmers and the importance of protecting Indonesia's international credibility. By March 2001, however, the IBRA decided to go ahead with the agreement and sold the disputed asset to Kumpulan Guthrie for a total of US\$ 368 million. Kumpulan Guthrie has made a token gesture to local interests by allowing local farmers to control 10 percent of its land within a three to

⁶⁶ Malaysia and Indonesia are the world's two largest palm oil producers, with Malaysia accounting for about half of the global output and Indonesia about 30 percent.

five year timeframe, along with a further 20 percent of public shareholding. Although the deal raised anger amongst some Indonesian domestic constituents, an IBRA official interviewed argued that nationalistic sentiments had been stirred up by certain individuals who were interested in acquiring shares in the disputed asset. Moreover, he also argued that there was a possibility that members of the Salim Group were also involved in stirring up public anger in an attempt to repossess their old assets. Although the Indonesian government prohibits such actions, members of the Salim Group were potentially able to repossess their old assets by setting up a *shadow company*⁶⁷ that claimed to have no affiliation to the Group. Moreover, the respondent also believed that the Salim Group had paid the local farmers to protest against foreign control of the disputed land, which created an impression that nationalistic sentiments were rising.⁶⁸ The IBRA official was not convinced that there had been any strong nationalistic upsurge against foreign investment in the country. According to him, concern over the issue of nationalism was exaggerated and was not necessarily a factor that would halt the progress of AFTA.

A more recent rise in nationalistic sentiment in the country is evident in the case of the implementation of the Regional Autonomy Laws (RALs). Although the majority of government officials held a convergent standpoint on the relationship between nationalism and regionalism, some respondents also contended that the implementation of the RALs brought new challenges to the concept of Indonesian nationalism. Although the Indonesian government has recently been putting efforts

⁶⁷ According to the IBRA official interviewed, the term 'shadow company' here means a new company established by the owners of troubled assets in order to repossess their old assets. They have conducted such an action through their associates or affiliates who claim to have no connection with the owner of the troubled asset.

⁶⁸ Despite such claims, the respondent failed to produce any hard evidence to indicate malpractice in either the bidding process or the supposed bribery conducted by the Salim Group.

into revising the content of the RALs, many sections of Indonesian society maintain that the Indonesian government is not yet ready to handle the possibly chaotic implementation of the RALs. One main problem highlighted is that the RALs would trigger conflict between the central and the provincial governments. Furthermore, there are only a handful of provinces that would be able to prosper economically once the law is implemented. A study by the Depperindag (2000: 40) has revealed that there are only five provinces that will benefit from the implementation of the RALs, which include Riau, Papua, East Kalimantan, Aceh, and South Sumatra, all of which are resource rich provinces. Others, including Jakarta, could face bankruptcy once the RAL is implemented. Moreover, the Indonesian business community was concerned about the 1,006 different bureaucratic provincial regulations (PERDA – *Peraturan Daerah*) that will cause problems to Indonesian domestic trade and international competitiveness.⁶⁹ Provincial governments have clearly become accustomed to the centralised system employed by the New Order government. The sudden implementation of RALs has given them greater authority over their own region. However, perceptions amongst officials at the provincial governments have been varied since the RAL was implemented.

Amongst governmental institutions, the Ministry of Home Affairs (MHA) and the Directorate General of Central and Local and Fiscal Balance (DPOD - *Dewan Perimbangan Otonomi Daerah*)⁷⁰ have been two of the most active government institutions in overseeing the implementation of the Regional Autonomy Laws (RALs). The author, however, was only able to conduct interview with a

⁶⁹ As reported in *Kompas* (2001c), or visit the *Kompas* official website at: <http://www.kompas.com/kompas%2Dcetak/0109/06/utama/perd01.htm>

⁷⁰ An interview was conducted on the 10th August 2001 with Kadjatmiko, the Secretary of the Directorate General of DPOD, in Jakarta.

representative from the DPOD since it proved difficult to meet with officials from the MHA. The questions set for the respondent were largely designed to stimulate discussion on the implementation of the RALs and their impact on AFTA. Although the respondent held a convergent stance on the issue of nationalism *vis-à-vis* regionalism, he believed that the immediate public interpretation of the RALs has been highly ethnonationalistic. However, in the eyes of the Indonesian government, this public response is to be expected and is part of the process of further democratisation in the country. The central government has conducted many dialogues with its provincial counterparts to reach an understanding between the involved parties. The respondent also added that, to date, most provincial constituents mainly support the general concept of RALs. Despite this, the respondent argued that the implementation of the RALs will have a major impact on the ASEAN regionalism process, particularly in the short-term. One main problem that was highlighted was the lack of human resources to cope with the demand generated by the RALs. With the implementation of these laws, individual provincial laws will create inefficiency within AFTA, particularly those laws related to provincial investment. Attempts to anticipate such problems, however, have been made by the central government. For example, revisions have been made regarding the 68 problematic provincial regulations that might produce a negative impact on the investment climate throughout Indonesian provinces. The former Minister of Home Affairs, Hari Sabarno, announced that many of these laws should be pulled back from operation.⁷¹

Officials at other governmental institutions also held a similar position regarding the implementation of the RALs and the progress of AFTA. Officials at

⁷¹ As reported by the Support for Decentralization Measures (SfDM) (2002: 3)

both National Development Planning Board (BAPPENAS – *Badan Perencanaan Pembangunan Nasional*)⁷² and the Custom and Excise Office, for example, believed that Indonesia has extensive immediate problems with the implementation of the Regional Autonomy Laws (RALs), particularly regarding the rise of ethnonationalism, which will have substantial effects on the progress of AFTA. The officials from BAPPENAS pinpointed the central government's inability to provide a concrete plan to handle both the RALs and AFTA. The problem does not exist only between the central and the provincial governments, but also amongst officials in the capital. The Directorate General of the Custom and Excise Office asserted that the implementation of the RALs is chaotic at the moment and its impact on regionalism would be significant. Indonesian provinces will not be allowed to develop equally after the implementation of the RALs. Another problem with the implementation of the RALs is the lack of appropriate facilities in some of the provinces, which will produce diverse outcomes amongst provinces when AFTA is implemented. The failure to address these issues properly will greatly impact on Indonesia's involvement in many regional co-operation schemes.

One provincial government institution interviewed, the Depperindag of East Java, however, provided a contrasting point of view.⁷³ The officials there argued that the introduction of the RALs would be a positive contribution towards the progress of AFTA. Many local districts were disinterested in dealing with foreign investments prior to the implementation of the RALs. The introduction of this law has promoted a sense of openness by allowing provincial entrepreneurs to deal directly with foreign

⁷² An interview was conducted on the 20th August 2001 with an official at the Bureau of Balance of Payment and International Relations who wished to remain anonymous.

⁷³ An interview was conducted with officials of the Government of East Java Province, Industry and Trade Office on 2nd September 2001 in Surabaya, East Java. All respondents in this government institution wished to remain anonymous.

investors.⁷⁴ Recently, the Depperindag office in East Java has also taken the initiative to promote openness within its region by allowing one of its district areas, Malang, to conduct a trade relationship with Johor of Malaysia. Such initiatives, however, pose another problem for the provincial government. Various districts throughout East Java have been competing against each other to attract foreign investments. It was suggested by the officials interviewed that there is a need to synergise the policies pursued in these districts. Generally, therefore, according to the officials interviewed, the implementation and the acceleration of AFTA will not be beneficial for individual Indonesian provinces for the time being. The various districts need to synergise all their policies prior to concentrating on foreign investments.

As with officials from various Indonesian governmental institutions, members of KADIN interviewed took an equally pragmatic approach on the relationship between nationalism and regionalism. Within KADIN, for example, members expressed different opinions about the subject. For KADIN's Head of ASEAN Committee, for instance, the government has acted in an excessive manner to promote Indonesian nationalism. The result of such conduct has been detrimental to the Indonesian economy. The respondent cited one example of such conduct, which was the government's indecision in solving the conflict between entrepreneurs and workers. The absence of adequate labour laws has intensified labour movements since the economic crisis. Indonesian workers often express their dissatisfaction through demonstrations that disrupt productivity and efficiency in the workplace. Subsequently, the representative from KADIN suggested that the government should have been more consistent and decisive in handling the widespread labour movements

⁷⁴ However, it is important to note that under Governmental Decree No. 25/05/2000 all forms of co-operation conducted between provincial governments and foreign institutions shall not contradict similar agreements made by the central government.

that may have slowed down the progress of the Indonesian economy. The government, moreover, has taken protectionist measures regarding international trade, which has hampered the national economy. Some sectors, such as industry and trading, communications, and energy, are still closed to foreign investments. Inefficiency in these industries has emerged as a result of the lack of competition. On the whole, therefore, Indonesia has not prospered well under its protectionist policy.⁷⁵ On the whole, therefore, Indonesia has not prospered well under a protectionist policy. The concept of Indonesian nationalism, therefore, must be changed, and should not be based on romantic notions, but on rationality. Moreover, the Head of KADIN also stated his concern over the impact of the rise of ethnonationalism, which was resulted from the introduction of RALs, towards AFTA. KADIN's early hypothesis suggests that AFTA would be affected substantially by the introduction of RALs because various provincial governments might impose divergent investment and trade laws towards foreign products and entities. To that end, KADIN has formed a monitoring team, Regional Autonomy Watch (KPPOD – *Komite Pemantauan Pelaksanaan Otonomi Daerah*), that will oversee the implementation of the RALs and their impacts on AFTA.⁷⁶

As with most government officials, the majority of respondents in the academic community can also be placed within the convergence camp with regard to their attitudes towards the relationship between Indonesian nationalism and ASEAN

⁷⁵ The Indonesian daily newspaper, *Kompas* (2004: 40), for example, reported that, due to the absence of competition, communication costs in Indonesia have remained one of the highest in Southeast Asia. The International telephone rate in Indonesia reached as much as US\$ 2.5 per minute in comparison to Singapore and Malaysia, both of which had international telephone rates below US\$ 1 per minute.

⁷⁶ The formation of the KPPOD was initiated during the national discussion on Saving the Regional Autonomy, which was conducted on 7 December 2000. Various civil society groups and academic think-tanks agreed to form an independent institution that is responsible for monitoring the implementation of the regional autonomy law. Further information regarding the KPPOD can be found at the Committee's official website at:
<http://www.kppod.org/>

regionalism. For both Dr. Dewi Anwar and Dr. Cornelis Luhulima, Indonesians are ambivalent about nationalism. On one hand, Indonesia has been fully integrated into the capitalist system, despite the rhetoric that Indonesian society is based on socialist principles.⁷⁷ Up until the present day, it has been common for leaders to preach about the importance of Indonesian nationalism. However, Indonesians are also influenced by consumerism and by external conditions. More importantly, Suharto's role in making AFTA possible should be noted. Although most of his advisers and other ASEAN countries were sceptical about it, the Indonesian leader was convinced that regional trade liberalisation was the way to face globalisation. On the other hand, national pride is still important to most Indonesians. Some Indonesian policy-makers, for example, still believed that Indonesia could stand on its own feet, without assistance from other countries. In recent years, however, there have been some changes to the context of Indonesian nationalism as a result of the recent wave of democratisation in the country. The majority of Indonesians are no longer inward looking in their attitude towards regionalism, although they may continue to resist pressure from the West. This is not to suggest that Indonesia is xenophobic towards the West, and Indonesians are becoming more aware of their regional consciousness. Nowadays most Indonesians base their nationalism on rational ideas (or pragmatic self interest) rather than on romantic notions.

Others in the academic community, such as Dr. Hadi Soesastro and Dr. Bustanul Arifin, asserted that regionalism is one possible way to maintain Indonesian

⁷⁷ Indonesian society has been regarded as socialist owing to the emphasis on co-operation and collective behaviour. The concept of *gotong royong* (mutual assistance), which refers to a collectivist organisation of the economy that is based on the principle of family, was apparent even before the independence period.

sovereignty *vis-à-vis* globalisation. Despite this, members of the academic community also criticised ASEAN member governments' inability to utilise the Association fully. Most countries in the region are still overly concerned with preserving their national sovereignties. Protectionist policies, such as those in the Indonesian agricultural sector and the Malaysian automotive sector already mentioned, remain major stumbling blocks towards further trade liberalisation in the region. In many ways, therefore, ASEAN still remains ineffectual. Member countries have always aspired to participate in international events, but are incapable owing to the lack of proper organisation in the Association. However, it is also important to note that the majority of ASEAN countries are more concerned about the threat of globalisation than regionalism. To that end, the majority of the people in the region have acknowledged the importance of an efficient regional organisation that is able to represent their interests at the international level. Northeast Asian countries have been asked to join ASEAN member countries to form a greater East Asian grouping. However, most members of the academic community were rather pessimistic about the progress of APT since ASEAN is still trying to adapt to the inclusion of its other new members.

