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Political Economy of ASEAN Open Skies Policy: Business Preferences, Competition and Commitment to Economic Integration

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Abstract

Despite significant growth of the domestic airline industry, Indonesia was hesitant to ratify the ASEAN Open Skies Policy (OSP) until 2016. One of the recent findings exposed the increasing concern over foreign–domestic airline competition with too little attention in exploring airline aspirations and the potential interplay between the airline preferences and the state interest. This study empirically investigates the dynamics of domestic resistance to the implementation of OSP, and to what extent the interplay of Indonesian airlines' business preferences, ASEAN contexts and state interests have contributed to the OSP ratification postponement. Taking some lessons from the OSP ratification, we argue that the efforts towards advancing ASEAN economic integration through the open skies are contested domestically when business preferences showed mixed reactions. There has been little agreement on how the OSP could benefit the domestic airlines following their own business strategy. In the meantime, state principles indicated certain priorities for domestic interests, while ASEAN contexts allowed a member state to practice a negotiated move. The study was conducted using a qualitative method, with semi-structured interviews involving three Indonesian airlines (state and privately owned, full service and budget airlines), government officials, a civil society element and the Indonesian national air carriers association.

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Keywords

ASEAN open skies, business preferences, competition, state interest, economic integration

JEL Classification: F0, F5

Introduction

This study investigates the dynamics of domestic resistance to the implementation of the ASEAN Open Skies Policy (OSP) in Indonesia, and to what extent the economic preferences of Indonesian business has contributed to the OSP postponement. We argue that the efforts towards advancing ASEAN economic integration are contested domestically when domestic interest has a greater stake than a policy commitment to the regional economic integration. This argument was derived partially from Hameiri and Jones (2014) in Murdoch School of political economy. The theory has asserted that domestic power relations have a crucial factor in determining interstate relations in Southeast Asia. Given this perspective, domestic politics becomes a primary factor which determines the success and failure of integrating ASEAN economies.

Indonesia, the largest ASEAN economy, has a well-established domestic market and carriers for air transport. Despite the economic growth that was lower than expected in 2017 and 2018, Indonesian carriers have recorded an