There are divergent perspectives on the emergence of ethnonationalism as a result of the implementation of the RALs. On the one hand, the implementation of the RALs will create more bureaucracy at the provincial level, which will affect the investment climate in the country. However, respondents in the academic community who held such opinions regarded the emergence of ethnonationalism as a short-term euphoria resulting from the democratisation process. Moreover, the misinterpretation of the RALs might also result in the issuance of many bureaucratic laws which are not

conducive to the national investment climate. Therefore, the implementation of the RALs and the emergence of ethnonationalism will remain a major challenge for the central government. On the positive side, however, the implementation of the RALs will enable all provinces to handle their own affairs, although most provincial regulations should be in line with central government ones. For Prof. Lepi Tarmidi, however, it was an exaggeration to suggest that the RALs would have any substantial impacts on the implementation of AFTA. Even long before the RAL was introduced, many areas in Indonesia, such as Riau and Batam, were already involved in various Growth Triangle (GT) initiatives. This indicates that some of these provinces already have the necessary experience to deal with regional trade liberalisation. However, it is also important to note that only a limited number of Indonesian provinces have been involved in the GT initiatives.

7.5. ASEAN regionalism and Indonesia's autonomy, bargaining power, and ability to contain the negative forces of globalisation

Three related factors that encourage state and non-state actors to support an RIS are the likelihood that an RIS will increase a country's international autonomy, thereby boosting its bargaining power and helping to contain the negative forces of globalisation. Respondents from the maximalist camp argued that ASEAN has helped to increase Indonesia's international autonomy and bargaining power in the international arena. More importantly, ASEAN was perceived as a tool to contain the negative forces of globalisation. Minimalist respondents, on the other hand, maintained that ASEAN has had little impact on Indonesia's international autonomy, bargaining power, and has not acted as a buffer against globalisation. Most minimalist respondents argued that events in Indonesia are still largely influenced by

international conditions. Consequently, minimalist respondents remained sceptical about whether ASEAN could bring about the aforementioned benefits of regionalism. Finally, those within the convergence category maintained that ASEAN's influence on Indonesia's international autonomy, bargaining power, and its ability to contain the negative forces of globalisation has only been obvious since the economic crisis of 1997. The significant number of respondents within the maximalist category affirmed the symbiotic nature of ASEAN regionalism and Indonesian nationalism.

7.5.1. Maximalist

Those within the maximalist camp believed that ASEAN has greatly contributed to Indonesia's autonomy and bargaining power in the international arena. Apart from that, maximalist respondents also felt that Indonesia would be better able to resist the negative forces of globalisation through ASEAN. The most respondents within the maximalist category were officials from governmental institutions, representatives from Indonesian business associations, members of the academic community, and representatives from the ASEAN Secretariat and foreign embassies. Officials from Indonesian government institutions, such as those from the Ministry of Foreign Affairs (MFA), Ministry of Industry and Trade (Depperindag), the Investment Co-ordinating Board (BKPM), and the National Logistic Agency (BULOG), and all representatives from Indonesian business associations, particularly the Indonesian Chamber of Commerce and Industry (KADIN), thought that ASEAN was as a useful platform from which to promote Indonesia's international autonomy and bargaining power. They felt that ASEAN's contribution to Indonesia's international autonomy and bargaining power was clearly demonstrated in Indonesia's

involvement in the WTO and in trade disputes with other regional groupings, such as the EU and NAFTA. The dispute between ASEAN, the EU, and NAFTA over the agricultural sector is a case in point. Subsequently, member countries of the EU and NAFTA imposed as much as 24 percent tariffs for agricultural products originating from ASEAN countries, whilst imposing lower tariff rates at around 1 percent for agricultural products from Africa, the Caribbean, and the Pacific (ACP) group. ASEAN, according to an MFA official, greatly benefits Indonesia because it can increase the country's bargaining power with the EU and NAFTA member countries. The Head of BULOG⁷⁸ shared a similar point of view and pointed out that Indonesia would find it easier to cope with the high agricultural tariffs imposed by most member countries of OECD (Organisation for Economic Co-operation and Development) through collective action taken at the regional level.

All Indonesian government officials interviewed also believed that multilateral trade bodies, such as the WTO, only represent the national interests of developed countries. All government officials and the representatives of the business associations also argued that although there may be differences in the interests of ASEAN member countries, on the whole, ASEAN countries usually raised similar concerns during multilateral trade negotiations. The significance of ASEAN had become more apparent since joining of three new member countries, Lao, Cambodia, and Burma, and with the possible expansion of ASEAN into ASEAN plus Three (APT). Many Indonesian government officials thought that any further enlargement of the Association was positive as it would increase Indonesia's international autonomy, bargaining power, and act as a buffer against globalisation.

⁷⁸ The interview was conducted on the 14th August 2001 with Widjanarko Puspoyo, the Head of BULOG, in Jakarta.

Some members of the academic community shared similar views to those expressed by government officials and representatives of Indonesian business associations. In AFTA-related matters, in particular, members of academics, such as Dr. Hadi Soesastro, Dr. Cornelis Luhulima, and Dr. Bustanul Arifin, believed that the scheme had made a positive contribution towards the development of ASEAN member countries. One of the most important contributions highlighted was AFTA's capacity to provide a much needed stepping stone for member countries to compete in the world market. AFTA was, after all, intended to transform the conservative, protectionist, and inward-looking economic policies of member countries. The majority of respondents also agreed that it was not the intention of ASEAN member countries to conduct trade liberalisation at the regional level *per se*. AFTA makes ASEAN member countries more confident that they will eventually become one of the major economic powers in Asia, if not in the world. Consequently, ASEAN member countries, through their commitment to AFTA, will be able to increase their international autonomy, bargaining power, and their ability to contain the negative forces of globalisation.

Meanwhile, representatives from the ASEAN Secretariat and foreign embassies believed that ASEAN has helped to increase the international autonomy and bargaining power of its member countries. In the absence of ASEAN, member countries would find it even more difficult to cope with the great challenges posed by the process of globalisation. It was for this very reason that the representatives from the ASEAN Secretariat, Thai Embassy and Brunei Embassy were positive about ASEAN enlargement and the strengthening of APT. Meanwhile, representatives from

non-ASEAN foreign embassies believed that ASEAN member countries' bargaining power and international autonomy have been weakened since the economic crisis in 1997. However, representatives of the ASEAN Secretariat and all foreign embassies interviewed felt that ASEAN member countries also realised that deeper regionalism in Southeast Asia was important as a mechanism not only to escape from the current economic crisis, but also to maintain or increase their bargaining power and international autonomy. The US, in particular, hoped that ASEAN would proceed with deeper economic integration, not only amongst ASEAN member countries, but also with Australia and New Zealand. The representative of the US Embassy thought that such integration would not only increase solidarity amongst these economies, but would also boost economy and trade, thus enabling member countries to achieve their respective objectives.

7.5.2. *Minimalist*

Unlike those in the maximalist camp, respondents in the minimalist camp argued that ASEAN's contributions to Indonesian international autonomy and bargaining power have been minimal. Apart from that, ASEAN's insistent pursuit of open regionalism has limited Indonesia's ability to resist the negative forces of globalisation. The majority of minimalist respondents were representatives from Indonesian NGOs and CSOs. Most of them were convinced that the contribution of ASEAN towards increasing Indonesia's international autonomy and bargaining power has been minimal. Moreover, they also added that ASEAN has been ineffective in resisting the negative forces of globalisation. According to a representative from the Indonesian Consumer Group (YLKI), although globalisation is an importance force

that must be discussed and dealt with, the Indonesian government and most Indonesian citizens remained unaware of the issue and the negative impacts that might ensue. To date, neither the ASEAN Secretariat nor the Indonesian government had provided enough information on the way in which positive globalism and regional governance could be implemented whilst resisting all the negative forces of globalisation.

Moreover, a representative of the National Student League for Democracy (LMND) also felt that regionalism in Southeast Asia represented regional capitalism that supported, instead of opposing, global capitalism. In reality, as with international trade in general, regionalism was only a trade agreement between the rich and the poor. As a result, ASEAN regionalism has not improved the fate of many Indonesian poor people. Indonesian labours, for example, have been fully exploited by transnational corporations (TNCs). When Indonesian labours rose to challenge these international entities, they simply moved to other locations in other ASEAN countries. ASEAN, as a regional grouping, has been unable to regulate this irresponsible behaviour from TNCs. Therefore, this was felt to indicate that ASEAN's contributions to increasing Indonesia's international autonomy, bargaining power, and in resisting the negative forces of globalisation have been minimal. Many representatives from Indonesian NGOs and CSOs felt that ASEAN should be more vocal in negotiations at a multilateral level so that its contributions can be felt amongst the poor.

7.5.3. Convergence

There were only two respondents that could be placed within the convergence category, both of whom were members of the academic community. Both respondents believed that ASEAN had helped to increase Indonesia's international autonomy, bargaining power, and ability to resist the negative forces of globalism only since the economic crisis in 1997. In the view of Dr. Anwar and Prof. Tarmidi, the impact of the economic crisis towards the development of ASEAN regionalism has been significant. On the one hand, the economic crisis had weakened the relationship amongst ASEAN member countries. There were several reasons for this. Firstly, ASEAN was never equipped to deal or to cope with the economic crisis. It would have been somewhat illogical for member countries to seek assistance from the Association when the economic crisis hit the region. Instead, all countries hit by the economic crisis automatically sought assistance from institutions outside ASEAN. Thailand and Indonesia, for example, agreed to loan packages from the IMF in August and October 1997. It was for this reason that ASEAN became irrelevant during the crisis. Secondly, member countries, particularly Indonesia, became engrossed with domestic problems, such as social unrest and the increasing threat of national disintegration, which meant that time and energy spent on regional economic co-operation was limited. Thirdly, there were complications in the relationship between member countries during the economic crisis. Countries that were not hit by the economic crisis were under an obligation to help the troubled ones. If assistance did not come from richer countries, relationships became strained. This has been evident in the relationship between Indonesia and Singapore in recent years. Nonetheless, precisely because of the crisis, and precisely because ASEAN was

helpless during the crisis, there has been a realisation that something has to be done to improve the situation. The crisis has thus become a catalyst in promoting greater regional co-operation amongst member countries, which, subsequently, helped to increase member country's international autonomy and bargaining power in the future.

Despite this, Dr. Anwar also added that ASEAN's enlargement process has actually weakened the grouping's international autonomy and bargaining position. Dr. Anwar did not agree with the admittance to the Association of new member countries, particularly Myanmar. Initially, ASEAN member countries expected Myanmar to be an observer before getting full membership into the Association, but for strategic and economic reasons, Myanmar was accepted as a full member. ASEAN leaders feared that an economic gap between ASEAN and Myanmar would exist if the latter was not accepted as a member of the Association. However, Dr. Anwar argued that Myanmar should have learnt how the Association works and, most importantly, should have dealt with their own domestic problems before joining. He felt, therefore, that the admittance of Myanmar into the Association had led to a deterioration in the level of Indonesia's international autonomy and its bargaining position in the international arena.

7.6. Other relevant issues: dissemination of information regarding ASEAN and AFTA

Another issue analysed in this thesis is the dissemination of information regarding ASEAN and AFTA-related issues to the general public by both the Indonesian government and the ASEAN Secretariat. Resistance to ASEAN and its

AFTA scheme often resulted from the lack of information, rather than nationalism, provided to the general public. Most knowledge regarding ASEAN and its development has been generated from either educational institutions or from publications provided for the general public. The field research reveals, however, that only a minority of the Indonesians interviewed have been able to access a significant amount of information regarding ASEAN and AFTA. It has been suggested that documents and newsletters regarding the development of ASEAN have not been widely available to the public, with the exception of ASEAN's annual report (Anwar 1994: 249). The majority of recipients have been members of the academic community and important economic actors. More importantly, the field research also reveals that the information passed on to governmental officials has not been equally distributed. This is the result of a lack of synergy between top and low level government officials on how to implement some of ASEAN's policies. Since the economic crisis emerged in 1997, however, the media has been taking a more active role in disseminating information regarding ASEAN, particularly since the implementation of AFTA. The dissemination of information is indeed crucial for the future of ASEAN regionalism as it promotes greater consciousness about regional issues and problems amongst Southeast Asians. If inadequate dissemination persists, especially from the top level, it is likely that ASEAN will continue to be an exclusive club for government officials at the ministerial level.

7.6.1. *Maximalist*

Those in the maximalist category generally believed that both the Indonesian government and the ASEAN Secretariat have provided sufficient information to the

general public. The majority of respondents placed within the maximalist camp were made up of some officials from governmental institutions and the representatives from the ASEAN Secretariat and foreign embassies in Jakarta. Responses regarding the aforementioned issue varied amongst government officials, depending on the institution in which the respondents worked. Officials who worked at the government institutions that deal directly with ASEAN-related issues, such as the Ministry of Foreign Affairs (MFA), the Department of Industry and Trade (Depperindag), the Custom and Excise Office, and the Ministry of Co-operative, Small and Medium Enterprises (MoC-SMEs), stated that they had been making substantial efforts to disseminate information to the public. Information was generally available through newsletters or publications, or the official website of all the ministries that dealt with ASEAN-related activities. Normally, all top-level officials at the ministerial level were required to obtain information on ASEAN-related issues. Subsequently, the information had to be disseminated to their subordinates. In some governmental institutions, particularly the MFA, there is a Sub-Directorate of ASEAN Socialisation and an AFTA unit that have the responsibility of disseminating ASEAN-related information to the general public, including the academic community and the private sector. In addition, the representatives of these government institutions also claimed to have conducted various workshops providing substantial amounts of information to the public, which were normally co-ordinated with the co-operation of the ASEAN Secretariat. On the 21st March 2001, for example, the Indonesian government and the ASEAN Secretariat launched the CEPT Outreach Programme to publicise the CEPT programme to the business community.⁷⁹ It was hoped that this programme would enable the business community to reap the full benefits from AFTA. Moreover,

⁷⁹ The first round of the CEPT Outreach Programme was held in Manila, Ho Chi Minh City, Kuala Lumpur, and Singapore on 26 March, 30 March, 4 April, and 6 April 2001 respectively.

government institutions such as the Depperindag also granted local companies consultations outside formal conferences and seminars.

The respondents who believed that both the Indonesian government and the ASEAN Secretariat had provided enough information to the public also pinpointed several problems in the information dissemination process. Government officials reported that the majority of Indonesian entrepreneurs had not been interested in becoming involved in many ASEAN activities. The CEPT Outreach Programme held in Jakarta, for example, attracted only 4 local companies, in comparison with the 100 Japanese companies, and a substantial number of government officials and representatives from various foreign embassies and the ASEAN Secretariat. The majority of entrepreneurs were reluctant to attend many ASEAN activities, and preferred to send their representatives instead. This caused problems of miscommunication between government officials and leaders of local companies. Even when a meeting was attended by leaders of local companies, any information then disseminated to their employees had been very limited. The underlying problem is that the majority of Indonesian entrepreneurs have failed to comprehend the benefits that they may reap from AFTA. Aside from the fact that Indonesia itself is already a large market, the majority of Indonesian enterprises also tend to conduct business with companies from non-ASEAN countries.

Meanwhile, officials of the ASEAN Secretariat and foreign embassies in Indonesia were optimistic about the dissemination process of the Secretariat and the Indonesian government. The only exception was the representative of the Brunei Embassy, who felt that both ASEAN and its member governments had been reluctant

to provide comprehensive information on ASEAN to the public. However, the respondent thought that both sides, the authority and the public, were equally responsible for the failure of the dissemination programme. The majority of the public had not paid much attention to the development of ASEAN, which could either be due to the Association's lack of progress or the fact it has done little for Southeast Asians in recent years. One important tool in the dissemination process is the media. Up until recently, however, the media has failed to deliver much information, which is partly due to censorship and the public's lack of interest in the subject.

For the ASEAN Secretariat, however, problems with regard to dissemination were mainly the fault of the government. The Secretariat claimed to have consistently communicated its policies to the public. This process normally stopped at the governmental level. ASEAN is an inter-governmental organisation that has adopted a non-interference system. Individual governments, therefore, have the right to either publicise or not to publicise ASEAN's policies to the public. The Secretariat normally passes information on to each member country's AFTA Unit. The Secretariat has refused to take responsibility for the way in which these Units might then disseminate such information at the national level. Moreover, the Secretariat also claimed that it had attempted to encourage the involvement of NGOs and CSOs in the past; particularly amongst ASEAN affiliated NGOs. In many cases, however, NGOs and CSOs were often reluctant to make any substantial contribution to issues proposed by the Secretariat. Therefore, it is perhaps unfair to point the finger of blame at the Secretariat alone.

The remaining foreign embassies in Indonesia, on the other hand, maintained that the information provided by the Secretariat had been well disseminated to the general public. AFTA-related issues, for example, were said to have been aired frequently by the local media in recent years. The representative of the US Embassy, in particular, was convinced that Indonesians were fully aware that their country is a major player in the region and were thus interested in hearing about ASEAN and AFTA. It was also claimed that the media was active in passing information to the public. In fact, ASEAN and AFTA-related issues appeared more frequently in the local media than, for example, multilateral trade issues. Other respondents in this category also felt that although the information provided had been sufficient, it was also important to inform non-ASEAN embassies on the most recent activities of the Association. To that end, the relationship between foreign embassies and the Secretariat should be expanded. During the field research, for example, the representative of the British Embassy was unsure of his government's view on many questions posed by the author, which suggests that there is limited interaction between the Secretariat and non-ASEAN foreign embassies.

7.6.2. *Minimalist*

Unlike respondents in the maximalist camp, those in the minimalist camp believed that both the Indonesian government and the ASEAN Secretariat have provided limited information to the general public. The majority of government officials interviewed held a minimalist standpoint on the issue. One of the most profound problems was that ASEAN-related information has also not been well disseminated amongst government officials. At the time when the interviews were

conducted, the majority of government officials stated that both ASEAN and AFTA issues were still very abstract to them. Decision-making processes on both issues have been mainly the concern of policy makers at the MFA, and perhaps the Depperindag for AFTA-related matters. Another problem was the lack of synergy amongst governmental institutions regarding ASEAN's various initiatives on regional integration. Some governmental officials also noted that even officials at the top ministerial level had been indifferent about ASEAN and AFTA, since many of the intergovernmental forums conducted at the regional level had been a place for informal talks and discussions only as opposed to an opportunity to concentrate on the real issues and problems that had to be tackled. Government representatives sent to these meetings have been forced by their superiors to attend. Some respondents also pointed out that the dissemination process in ASEAN and AFTA had only touched those who were directly involved, such as the private sector and a small number of interest groups. The same respondents, however, also questioned the usefulness of disseminating ASEAN and AFTA information to all layers of Indonesian society since most people were still only concerned about issues that directly affected them.

Concern regarding the dissemination of ASEAN-related information was also prevalent amongst members of the business community. Although some Indonesian business associations realised that both the ASEAN Secretariat and Indonesian government had tried to disseminate information on ASEAN and AFTA-related issues, they felt that such activities should be expanded. Aside from regular workshops and seminars on AFTA, there had been little in the way of public relations work to promote AFTA to the general public. This is important because it would not only increase people's awareness of AFTA, but it would also increase their level of

consciousness about regionalism and Indonesian foreign policy in general. The usual claim has been that problems of dissemination arise not only from the authority responsible, but also from the lack of interest shown by the general public. The business community opposed such a statement, stating that public interest could be generated if the subject was intensely promoted. To date, both the ASEAN Secretariat and the government had only disseminated general facts about ASEAN-related activities, but had not elaborated on the importance of involvement in their activities. Most business associations also complained that the information provided by the government was extremely technical. Finally, the business community also thought that the government should make fundamental changes to minimise bureaucracy so that information regarding ASEAN and AFTA could be more appropriately disseminated. Moreover, the majority of respondents interviewed in the business community category also agreed that SMEs were major constituents that had been left behind by ASEAN and AFTA.⁸⁰ Most SMEs claimed that neither government officials nor the ASEAN Secretariat had ever contacted them or invited them to participate in any regional activities. Some companies categorised as medium-sized enterprises acknowledged the existence of ASEAN and AFTA, and some even expressed interest in becoming more fully involved in the scheme. However, most of them stated that information from governmental institutions had not only been very technical, but also expensive to obtain. Therefore, for the private sector, the problem lay not only in the lack of interest expressed by the general public, but also the willingness of the government and the ASEAN Secretariat to promote their activities.

⁸⁰ The degree of evidence was demonstrated when the representative from the Indonesian Society of Small and Medium Scale Enterprises (KUKMI) even asked the interviewer to explain details concerning the implementation of AFTA. More interestingly, however, was the fact that even KUKMI, which shares office space with the Depperindag, claimed to have obtained little information regarding AFTA from the government.

As the major recipients of ASEAN information, the perspectives of pressure groups were the most important ones. As with respondents in other categories, the majority of people interviewed in the NGO and CSO category also held a minimalist standpoint on the subject. The problem in the relationship between ASEAN and local NGOs and CSOs was twofold. On the one hand, it is true that many local NGOs and CSOs have not been provided with appropriate information regarding ASEAN and its activities. As a result, the majority of local NGOs and CSOs were uninformed about the development of the Association. Although some NGOs and CSOs also admitted that both the ASEAN Secretariat and the Indonesian government had provided significant information regarding ASEAN and AFTA, both institutions had focused the dissemination on certain actors, mainly economic actors and members of the academic community. Most of the representatives of pressure groups also realised that ASEAN had been quite active in promoting regionalism in Southeast Asia, but thought that the Association should expand its activities to encourage greater participation from NGOs and CSOs. Most representatives claimed that they had never been contacted by the ASEAN Secretariat or been invited to any of the Association's activities. Even those who had dealt with the Association in the past stated that the Association had been slow to respond to their enquiries. Yet societies in the region are changing and are demanding a more democratic form of practice. To date, ASEAN and its member governments have been ignoring such demands.

On the other hand, some NGOs and CSOs, such as the Urban Poor Consortium (UPC), the Front National for the Indonesian Labour Struggle (FNPBI), the National Student League for Democracy (LMND), the Indonesian Friends of the

Earth (WALHI – *Wahana Lingkungan Hidup*),⁸¹ and Indonesian Consumer Group (YLKI), also admitted that the majority of people had not paid any attention to the development of ASEAN, including the AFTA scheme. Most NGOs and CSOs thought that AFTA did not pose an immediate threat to the Indonesian people. There was greater concern about other multilateral governing bodies, such as the IMF, WTO, and the World Bank. The same NGOs and CSOs also argued that since the creation of ASEAN, the Association has brought only poverty, not prosperity, to Southeast Asians. For most people, ASEAN and AFTA are tools used by a group of rich people to serve their economic interests. However, ASEAN and AFTA should also be seen as agents of public decision. Therefore, a regional network that provides sufficient information to the public regarding the development of ASEAN and AFTA should be established. The field research also revealed that there is an interest in building an ASEAN-wide network to accommodate the interests of people at the grass-roots level in the region. Unfortunately, bureaucracy at both the governmental and the regional level has limited the opportunity for such networks.

7.6.3. *Convergence*

Those within the convergence category felt that the Indonesian government and the ASEAN Secretariat have provided sufficient information to the public. However, they also believed that ASEAN's process of information dissemination should be expanded to include a wider range of domestic constituents, particularly small and medium size enterprises (SMEs), NGOs, and CSOs. Respondents within the convergence camp were mainly composed of members of the academic

⁸¹ Interview was conducted with Longgena Ginting, an activist of WALHI, on 4th March 2001, in Jakarta.

community. Members of the academic community realised that, in the past, ASEAN has provided limited information to the public. Recently, however, there have been substantial changes in the way in which the Association disseminates information regarding its activities to the public. One major drawback of ASEAN has been that the Association is an exclusive forum for member countries' foreign ministers. Some members of the academic community also pointed out that many things within the Association have been kept secret and confidential, alongside a strong tradition of bureaucracy. This has been part of the non-interference system practiced by ASEAN. Many people have acknowledged that ASEAN was formed this way to accommodate the interests of member countries' foreign ministers (Wanandi 2000: 31; Soesastro 2000: 189). In the last few years, there have been suggestions that the Association's existing organisational structure should be replaced. One suggestion has been to create a *Council of Ministers*, which would invite the Economic Ministers of all member countries to work together with Foreign Ministers, thus limiting the monopoly of ASEAN Foreign Ministers over activities within the Association. Another suggestion has been to elevate the position of national leaders in the decision making process. To date, these suggestions have either been ignored or rejected.

At the same time, however, members of the academic community also stated that most of the dissemination process would have to come from the top level. It is, therefore, important for policy makers to prioritise the involvement of the general public. From the field research, the author found that there were mixed ideas on whether the present structure of ASEAN allows for the involvement of people at the grass-roots level. A member of the academic community, Dr. Cornelis Luhulima, asserted that Indonesian foreign policy was better implemented during the New Order

period. The strongly autocratic methods of the regime enabled the government to create a more effective foreign policy than the present government, and also forced a consensus of view amongst various government institutions. Most members of the academic community, however, thought otherwise, arguing that such an autocratic method limits the involvement of people at the grass-roots level. ASEAN has tried to boost the involvement of Southeast Asian CSOs and NGOs by conducting various meetings between the Secretariat and people's representatives at the grass-roots level. The recent ASEAN People's Summit, which was held in Batam in 2000, was an example of community building at the regional level. There has been some recognition amongst top level governmental officials of the importance of involving non-state actors in regional activities. As a result, members of the academic community perceived ASEAN's process of dissemination of information should be expanded to include these pressure groups.

7.7. Conclusion

The field research analysis has provided an illustration in the way in which the contemporary relationship between nationalism and regionalism can be regarded as symbiotic. More specifically, it has shed a light on the contemporary perceptions of the recent development of ASEAN and its main economic integration mechanism, AFTA. Although to a large extent there have been few changes in the way Indonesian state and non-state actors perceive ASEAN and AFTA since the initiation of AFTA in 1992, it is clear that the majority of Indonesians are increasingly more aware of regional issues. The emergence of the regional economic crisis in 1997, in particular, acted as a catalyst to bring about greater awareness amongst Indonesians about

regionalism. There is no doubt that both the media and the emergence of new information technologies are also responsible for increasing public awareness of regional issue. This new development signals greater challenges for ASEAN in the immediate future. The Association, amongst other things, will be expected to interact better with its people. This is particularly applicable to recent ASEAN attempts to promote AFTA. Although there were quite divergent views on the development of AFTA, the majority of Indonesian state and non-state actors interviewed believed that this scheme would bring improve economic condition in the country.

Nevertheless, there was still doubt regarding Indonesia's readiness to implement the AFTA scheme. The regional economic crisis was most often cited by the majority of the respondents as the major problem for Indonesia in implementing the AFTA scheme. However, the most pressing problem that caused resistance towards AFTA was the lack of proper information disseminated to the public. It is for this reason that the new challenge for ASEAN is not only to become more interactive with its people, but also to become more transparent and accountable. Thus, the activities of ASEAN must be expanded to accommodate the increasing numbers of CSOs and NGOs throughout the region. This should be seen as a new mechanism to minimise any possible public misunderstanding of the scheme. ASEAN must take into account that Indonesians, as with the citizens of other ASEAN countries, no longer perceive regionalism as a threat to their daily lives, but as means to serve their country's national interests. To sum up, therefore, the success of ASEAN's current and future projects will be determined by the Association's capacity to become less bureaucratic, and more transparent and accountable to its people.

Chapter 8: Conclusion

8.1. Introduction

The main objective of this thesis has been to analyse the dynamic relationship between nationalism and regionalism. As demonstrated throughout the thesis, nationalism and regionalism stand in a symbiotic relationship to one another. Therefore, the relationship between the two variables is not necessarily contentious, and it can be mutually reinforcing. This analysis hopes to contribute to the ongoing debate within the New Regionalism Theory (NRT), most of which has focused on an analysis of the regional-global nexus. In contrast, this thesis has provided a domestic focus on the pursuance of a regional integration strategy (RIS). Thus, as with some of the current analyses of the relationship between nationalism and trade liberalisation (Crane 1999; Shulman 2000; Helleiner 2002; Pickel 2003), this thesis also argues that, in light of the increasing trend towards globalisation and regionalism, nationalists today must change or adjust their strategy in order to achieve their objectives of: (1) sustained economic development; (2) national unity; (3) the state's autonomy in international fora; (4) the promotion of national identity; (5) the formation of regional collective action to contain the negative forces of globalism and to achieve regional governance through positive globalism and regionalism; and (6) the elevation of the nation-state's bargaining power at the international level.

Therefore, in this concluding chapter, the author aims to recapitulate on the analysis of the relationship between Indonesian nationalism and ASEAN regionalism. The results of the case study analysis suggest a shifting paradigm in the attitude of

Indonesian state and non-state actors towards ASEAN and its activities in recent years, albeit not a drastic one. The shift is from a traditional nationalistic approach, which reflects an inward-looking attitude, to a more liberal approach towards the concept of ASEAN regionalism. In this context, regionalism is no longer perceived as a threat that undermines the sovereignty of a nation, but is perceived as an enhancement of Indonesian national interests. Essentially, the new form of Indonesian nationalism today is not necessarily dogmatic, or based on a romanticised notion of nationhood. This shift suggests that Indonesians are increasingly aware of regional issues and want ASEAN to expand its activities and to include a wider range of participants within society. The primary analysis of this chapter, therefore, will examine NRT and the findings of this study to explain the relationship between Indonesian nationalism and ASEAN regionalism.

8.2. NRT and the research findings: explaining the relationship between Indonesian nationalism and ASEAN regionalism

NRT analysis has traditionally placed regionalism in the framework of a regional-global nexus. As mentioned in Chapter 3, however, NRT's emphasis on the multidimensionality, heterogeneity, flexibility, and the fluidity of regionalism implies that the domestic domain is as important as regional and global aspects to explain the emergence and the development of regionalism. Unlike previous theoretical approaches, such as neo-realism, that used state interest as the single criterion to explain regionalism (Gilpin 2001), NRT stresses that 'geographical, historical, cultural and economic variables – as well as patterns of conflict / security and other criteria – all create patterns of interaction and produce conceptions of 'regionness'' (Schulz *et al.* 2001b: 252). As a result, NRT analysis does not consider the state to

be the main determinant of regionalism, but also other actors, including market actors and civil society. However, up until now, NRT analysis has paid too much attention to *regional* non-state actors, whilst neglecting *domestic* actors that contribute as much as those regional actors in promoting regionalism. In contrast, this thesis has analysed the contribution of the domestic state, market and civil-society actors to explain the rise of regionalism. More specifically, it has provided an analysis of the *perception* of domestic actors towards the pattern of regionalism that exists in their region. This issue is crucial because domestic actors are the people who are directly affected by policies issued by the states involved in a regional grouping.

One main aspect that has to be addressed in analysing the local-regional nexus is the concept of nationalism, which is one of the most potent ideologies in modern history, and as such is capable of undermining the process of regionalism. Traditionally, nationalists' major concern about their country's involvement in a regional grouping is the loss of sovereignty that may ensue. The prevalent assumption amongst nationalists in the past was that regionalism involves a series of compromises made amongst different states and, thus, does not *fully* represent the national interests of the country. Moreover, nationalists in the past have also criticised the supposed benefits derived from the formation of a regional grouping (Hatsuse 1999: 105), much of which have gone to the powerful and wealthy, and not to the weak and the poor. As a result, therefore, a strained relationship between nationalists and the advocates of regionalism grew.

It is, however, too naïve to suggest that the same relationship exists between nationalism and regionalism today. The proliferation of regionalism in the late

twentieth century and early twenty-first century is different from the regionalism that grew during the first wave in the 1950s and 1960s, the purpose of which was to achieve harmony, prosperity, and peace. In recent years, however, some scholars, particularly Shulman (2000), have demonstrated how a modern RIS is underpinned by several rationales that might also appeal to nationalists. As highlighted in Chapter 3, the primary rationales behind an RIS are sustained domestic economic development, the promotion of national unity, the enhancement of a state's autonomy in international fora, the promotion of national identity, collateral action against global capitalist movements, and the improvement of members states' bargaining power at the international level. These motives are not only prevalent amongst members of the majority nation within a nation-state, but also members of the minority nations that may or may not seek independence from the former. Thus, nationalists today are not necessarily hostile to the idea of RIS.

It is, therefore, clear that the relationship between nationalism and regionalism does not always have to be in conflict, as has previously been suggested. Yet it is important to point out that this is still a tentative hypothetical assumption. There is great variation in the type and the shape of regional groupings throughout the world and such theorisation may only be applicable to certain regional groupings. This thesis has utilised the case study of the relationship between Indonesian nationalism and ASEAN regionalism. The aforementioned theory appears suitable for an analysis of the relationship between the two concepts in the geographical area concerned. The case study of the contemporary relationship between Indonesian nationalism and ASEAN regionalism shows that the two variables are not mutually exclusive, even when nationalistic sentiments are continuously stimulated by internal (i.e. threat of

national disintegration) and external (i.e. regional economic crisis) forces. In the past, particularly during the New Order period, Indonesia's aspirations within ASEAN were not fulfilled (Leifer 1983: 153), which led to a sense of frustration on the part of the political elites who sought to influence the course of action taken by other ASEAN member states. In reality, therefore, Indonesia was incapable of extending its influence in ASEAN and on its member countries' foreign policy. Although today nationalism is still an important element in an analysis of Indonesians attitudes towards ASEAN, contemporary Indonesian perspectives on the Association are somewhat different to those in the past. There is no doubt that the majority of Indonesian state and non-state actors still feel indifferent about ASEAN and AFTA. However, the Association is still expected to continue to exist and to improve its current co-operation initiatives.

On the whole, most respondents interviewed during the field research can be placed within the convergence category. The majority of Indonesians, therefore, can be referred to as *new nationalists*, which is based on the notion of logical nationalism rather than romantic nationalism. Indonesian nationalism at the end of the twentieth and the beginning of the twenty-first centuries is no longer protectionist and inward-looking. In foreign economic policy (FEP), for example, new nationalism (logical nationalism) in Indonesia is demonstrated through the country's continued support for ASEAN and its activities. However, it is important to note that Indonesian state and non-state actors' support of the Association will remain only as long as it serves member countries' national interests. The majority of respondents were also positive about ASEAN's continued existence and its contribution towards increasing Indonesia's bargaining power, international autonomy, and ability to resist the

negative forces of globalisation. Many Indonesian state and non-state actors still perceived ASEAN as an effective bargaining tool in many multilateral trade negotiations. Therefore, the majority of Indonesian state and non-state actors did not perceive Indonesian nationalism as an impediment to the ASEAN regionalisation process.

To start with, the case study analysis reveals that one of the most important motives for Indonesian domestic constituents to support ASEAN is the Association's perceived ability to generate sustained economic development. Indonesian state and non-state actors generally support the idea of ASEAN regionalism. Indonesian domestic constituents, both state and non-state actors, continuously maintain the importance of ASEAN as the main pillar of Indonesian foreign policy. Support for ASEAN prevails generally as a result of the Association's capacity to generate stable and harmonious relationships amongst member countries. A more stable and harmonious ASEAN region provides member countries more space to focus on their economic development. However, there are also those who believe that ASEAN has contributed little towards Indonesia's economic development, a view commonly held by a small number of Indonesian NGOs and CSOs. In their view, ASEAN provided little assistance to Indonesia during the economic crisis. Moreover, many representatives of Indonesian NGOs and CSOs thought that the Indonesian government should put more priority on the solving of domestic problems before embarking upon regional or international adventures, precisely because of the need to recover from the economic crisis.

Although the existence of ASEAN has generally been perceived as positive by the majority of Indonesian state and non-state actors, the Association's main project to date, AFTA, has failed to establish similar support. From the case study analysis, there are five main criticisms commonly levelled at AFTA. Firstly, unlike ASEAN, which has been useful in promoting Indonesia's good name, regional harmony, acting as a buffer against external attacks and subversion, as a vehicle for autonomous regional order, as an international bargaining tool, and a means of enhancing Indonesia's international stature, AFTA has been perceived as a threat that will undermine the development of the Indonesian economy, particularly small and medium enterprises (SMEs). Secondly, a large number of Indonesian non-state actors, particularly members of the academic community and larger economic actors, remain convinced that the current state of the Indonesian domestic economy is not conducive to the implementation of AFTA. Apart from an acute internal economic problem, the implementation of the regional autonomy law (RAL) is perceived as having a significant impact on the way in which AFTA is implemented in Indonesia. Thirdly, many Indonesians also believe that AFTA will become like other ASEAN economic co-operation initiatives in the past. For many Indonesians, AFTA is viewed mainly as a platform for talks and discussions amongst ASEAN foreign policy makers. One reason for this is that ASEAN countries have continued to pursue protectionist policies, as a result of their relative resource wealth. Moreover, the majority of Indonesian policy-makers are concerned about the competitive nature of ASEAN member economies, which makes the objective of regional economic integration difficult to achieve. In the immediate future, at least, Indonesia, like the majority of ASEAN economies, will remain dependent on trade with non-ASEAN countries. Fourthly, the majority of Indonesians remain convinced that the

implementation of AFTA will only benefit large economic actors. Despite being adversely affected by the economic crisis, Indonesian large economic actors have been able to re-accumulate sufficient capital and resources to compete in the AFTA scheme. Fifthly, however, in comparison to the multilateral economic arrangements (i.e. under the auspices of the WTO), there is a widespread conviction amongst Indonesians state and non-state actors that AFTA does not pose an *immediate* threat to the national economic development of Indonesia.

In general, therefore, AFTA has not generated much support because it has been perceived as a mechanism that will undermine Indonesia's economic development and as a tool to lessen the country's sovereignty. Although it is true that the signing of AFTA in 1992 was an indication of a shift from the traditional approach of economic nationalism to liberal reform in Southeast Asia (Stubbs 2000c: 298), it would be inaccurate to suggest that Indonesia lost control over foreign goods that came into the country when the scheme was first implemented in 2002. Many Indonesians, as mentioned above, are more cautious about multilateral trade agreements made at the global level rather than regional level. Indonesian government officials also affirmed that Indonesia would remain committed to AFTA trade liberalisation measures. Even those representing domestic businesses and industries, such as the Indonesian Chambers of Commerce and Industry (KADIN) and other smaller business associations, were convinced that the majority of Indonesia's domestic industries are ready for AFTA. Moreover, the case study analysis also reveals that members of the academic community remain convinced that the *degree of openness* amongst ASEAN countries today is still varied. The impact that AFTA may have on ASEAN economies are still uncertain. It is difficult to analyse the

development of AFTA as it is still in its early stages. Another serious issue to be addressed is whether or not ASEAN member governments will actually be able to implement full trade liberalisation in the region.

Apart from the achievement of sustained economic development, ASEAN also serves Indonesian nationalism and autonomy in the international arena. Although national pride is still important to most Indonesians, they are also influenced by consumerism and by external conditions. As a result, the context of Indonesian nationalism has changed somewhat, especially as a result of the recent wave of democratisation in the country. The majority of Indonesians subscribe increasingly to the notion of *logical nationalism*, rather than *romantic nationalism*, the emphasis of which is on a more outward approach to international affairs and a more pragmatic approach to Indonesian foreign policy. As a result, many Indonesians, including the majority of Indonesian government officials, representatives of Indonesian business associations, members of the academic community, and representatives of Indonesian NGOs and CSOs, are no longer inward-looking in their attitude towards regionalism. Indeed, the majority of Indonesians now feel that Indonesia's participation in ASEAN and its AFTA scheme is important because it will help Indonesia achieve sustained economic development and thus ensure domestic stability and unity. Moreover, the increasing threat of national disintegration in Indonesia is also thought to be better handled with the collective support from other ASEAN member countries. Support expressed by some ASEAN member governments, such as Singapore and Thailand, assures Indonesia of its neighbours' commitment in supporting Indonesia's territorial integrity.

ASEAN is also useful to Indonesia because it can help increase Indonesia's bargaining power in the international arena and resist the negative forces of globalisation. Many Indonesian domestic constituents are aware that they cannot resist the negative forces of globalisation alone. Not only is Indonesia now flooded with foreign goods, many Indonesian domestic constituents also feel that the Indonesian government is fighting a losing battle in its international trade negotiations. ASEAN's contributions to Indonesia's international autonomy and bargaining power have been clearly demonstrated during the many trade disputes between the WTO and other regional groupings, particularly the EU and NAFTA. Although ASEAN member countries may have different interests, they have, on the whole, raised similar concerns during many multilateral negotiations. Moreover, the significance of ASEAN as a bargaining tool has grown since the joining of three new member countries, Lao, Cambodia, and Burma, and with the possible expansion of ASEAN into ASEAN plus Three (APT). The majority of Indonesian government officials, representatives of business associations, and members of the academic community are convinced that the expansion of the ASEAN membership and the possible creation of APT will increase Indonesia's bargaining power. This, in turn, will provide greater power for Indonesia to help it resist the negative forces of globalisation.

The case study analysis has also shed a light on the problem of information dissemination, and the way in which the lack of adequate dissemination has resulted in limited support for AFTA from Indonesian state and non-state actors. Whilst it is clear that the Association and its member governments have generally provided limited, highly technical and expensive information to the general public, it is also

true that the Indonesian public at any rate has shown a lack of interest about Indonesian FEP in ASEAN. This lack of interest was visible even throughout the post-crisis period, when the majority of Indonesians were more concerned about the escalating domestic problems. The ASEAN Secretariat has always insisted that the Association has placed importance on the dissemination process. The problem generally occurs at the governmental level, where ministers tend to be cautious about disseminating information to the public. Positive attempts have been made to promote the Association's activities to the general public through various workshops and seminars, such as the ASEAN People's Assembly and the CEPT Outreach Programme. Nonetheless, public attendance at such events has been minimal, suggesting that the majority of Indonesians remain passive about ASEAN and its activities.

Therefore, the majority of Indonesian state and non-state actors interviewed during the field research identified two major areas in ASEAN that need to be improved, including the organisational structure of the Association and the process of information dissemination. Firstly, the traditional image of ASEAN as an exclusive club for governmental officials, particularly Foreign Ministers, is resented by the majority of Indonesians, who also deplore the high levels of bureaucracy that exist within the Association. As a result, ASEAN and its member governments are accused of having neglected the demands made by smaller domestic non-state actors. New approaches to minimise the problem of exclusivity, such as the inclusion of either other state ministers or national leaders in the decision-making process, were simply rejected by member governments of ASEAN. In any case, such proposals would do little to promote a bottom-up approach within the Association. Therefore, new efforts

to minimise the problem of exclusivity should focus on the incorporation of non-state actors in the decision-making process. Secondly, ASEAN must intensify the process of disseminating information regarding its activities to the public. Whilst most of the Indonesian public are aware of the existence of ASEAN, the Association only provides limited, if not highly technical and expensive, information regarding its activities to the public. Another worrying aspect is the fact that information has been disseminated unevenly amongst different economic actors. For example, information on AFTA related matters has only been disseminated to large economic actors. This presents a major problem for the majority of Indonesian economic actors, most of whom are SMEs. Officials at various governmental institutions have also expressed their concern about the uneven nature of ASEAN's information dissemination process. Information on ASEAN related matters has so far been monopolised by the Ministry of Foreign Affairs (MFA), and to certain extent, the Ministry of Trade and Industry (Depperindag), particularly on issues surrounding the implementation of AFTA.

Therefore, this research has made a number of important points to the ongoing debate within NRT analysis and other analyses of the relationship between nationalism and regionalism. Firstly, it is important to note that a regional grouping should be structured to accommodate the interests of a wider range of domestic participants. To this end, a regional organisation must encourage the involvement of non-state actors in many of its projects or activities. Secondly, although the field research findings show some hostility towards an RIS from certain domestic actors, this does not suggest that nationalism and regionalism stand in conflict. The hostility prevalent amongst some non-state actors in a country towards an RIS does not so

much result from an inward-looking nationalist attitude or the divergence in the interests of regional actors (i.e. government officials) and local actors (i.e. the business community and NGOs / CSOs), but results rather from a lack of information about and the inadequate promotion of regional activities, provided by the state to non-state actors. However, it is also important to note that the intensive promotion of regional activities is no a guarantee that support for an RIS will be generated within the public domain. However, the provision of adequate information would at least provide the public with a suitable basis upon which to form their opinions.

8.3. Conclusion

Regionalism and nationalism are two major concepts that influence international relations today. There is little doubt that the current wave of regionalism and the continued existence of nationalism imply that a complementary relationship has developed between the two. It is, therefore, important to re-emphasise in the concluding remarks of this thesis that nationalism and regionalism stand in a symbiotic relationship to one another. This thesis hopefully provides a significant contribution to new understandings of these concepts. More importantly, it is hoped that this thesis provides new directions within NRT with which to explain the rise and the development of regionalism today. The case study on the relationship between Indonesian nationalism and ASEAN regionalism has shed some light on the complementary relationship between the two concepts. Throughout its existence, ASEAN has experienced both major achievements and setbacks. The regionalism agenda has been expanded to cover a wide range of issues, such as politics, security, economics and social cooperation. Although the majority of Indonesian domestic

state and non-state actors still feel quite indifferent about the Association, its existence is still considered useful, particularly as a vehicle to promote their country's interests at the domestic (i.e. promotion of unity), regional (i.e. promotion and expansion of national culture and identity and the formation of regional collective action against the negative forces of globalisation), and international levels (i.e. promotion of the state's autonomy and the elevation of bargaining power). The Southeast Asian region is arguably better off with than without ASEAN.

Despite this, it is inevitable that the future of regionalism in Southeast Asia will depend upon ASEAN's ability to promote greater transparency and openness in many of its activities. ASEAN has been strongly criticised for, amongst other things, its highly complex organisational and bureaucratic structure, which limits the greater participation of a wider range of domestic actors. In recent years, the failure of ASEAN to address the economic crisis has also damaged the reputation of the Association. As a result, the relevance of ASEAN has been brought into question. Whilst the Association is still faced with the challenge of becoming more democratic in its activities, the pursuit of further regional economic integration is underway with the introduction of AFTA. However, perspectives on this particular scheme are varied amongst different domestic actors in each ASEAN country. In Indonesia, for example, both state and non-state actors expressed concern that regional trade liberalisation would further exacerbate the already acute national economic situation.

Whilst scepticism prevails, it is, however, inappropriate to suggest that ASEAN is no longer relevant. It is hoped that in the immediate future the Association will introduce significant changes to deal with the aforementioned problems. One

important step that would improve understanding of ASEAN and its activities would be the improved dissemination of proper information to all layers of society. It is also important to emphasise that the indifferent attitude prevalent amongst Indonesians towards ASEAN is not so much an offshoot of nationalistic sentiments, but more a result of the lack of adequate information regarding the Association and its activities. The Association should, therefore, increase its public relations exercises to promote itself to the general public. This will be very important, not only to encourage public awareness of ASEAN and its activities, but also to increase Indonesians' knowledge and understanding of their immediate neighbours. In the more democratic country that Indonesia is today, domestic actors will continue to demand a more open and transparent ASEAN.

Appendices

Appendix 1. List of ASEAN Affiliated NGOs, as of May 2001

No	Name of ASEAN Affiliated NGOs	Headquarters
1	ASEAN Inter Parliamentary Organisation (AIPO)	Indonesia
2	ASEAN Port Authorities Association (APAA)	Philippines
3	ASEAN Bankers Association (ABA)	Singapore
4	ASEAN Paediatric Federation (APF)	Singapore
5	ASEAN Federation of Accountants (AFA)	Philippines
6	ASEAN Council of Japan Alumni	Indonesia
7	ASEAN Law Association (ALA)	Singapore and Malaysia
8	ASEAN Confederation of Employers (ACE)	Philippines
9	ASEAN University Sports Council (AUSC)	Malaysia
10	ASEAN Federation of Furniture Manufacturers (AFFMA)	Indonesia
11	ASEAN Association of Radiologist (AAR)	Philippines
12	ASEAN Handicraft Promotion and Development Association (AHHPADA)	Thailand
13	ASEAN Valuers Association (AVA)	Malaysia
14	ASEAN Insurance Council (AIC)	Indonesia
15	ASEAN Football Federation (AFF)	Indonesia
16	ASEAN Federation for Psychiatric	Philippines
17	ASEAN Federation of Electrical Engineering Contractors (AFEEC)	Philippines
18	ASEAN Confederation of Women's Organisation (ACWO)	Singapore
19	ASEAN Orthopaedic Association (AOA)	Singapore
20	ASEAN Neurosurgical Society (ANS)	Indonesia
21	ASEAN Constructors Federation (ACF)	Singapore
22	ASEAN Federation of Mining Association (AFMA)	Indonesia
23	ASEAN Council of Teachers (ACT)	Philippines
24	AASEAN Fisheries Federation (AFF)	Indonesia
25	ASEAN Federation of Forwarders Association (AFFA)	Indonesia
26	ASEAN Non-Governmental Organisation for the Prevention of Drugs and Substance Abuse	Malaysia
27	ASEAN Association of Medical Laboratory Technologists (AAMLT)	Indonesia
28	ASEAN Law Student Association (ALSA)	Indonesia
29	ASEAN Vegetable Oil Club (AVOC)	Malaysia
30	ASEAN Business Forum (ABF)	Singapore
31	ASEAN Federation of Land Surveying and Geomatics (ASEAN FLAG)	Malaysia
32	ASEAN Intellectual Property Association (AIPA)	Singapore
33	ASEAN Federation of Heart Foundation (AFHF)	Indonesia
34	ASEAN Thalassaemia Society (ATS)	Indonesia
35	ASEAN NGO Coalition on Ageing	Thailand
36	ASEAN Oleochemical Manufacturers	Malaysia
37	ASEAN Federation of Flying Club (AFFC)	Malaysia
38	ASEAN Forestry Students Association (AFSA)	Indonesia
39	ASEAN Chess Confederation (ACC)	Singapore
40	ASEAN Cosmetic Association (ACA)	Singapore
41	ASEAN Academics of Science, Engineering and Technology (ASEAN CASE)	Malaysia
42	Confederation of ASEAN Journalist (CAJ)	
43	Committee for ASEAN Youth Co-operation	Malaysia
44	Federation of ASEAN Consulting Engineers (FACE)	Malaysia
45	Federation of ASEAN Shippers Council (FASC)	
46	Federation of ASEAN Shipowners Association (FASA)	Singapore
47	Federation of ASEAN Newspaper Publisher (FANP)	
48	Federation of ASEAN Economic Association (FAEA)	Indonesia
49	Federation of ASEAN Public Relation Organisations (FAPRO)	Singapore
50	ASEAN Co-operative Organisation (ACO)	Indonesia

51	ASEAN Association for Planning and Housing (AAFH)	Philippines
52	ASEAN Chambers of Commerce and Industry (ASEAN CCI)	Malaysia
53	ASEAN Federation of Engineering Organisation	
54	ASEAN Standard Trade Industry	
55	Medical Association of Southeast Asian Nations (MASEAN)	Singapore
56	Music industry Association (MIA)	Singapore
57	Confederation of ASEAN Societies of Anaesthesiologists	
58	Rheumatism Association of ASEAN (RAA)	Indonesia
59	Southeast Asia Association of Seismology and Earthquake Engineering (SEASEE)	Philippines
60	Veterans Confederation of ASEAN Countries (VECONAC)	Philippines
61	Southeast Asia Regional Institute for Community and Education (SEARICE)	Thailand
62	ASEAN Tours and Travel Association (ATTA)	
63	ASEAN Motion Picture Producers Association (AMPPA)	
64	ASEAN Council of Museum (ACM)	
65	ASEAN Council of Petroleum Co-operation (ACPC)	
66	ASEAN College of Surgeons (ACS)	
67	ASEAN Cardiologists Federation (ACF)	
68	ASEAN Consumer Protection Agency (ACPA)	
69	ASEAN Federation of Jurists (AFJ)	
70	ASEAN Trade Union Council (ATUC)	
71	ASEAN Federation of Women (AFW)	
72	ASEAN Banking Council (ABC)	

Source: Nishikawa (1983: 48); ASEAN Secretariat official website (accessed 2002)

Appendix 2
The level of tariff barriers since the collapse of
bipolarity in late 1980s

	Year	Simple mean tariff % (1)	Standard deviation tariff rates % (2)	Weighted mean tariff % (3)	Share of lines with international peaks % (4)	Share of lines with specific tariffs % (5)
EU	1988	3.3	5.6	3.6	3.6	13.8
	1998	3.5	5.0	2.7	2.3	12.6
Australia	1991	8.0	12.9	7.4	15.5	1.1
	1999	5.7	7.3	3.8	12.2	0.7
North America						
Canada	1989	7.7	7.0	6.5	14.2	2.5
U.S.	1989	5.7	6.7	4.1	8.0	13.0
	1999	4.3	11.4	2.8	6.3	8.3
Mexico	1991	13.2	4.3	11.9	18.9	0.0
	1999	10.1	9.4	14.7	24.5	0.0
Latin America						
Argentina	1992	12.2	7.7	12.7	31.0	0.0
	1999	11.0	8.3	10.7	39.5	0.0
Brazil	1989	42.4	17.2	32.0	92.4	0.2
	1999	13.6	7.8	12.6	54.0	0.0
Chile	1992	11.0	0.5	11.0	0.0	0.0
	1999	10.0	0.5	9.9	0.0	0.0
Colombia	1991	5.7	8.2	6.4	1.6	0.0
	1999	11.8	6.2	10.7	22.9	0.0
East Asia						
China	1992	41.3	30.8	32.6	78.4	0.0
	1998	16.8	11.1	15.7	43.4	0.4
Taiwan	1989	12.3	9.5	9.9	16.7	0.5
	1999	8.8	9.4	5.2	10.6	2.1
Japan	1988	5.9	8.0	3.3	8.6	11.5
	1999	4.8	7.3	2.3	7.6	2.6
Korea, Rep.	1988	18.8	8.1	13.8	72.8	10.2
	1999	8.7	5.9	5.9	4.8	0.8
S.E. Asia						
Indonesia	1989	21.9	19.7	13.2	50.5	0.3
	1999	10.9	14.1	6.2	26.9	0.1
Malaysia	1988	20.6	19.9	13.8	54.0	6.2
	1997	7.1	31.0	4.9	15.9	0.4
Philippines	1988	28.0	14.2	22.5	77.2	0.1
	1999	10.0	8.8	6.7	24.1	0.0
Singapore	1989	0.5	2.2	0.5	0.1	1.1
	1995	0.0	0.0	0.0	0.0	0.2
Thailand	1989	38.5	19.6	33.0	72.8	21.9
	1995	21.6	15.4	15.0	57.6	1.8
Vietnam	1994	12.7	17.8	18.6	32.4	1.0
	1999	15.1	17.7	17.3	37.3	0.6

Note: (1) Simple mean tariff is the unweighted average of the effectively applied rates for all products subject to tariffs.

(2) Standard deviation of tariff rates measures the average dispersion of tariff rates around the simple mean.

(3) Weighted mean tariff is the average of effectively applied rates weighted by the product import shares corresponding to each partner country.

(4) International peaks are tariff rates that exceed 15 percent.

(5) Specific tariffs are tariffs that are set on a per unit basis or that combine ad valorem and per unit rates

Source: World Bank (2001: 336-9)

Appendix 3

The ASEAN Declaration

(Bangkok Declaration)

Bangkok, 8 august 1967

The Presidium Minister for Political Affairs/ Minister for Foreign Affairs of Indonesia, the Deputy Prime Minister of Malaysia, the Secretary of Foreign Affairs of the Philippines, the Minister for Foreign Affairs of Singapore and the Minister of Foreign Affairs of Thailand:

MINDFUL of the existence of mutual interests and common problems among countries of South-East Asia and convinced of the need to strengthen further the existing bonds of regional solidarity and co-operation;

DESIRING to establish a firm foundation for common action to promote regional cooperation in South-East Asia in the spirit of equality and partnership and thereby contribute towards peace, progress and prosperity in the region;

CONSCIOUS that in an increasingly interdependent world, the cherished ideals of peace, freedom, social justice and economic well-being are best attained by fostering good understanding, good neighbourliness and meaningful cooperation among the countries of the region already bound together by ties of history and culture;

CONSIDERING that the countries of South East Asia share a primary responsibility for strengthening the economic and social stability of the region and ensuring their peacefull and progressive national development, and that they are determined to ensure their stability and security from external interference in any form or manifestation in order to preserve their national identities in accordance with the ideals and aspirations of their peoples;

AFFIRMING that all foreign bases are temporary and remain only with the expressed concurrence of the countries concerned and are not intended to be used directly or indirectly to subvert the national independence and freedom of States in the area or prejudice the orderly processes of their national development;

DO HEREBY DECLARE:

FIRST, the establishment of an Association for Regional Cooperation among the countries of South-East Asia to be known as the Association of South-East Asian Nations (ASEAN)

SECOND, that the aims and purposes of the Association shall be:

1. To accelerate the economic growth, social progress and cultural development in the region through joint endeavours in the spirit of equality and partnership in order to strengthen the foundation for a prosperous and peaceful community of Southeast Asian nations;

2. To promote regional peace and stability through abiding respect for justice and the rule of law in the relationship among countries of the region and adherence to the principles of the United Nations Charter;
3. To promote active collaboration and mutual assistance on matters of common interest in the economic, social, cultural, technical, scientific and administrative fields;
4. To provide assistance to each other in the form of training and research facilities in the educational, professional, technical and administrative spheres;
5. To collaborate more effectively for the greater utilization of their agriculture and industries, the expansion of their trade, including the study of the problems of international commodity trade, the improvement of their transportation and communications facilities and the raising of the living standards of their peoples;
6. To promote South-East Asian studies;
7. To maintain close and beneficial cooperation with existing international and regional organization with similar aims and purposes, and explore all avenues for even closer cooperation among themselves

THIRD, that to carry out these aims and purposes, the following machinery shall be established:

- (a) Annual Meeting of Foreign Ministers, which shall be by rotation and referred to as ASEAN Ministerial Meeting. Special Meetings of Foreign Ministers may be convened as required.
- (b) A standing committee, under the chairmanship of the Foreign Minister of the host country or his representative and having as its members the accredited Ambassadors of the other member countries, to carry on the work of the Association in between Meetings of Foreign Ministers.
- (c) Ad-Hoc Committees and Permanent Committees of specialists and officials on specific subjects.
- (d) A national Secretariat in each member country to carry out the work of the Association on behalf of that country and to service the Annual or Special Meetings of Foreign Ministers, the Standing Committee and such other committees as may hereafter be established.

FOURTH, that the Association is open for participation to all States in the South-East Asian Region subscribing to the aforementioned aims, principles and purposes.

FIFTH, that the Association represents the collective will of the nations of South-East Asia to bind themselves together in friendship and cooperation and, through joint efforts and sacrifices, secure for their peoples and for posterity the blessings of peace, freedom and prosperity.

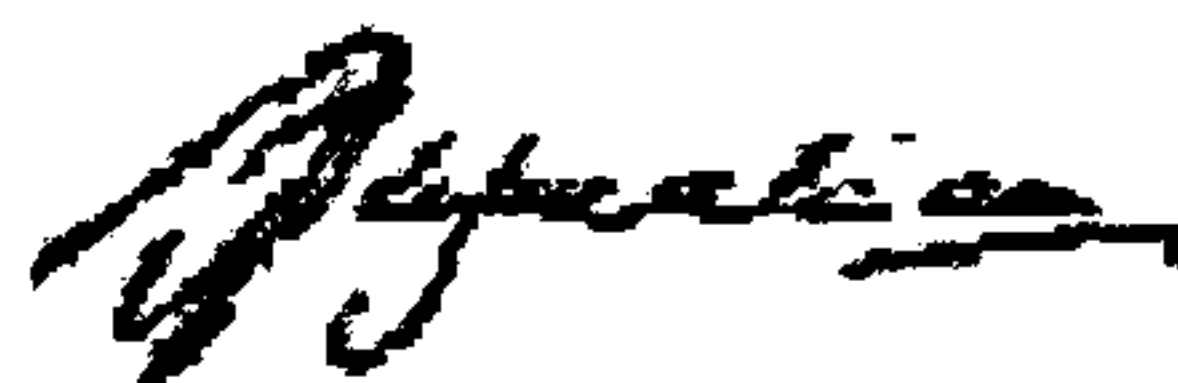
DONE in Bangkok on the Eighth Day of August in the Year One Thousand Nine Hundred and Sixty-Seven.

For the Republic of Indonesia :



ADAM MALIK
Presidium Minister for Political
Minister for Foreign Affairs

For the Republic of Singapore :



S. RAJARATHNAM
Minister of Foreign Affairs

For Malaysia :



TUN ABDUL RAZAK
Deputy Prime Minister,
Minister of Defence and
Minister of National Development

For the Kingdom of Thailand :



THANAT KHOMAH
Minister of Foreign Affairs

For the Republic of the Philippines :



NARCISO RAMOS
Secretary of Foreign Affairs

Source: ASEAN Secretariat official website (accessed 2002) at:
<http://www.aseansec.org/1212.htm>

Appendix 4

List of respondents

Government institutions:

Departemen Koperasi, Perusahaan Kecil dan Menengah Republik Indonesia
(DEPKOP-UKM) /
Ministry of Co-operative, Small and Medium Enterprises (MoC-SMEs)
Production Division
Jl. H.R. Rasuna Said, Kav. 3-5, Jakarta 12940
Respondent: Dr. Noer Soetrisna
16 November 2000

Departemen Luar Negeri (DEPLU) /
Ministry of Foreign Affairs
Department of ASEAN Co-operation
Jl. Taman Pejambon No. 6, Fl. 11, Jakarta
Respondent: anonymous
13 December 2000

Badan Koordinasi Penanaman modal (BKPM) /
Investment Co-ordinating Board
International Promotion Division
Jl. Gatot Subroto No. 44, Jakarta 12190
Respondent: Darmawan Jayusman
18 December 2000

Departemen Perdagangan dan Industry (DEPPERINDAG) /
Ministry of Trade and Industry
Sub-Directorate of ASEAN Co-operation
Respondent: Ketut Suwarko
Jl. Ridwan Rais 5, Jakarta
19 February 2001

Central Bank of Indonesia
International Trade Co-operation Division and International Economic and Institution
Studies Division
Jl. M. H. Thamrin 2, Jakarta 10010
Respondent: anonymous
20 February 2001

Departemen Keuangan (DEPKEU) /
Ministry of Finance
International and Regional Economic Co-operation
Secretariat General Bureau of Foreign Co-operation
Jl. Lapangan Banteng Timur No. 2-4, Jakarta 10710
Respondents: Dr. Bambang S. Marsoem and Solehudin Masjar
21 February 2001

Badan Penyehatan Perbankan Nasional (BPPN) /
Indonesian Banking Restructuring Agency (IBRA)
Central Office
Agency Planning and Secretariat Division
Wisma Bank Danamon, 30th floor, Jl. Jendral Sudirman, Kav. 45-46, Jakarta 12930
Respondent: Noegroho D. Soetardjo
7 March 2001

Indonesian Banking Restructuring Agency (IBRA), Jakarta Branch
Gedung Atrium Grd. 1-7, Jl. Senen Raya 135, Jakarta 10410
Respondent: Swasti Sawitri
31 July 2001

Direktorat Jendral Bea dan Cukai Republik Indonesia /
Custom and Excise Republic Indonesia (DGCE)
Directorate General
Jl. A. Yani, Gedung A, Lt. 1, Jakarta 13230, Kotak Pos 108, Jkt 1002
Respondent: Dr. Permana Agung
9 August 2001

Dewan Perimbangan Otonomi Daerah (DPOD) /
Board of Provincial Autonomy
Directorate General of Central and Local Fiscal Balance
Ministry of Finance of the Republic of Indonesia
Jl. Dr. Wahidin No. 1, Jkt 10710
Respondent: Kadjatmiko
10 August 2001

Badan Usaha Logistik (BULOG) /
State Logistic Agency
Secretariat Bulog, Jl. Gatoto Subroto No. 49, Jak-Sel 12950, P.O. Box 2346
Respondents: Widjanarko Puspoyo
14 August 2001

Badan Perencanaan Pembangunan Nasional (BAPPENAS) /
National Development Planning Board
Bureau of Balance of Payment and International Relations
Jl. Taman Suropati No. 2, Jakarta 10310
Respondent: anonymous
20 August 2001

Government of East Java Province, Industry and Trade Office
Jl. Siwalankerto II/42, Surabaya 60236
Respondents: Liri L. Ildham and Drs. Didi Teguh Wiyono
2 September 2001

Business associations:

Asosiasi Pengusaha Indonesia (APINDO) /
Association of Indonesian Entrepreneurs
Jl. Cikini 1 No. 3B, Jakarta 10330
Respondent: Djimanto
19 October 2000

Kamar Dagang dan Industri Indonesia (KADIN) /
Indonesian Chambers of Commerce and Industry
Sub-Committee of ASEAN
Jl. Bendungan Hilir Raya 60, Jakarta 10210
Respondent: Iman Taufik
26 November 2000

Kamar Dagang dan Industri Indonesia (KADIN) /
Indonesian Chambers of Commerce and Industry
Wisma Bakrie 7th floor, Jl. HR. Rasuna Said Kav. B1, Jakarta 12910
Respondent: Aburizal Bakrie
23 August 2001

Kerukunan Usahawan Kecil dan Menengah Indonesia (KUKMI) /
Indonesian Society of Small and Medium Scale Entrepreneurs
Secretariat General, Jl. Cikini IV No. 15, Jakarta 10330
Respondent: Dr. Ir. Mohammad Syargawi
25 August 2002

Perkumpulan untuk Peningkatan Usaha Kecil (PUPUK) /
Association for the Advancement of Small Business
Jl. Ketintang Madya No. 111, Surabaya 60231
Respondent: R. Alam Surya Putra
3 September 2001

Academic community:

Centre for Strategic and International Studies (CSIS)
Jl. Tanah Abang III, No. 23-27, Jakarta Pusat
Respondent: Dr. Hadi Soesastro
6 December 2000

Habibie Centre
Jl. Kemang Raya Selatan No. 98, Jakarta Selatan 12560
Respondent : Dr. Dewi Fortuna Anwar
24 January 2001

APEC Centre, University of Indonesia
Jl. Salemba Raya No. 4, Jakarta
Respondent: Prof. Lepi Tarmidi
5 March 2001

Centre for Strategic and International Studies (CSIS)
Jl. Tanah Abang III, No. 23-27, Jakarta Pusat
Respondent: Dr. C. P. F. Luhulima
21 August 2001

Institute for Development of Economics and Finance (INDEF)
Jl. Wijayakarta II No. A-4, Kuningan Barat, Jakarta 12710
Respondent: Dr. Bustanul Arifin
7 September 2001

Pressure groups:

Urban Poor Consortium (UPC)
Billy Moon H 1 No.7, Jakarta
Respondent: Wardah Hafidz
9 October 2000

Front Nasional Perjuangan Buruh Indonesia (FNPBI) /
Front National for the Indonesian Labour Struggle
Jl. Tebet Timur IIIK, No. 2, Jakarta Selatan
Respondent: Dita Indah Sari
13 November 2000

Liga Mahasiswa Nasional untuk Demokrasi (LMND) /
National Student League for Democracy
Jl. Danau Towuti Blok G1/31, Bendungan Hilir, Jakarta
Respondent: Reindhard Sirait
20 December 2000

International Financial Development (INFID)
Jl. Mampang Prapatan XI/23. Jkt 12790
Respondent: Boni Setiawan
18 January 2001

Federasi Serikat Pekerja Seluruh Indonesia (FSPSI) /
Federation of Indonesian Workers Union
Jl. Raya Pasar Minggu KM 17, No. 9, Jakarta
20 January 2001

Ikatan Cendekiawan Muslim Indonesia (ICMI) /
Association of Indonesian Muslim Intellectuals
Jl. Haji Agus Salim No. 117
Respondent: Adi Sasono
2 February 2001

Pesticide Action Network Indonesia (PANI)
Respondent: Reza Tjahjadi
8 February 2001 (electronic mail)

Wahana Lingkungan Hidup (WALHI) /
Friends of the Earth
Jl. Tegal Parang Utara No. 14, Jakarta 12790
Respondent: Longgena Ginting
4 March 2001

Kajian Layanan Informasi untuk Kedaulatan Rakyat (KLIK) /
Information and Civic Studies
Yogyakarta
25 July 2001 (in Hull)

Komisi Nasional Hak-Hak Asasi Manusia (KOMNAS-HAM) /
Indonesian National Commission on Human Rights
Jl. Latuharhari No. 4B, Menteng, Jakarta Pusat
Respondent: Dr. Charles Himawan
10 August 2001

Leadership for Environment and Development (LEAD)
Jl. Tebet Raya No. 88, Jakarta
Respondent: M. S. Kismadi
25 August 2001

Yayasan Lembaga Konsumen Indonesia (YLKI) /
Indonesian Consumers Organisation
Jl. Pancoran Barat VII/1, Duren Tiga, Jakarta 12760
Respondent : Indah Sukmaningsih
9 September 2001

Uni Sosial Demokrat (UNISOSDEM) /
Uni Social Democrat
Jl. Berdikari Kav. 2, Palmerah, Kebayoran Lama, Jakarta
Respondent : Bambang Warih Kusuma
25 September 2001

ASEAN Secretariat and foreign embassies:

U.S. Embassy
Jl. Merdeka Selatan 4-5, Jakarta 10110
Respondent: David C. DiGiovanna
11 October 2000

Royal Thai Embassy
74. Jl. Imam Bonjol, Jakarta Pusat 10310
Respondent: H.E. Mr. Somphand Kokilanon
17 October 2000

ASEAN Secretariat
Bureau of Trade, Industry and Services
Jl. Sisingamangaraja, 70A, Jakarta 12110, Indonesia

Respondents: anonymous
7 December 2000

German Embassy
Jl. MH. Thamrin No.1, Jakarta, 10310
Respondent: Alexander Stedtfeld
30 November 2000

British Embassy
Jl. M.H. Thamrin No. 75, Jakarta Pusat 10310
Respondent: anonymous
25 March 2001

Brunei Embassy
Wisma GKBI Lt. 19, Suite 1901, Jl. Jendral Sudirman No. 28, Jakarta 10210
Respondent: anonymous
21 August 2001

Appendix 5 List of Questionnaires

A. Government institutions

1. What are the main policies and objectives of (the name of the institutions) and how those policies and objectives work within the overall government's foreign economic policy (FEP)?
2. What are the overall perceptions of (the name of the institutions) towards ASEAN and the regionalisation process in Southeast Asia?
3. Please describe the extent to which the objectives and policies of (the name of the institution) can be used as a tool to accommodate greater co-operation with other Southeast Asian countries?
4. Please describe some of the major achievements and setbacks of (the name of the institution) in dealing with ASEAN or each of ASEAN member countries. In the view of (the name of the institution), how such achievements or setbacks could be exploited further or tackled in the future?
5. In the perception of (the name of the institution), to what extent does the overall Indonesian FEPs influence ASEAN or each of ASEAN member country's FEPs and *vice-versa*?
6. Please describe the overall perspectives of (the name of the institution) towards the ASEAN Free Trade Agreement (AFTA).
7. How would (the name of the institution) perceive the overall readiness of Indonesia's participation in the AFTA scheme?*
8. How would (the name of the institution) view the relationship between Indonesian nationalism and the development of ASEAN regionalism? Please also comment on the extent to which Indonesian nationalism acts as either a stumbling block or a stimulant towards greater ASEAN economic co-operation.
9. The regional autonomy law (RAL) is one of the main policies recently introduced by the Indonesian government. In the perception of (the name of the institution), how would this law contribute to the future economic development of Indonesia and the maintenance of national unity of the country? In relation to AFTA, how would this law affect Indonesia's participation in the scheme overall? To what extent does the implementation of RAL affect the overall investment climate in the country?
10. How would (the name of the institution) view the development of AFTA and other ASEAN regional economic integration schemes in light of the recent economic crisis (to what extent does the economic crisis acts as either a stumbling block or a stimulant to an enhanced economic co-operation in Southeast Asia)?

11. Please comment on the extent to which the transformation of leadership in Indonesia plays an important role towards the process of regionalism in Southeast Asia (particularly in the economic field). **
12. What is the view of (the name of the institution) towards Indonesia's participation in larger regional or multilateral trade agreements beyond ASEAN (i.e. APEC, WTO, etc)?
13. How would (the name of the institution) view the expansion of the recent ASEAN economic co-operation to include Japan, South Korea, and China within the ASEAN plus Three (APT) framework?
14. How would (the name of the institution) view the process of the dissemination of information regarding ASEAN and AFTA to the general public?
15. Please identify some of the areas within the ASEAN economic co-operation that need to be improved and the way in which such improvements could be made.

* Additional questions given to provincial government officials (i.e. the Ministry of Industry and Trade, Surabaya branch)

How would (the name of the institution) view the readiness of this province to participate in AFTA (please add evidence and examples where available)?

** Additional question for officials of the Ministry of Foreign Affairs, Ministry of Industry and Trade, and the Investment Co-ordination Board:

Please identify some of the major achievements and setbacks in the implementation of the Indonesian FEP in ASEAN in light of transformation of leadership in the post-crisis period

B. Business community

1. Please specify the policy objectives of (the name of the institution) and please comment on the success or failure of (the name of the institution) to influence the current governmental policies?
2. Please also specify (the name of the institution)'s interests towards the issue of the implementation within the Indonesian FEP in ASEAN or international economic issue in general.
3. To what extent does (the name of the institution) has been (can be) used as a tool to accommodate greater economic co-operation between Indonesia and its ASEAN partners? Has (the name of the institution) engaged in any forms of co-operation with other business community in other Southeast Asian countries? If so, please comment on some of the major achievement and setbacks resulting from such co-operation.

4. What is the overall perception of (the name of the institution) towards ASEAN and the overall regionalisation process in Southeast Asia?
5. Please describe the view of (the name of the institution) towards ASEAN's implementation of AFTA?
6. How would (the name of the institution) perceive the overall *readiness* of Indonesia's participation in the AFTA scheme and how would (the name of the institution) view the Indonesian business community's *reaction* towards Indonesia's participation in the scheme?*
7. How does (the name of the institution) view the relationship between Indonesian nationalism and the development of ASEAN regionalism? To what extent does Indonesian nationalism act as either a stumbling block or a stimulant towards greater ASEAN economic co-operation?
8. What are the views of (the name of the institution) towards the implementation of economic nationalism in the Indonesian trade policy? To what extent does the implementation of such a policy create benefits (or not) for the overall members of the Indonesian business community? In the view of (the name of the institution), how does the ASEAN trade liberalisation programme, under the AFTA scheme, serve the interests of the Indonesian business community?
9. RAL is one of the main policies recently introduced by the Indonesian government. In the perception of (the name of the institution), how does this law contribute to the future economic development of Indonesia? In relation to AFTA, how does this law affect the Indonesia's overall participation in the scheme? To what extent does the implementation of RAL affect the overall investment climate in Indonesia?
10. How would (the name of the institution) view the development of AFTA and other ASEAN regional economic integration schemes in light of the recent economic crisis (to what extent does the economic crisis acts as either a stumbling block or a stimulant to an enhanced economic co-operation in Southeast Asia)?
11. In the perception of (the name of the institution), to what extent do the recent transformations in Indonesian top leadership bring about changes to the way in which the Indonesian government implements its FEP in ASEAN and AFTA?
12. What is the view of (the name of the institution) towards Indonesia's participation in larger regional or multilateral trade arrangements beyond ASEAN (i.e. APEC, WTO, etc)?
13. What is (are) the view(s) of (the name of the institution) towards the recent expansion of ASEAN economic co-operation to include Japan, South Korea, and China within the APT framework?
14. Please comment on the Indonesian government and ASEAN Secretariat's efforts in implementing the dissemination process of information concerning ASEAN and AFTA? How often does (the name of the institution) make an enquiry to the

Indonesian governmental institutions and the ASEAN Secretariat to obtain information regarding AFTA and how useful was the information provided? Please identify important information within AFTA that should be provided to members of the Indonesian business community.

5. Please identify some of the areas in the ASEAN economic co-operation that need to be improved (and the way in which such improvement could be made) and could bring additional benefit to the members of the Indonesian business community.

Alternative question given to the business association located in the provincial areas outside Jakarta (i.e. the Association for the Advancement of Small Business – APUK, in Surabaya, East Java).

How would (the name of the institution) view the readiness of East Java to participate in AFTA (please add evidence and examples where available)?

C. The academic community*

1. Please specify the major objectives and policies of (the name of the institution) and how does (the name of the institution) influence the FEP of the current Indonesian government?
2. Please comment on the extent to which (the name of the institution) has been used as a tool to accommodate greater economic co-operation between Indonesia and its ASEAN partners? Has (the name of the institution) engaged in any forms of co-operation with other similar institutions in other Southeast Asian countries? If so, please comment on some of the major achievements and setbacks resulting from such co-operations.
3. What is *your* perception towards ASEAN and the process of regionalisation in Southeast Asia?
4. What is (are) *your* view(s) concerning ASEAN's implementation of the AFTA scheme?
5. How would *you* view Indonesia's readiness to participate in the AFTA scheme and how would you perceive the Indonesian public's reaction towards Indonesia's participation in the scheme?
6. What is *your* view concerning the relationship between nationalism and regionalism? To what extent does nationalism act as a stumbling block or a stimulant towards the enhancement of ASEAN co-operation?
7. In relation to the trade liberalisation process in Southeast Asia, how would *you* view the implementation of the Indonesian trade policy or FEP in general today, and the extent to which these policies serve the overall national interests of Indonesia?

8. What is (are) *your* view(s) towards the implementation of economic nationalism in the Indonesian trade policy today? To what extent is nationalism still prevalent in the implementation of the overall Indonesian FEP today? In *your* view, how is the implementation of a nationalist economic policy beneficial (or not) to the overall development of Indonesia?
9. RAL is one of the main policies recently introduced by the Indonesian government. In your perception, how would RAL contribute to the future economic development and the maintenance of national unity in Indonesia? In relation to AFTA, how would this law affect the Indonesia's overall participation in the scheme? To what extent does the implementation of RAL will affect the overall investment climate in Indonesia?
10. How would *you* view the development of AFTA and other ASEAN regional economic integration schemes in light of the recent economic crisis (to what extent does the economic crisis acts as either a stumbling block or a stimulant to an enhanced economic co-operation in Southeast Asia)? To what extent does the economic crisis strengthen or damage the relationship amongst ASEAN member countries?
11. In *your* perception, how does the recent transformation of leadership bring about changes to the way in which Indonesia implements its FEP in ASEAN and AFTA?
12. What is *your* view towards Indonesia's participation in larger regional or multilateral trade arrangements beyond ASEAN (i.e. APEC, WTO, etc.)?
13. What is (are) *your* view(s) towards the recent expansion of the ASEAN economic co-operation to include Japan, China, and South Korea within the APT framework?
14. What is (are) *your* perception(s) towards the issue of the dissemination process of information concerning the development of ASEAN and AFTA to the general public? As a member of the academic community, how often do you make enquiries to the Indonesian governmental institutions and ASEAN Secretariat to obtain information regarding ASEAN and AFTA? How would *you* rate the responses made by these institutions towards such an enquiry (i.e. poor, good, very good, etc) and how useful was the information provided?
15. Could *you* please identify some of the areas within the ASEAN economic co-operation that need to be improved and the way in which such improvements could be made?

* Note that the views of the each individual interviewed from the academic community are not necessarily the representation of the views of the institutions in which they work for. It is common to find that two scholars working within the same institution would have different points of view regarding the subject of the interview.

Therefore, starting from the question number three, all questions are specifically designed to gain the personal view of each interviewee.

D. Non-Governmental Organisations (NGOs) / Civil Society Organisations (CSOs)

1. Please specify the major objectives of (the name of the organisation) and (the name of the organisation)'s interests towards the issue of international and regional political-economy.
2. To what extent does (the name of the organisation) influence the current implementation of the Indonesian government's FEP?
3. Please comment on the activities of (the name of the organisation) within the regional level. Has (the name of the organisation) engaged in any forms of co-operation with similar organisations in other Southeast Asian countries? If so, please comment on some of the major achievements and setbacks resulting from such co-operations?
4. What are the perceptions of (the name of the organisation) towards ASEAN and the process of regionalisation in Southeast Asia?
5. What are the perceptions of (the name of the organisation) towards ASEAN's implementation of the AFTA scheme?
6. How would (the name of the organisation) view Indonesia's readiness to participate in the AFTA scheme and the Indonesian public's reaction towards Indonesia's participation in the scheme?
7. What is the perception of (the name of the organisation) towards the relationship between the Indonesian nationalism and ASEAN regionalism today? To what extent does nationalism acts as a stumbling block or a stimulant towards the enhancement of ASEAN co-operation?
8. In relation to the trade liberalisation process in Southeast Asia, how would (the name of the organisation) view the implementation of Indonesian trade policy or FEP in general today and the extent to which these policies serve the overall national interests of the Indonesians?
9. What is (are) the perception(s) of (the name of the organisation) towards the implementation of economic nationalism in the Indonesian trade policy today? To what extent is nationalism still prevalent in the implementation of the overall Indonesian FEP today? In your view, how does the implementation of a nationalist economic policy beneficial (or not) to the overall development of Indonesia?
10. RAL is one of the main policies recently introduced by the Indonesian government. In the perception of (the name of the organisation), how does RAL

contribute to the economic development and the maintenance of national unity of Indonesia? In relation to AFTA, how does the introduction of RAL affect the overall Indonesia's participation in the scheme? To what extent does the implementation of RAL affect the overall investment climate in Indonesia?

11. How would (the name of the organisation) perceive the development of AFTA and other ASEAN regional economic integration schemes in light of the recent economic crisis (to what extent does the economic crisis acts as either a stumbling block or a stimulant to an enhanced economic co-operation in Southeast Asia)?
12. Please comment on the issue of transformation of the current leadership in Indonesia and its impact towards the overall implementation of Indonesian FEP in ASEAN and AFTA.
13. What is the view of (the name of the organisation) towards Indonesia's participation in larger regional or multilateral trade arrangements beyond ASEAN (i.e. APEC, WTO, etc)?
14. What is the perception of (the name of the organisation) towards the recent expansion of the ASEAN economic co-operation to include Japan, China, and South Korea within the APT framework?
15. What is (the name of the organisation)'s view towards the issue of the dissemination process of information concerning the development of ASEAN and AFTA to various Indonesian NGOs and CSOs? How often does (the name of the organisation) make enquiries to either the Indonesian governmental institutions or ASEAN Secretariat to obtain information regarding ASEAN and AFTA? How would (the name of the organisation) rate the response made by these institutions (i.e. poor, good, very good, etc) and how useful was the information provided?
16. Please identify some of the areas in the ASEAN economic co-operation that need to be improved and the way in which such improvements could be made.

E. ASEAN Secretariat and foreign embassies in Jakarta

ASEAN Secretariat:

1. Please indicate the major policy objectives of the Secretariat and the ways in which the Secretariat implements these policies.
2. Please specify the way in which the Secretariat works internally and how the Secretariat works with the bureaucracy from each of ASEAN member government.

Foreign embassies:

1. Please indicate the recent economic relations between (the name of the country) and Indonesia.

2. Please specify some of the major achievements and setbacks in the relationship between (the name of the country) and Indonesia

ASEAN Secretariat and foreign embassies:

3. What are the perceptions of the (Secretariat or foreign embassies) towards ASEAN and the regionalisation process in Southeast Asia?
4. Please indicate some of the major achievements and setbacks of (the Secretariat or foreign embassies) when dealing with (other) Southeast Asian countries. How could these achievements or setbacks be exploited further or be tackled in the future?
5. How would the (Secretariat or foreign embassies) view the Indonesian government's attempts to exert its influence over ASEAN and its member countries' FEP?
6. Please describe the overall perspectives of the (Secretariat or foreign embassies) towards the implementation of AFTA.
7. How would the (Secretariat or foreign embassies) perceive the overall readiness of Indonesia's participation into the AFTA scheme?
8. How does the (Secretariat or foreign embassies) perceive the relationship between Indonesian nationalism and the development of ASEAN regionalism? To what extent does Indonesian nationalism act as either a stumbling block or a stimulant towards greater ASEAN economic co-operation? In the observation of the (Secretariat or foreign embassies), and in relevance to ASEAN regionalism, is there any evidence to indicate the emergence of nationalist sentiment within Indonesia?
9. RAL is one of the main policies which has been recently introduced by the Indonesian government. In the perception of the (Secretariat or foreign embassies), how could this law contribute to the future of economic development of Indonesia and the maintenance of national unity in the country? To what extent does the implementation of RAL bring about a better (or worse) investment climate in Indonesia and how it would effect the overall implementation of AFTA?
10. How does (the Secretariat or foreign embassies) view the development of AFTA and other ASEAN regional economic integration schemes in the light of the recent economic crisis (to what extent does the economic crisis acts as either a stumbling block or a stimulant to an enhanced economic co-operation in Southeast Asia)?
11. To what extent does the economic crisis strengthen or damage the relationship between Southeast Asian countries?

12. How does (the Secretariat or foreign embassies) perceive the current transformation of leadership in Indonesia and its impact towards the Indonesian government's implementation of FEP in ASEAN and AFTA?
13. What is the view of (the Secretariat or foreign embassies) towards Indonesia's participation in larger regional or multilateral trade agreements beyond ASEAN?
14. What is the perception held within (the Secretariat or foreign embassies) concerning the recent expansion of ASEAN economic co-operation to include Japan, China, and South Korea within the APT framework?

ASEAN Secretariat:

15. How would the Secretariat view the dissemination process of information generated to the general public concerning ASEAN's activities, particularly AFTA? How would the Secretariat react towards criticisms posed by the majority of Indonesian domestic constituents regarding the difficulty of gaining access to information from the ASEAN Secretariat?

Foreign embassies:

16. How would your (foreign embassies) comment on the dissemination process of information provided to the general public and foreign embassies concerning ASEAN and AFTA? How often does your (foreign embassies) make enquiries to either the ASEAN Secretariat or Indonesian government for the information concerning ASEAN and AFTA? How would your (foreign embassies) rate the response by these institutions (i.e. poor, good, very good, etc) and how useful was the information provided?

ASEAN Secretariat and foreign embassies

17. Please identify some of the areas within the ASEAN economic co-operation that need to be improved and the way in which such improvements could be made?

Appendix 6
ASEAN-5 major trading partners (2001)*

Indonesia's Major Trading Partners			
Exports		Imports	
Japan	13,530	Japan	7,046
U.S.A	9,916	Singapore	3,773
Singapore	7,081	South Korea	3,608
South Korea	4,068	China	3,120
China	3,535	U.S.A	2,750
Taiwan	2,294	Australia	1,830
Malaysia	2,038	Malaysia	1,719
Germany	1,948	Saudi Arabia	1,550
U.K.	1,560	Thailand	1,502
Hong Kong	1,356	Germany	1,461
Malaysia's Major Trading Partners			
Exports		Imports	
U.S.A	17,816	Japan	14,211
Singapore	14,913	U.S.A	11,839
Japan	11,770	Singapore	9,293
Hong Kong	4,063	Taiwan	4,193
Netherlands	4,060	China	3,804
China	3,821	South Korea	2,958
Thailand	3,360	China	2,139
Taiwan	3,263	Germany	2,743
South Korea	2,963	Indonesia	2,241
U.K.	2,310	Hong Kong	1,892
Philippines' Major Trading Partners			
Exports		Imports	
U.S.A	8,994	Japan	6,098
Japan	5,054	U.S.A	4,993
Netherlands	2,976	South Korea	1,950
Singapore	2,308	Singapore	1,793
Taiwan	2,127	Taiwan	1,607
Hong Kong	1,580	Hong Kong	1,259
Thailand	1,358	China	953
Germany	1,323	Thailand	897
Malaysia	1,112	Saudi Arabia	887
Korea	1,044	Indonesia	760
Singapore's Major Trading Partners			
Exports		Imports	
Malaysia	21,122	Malaysia	20,094
U.S.A	18,755	U.S.A.	19,159
Hong Kong	10,820	Japan	16,091
Japan	9,341	China	7,195
Taiwan	6,264	Thailand	5,159
China	5,329	Taiwan	4,932
Thailand	5,304	Saudi Arabia	4,229
South Korea	4,688	Germany	3,835
Germany	4,297	South Korea	3,823
Netherlands	4,035	Hong Kong	2,765
Thailand's Major Trading Partners			
Exports		Imports	
U.S.A	13,246	Japan	13,881
Japan	9,964	U.S.A.	7,198
Singapore	5,287	China	3,711
Hong Kong	3,298	Malaysia	3,078
China	2,863	Singapore	2,854
Malaysia	2,722	Taiwan	2,599
U.K.	2,328	Germany	2,562

Netherlands	2,028	South Korea	2,121
Germany	1,568	United Arab Emirates	1,529
Belgium	1,417	Australia	1,310

Note: *Millions of US\$
Source: IMF (2002)

Appendix 7
U.S. and Japan major trading partners (2001)*

U.S. Major Trading Partners			
Exports		Imports	
Canada	405,760	Canada	220,138
Japan	57,639	Japan	129,708
U.K.	40,798	China	109,392
Germany	30,114	Germany	60,492
South Korea	22,197	U.K.	42,367
France	20,125	South Korea	36,491
Netherlands	19,525	Taiwan	34,779
China	19,235	France	30,984
Taiwan	18,152	Italy	24,954
Singapore	17,692	Malaysia	23,072
Japan's Major Trading Partners			
Exports		Imports	
U.S.A	122,701	U.S.A.	63,713
China	30,948	China	57,780
South Korea	25,292	South Korea	17,221
Taiwan	24,256	Indonesia	14,883
Hong Kong	23,252	Australia	14,385
Germany	16,562	Taiwan	14,180
Singapore	14,713	United Arab Emirates	12,850
U.K.	12,146	Malaysia	12,824
Thailand	11,837	Thailand	10,353
Netherlands	11,489	Saudi Arabia	12,316

Note: *Million US\$

Source: IMF (2002)

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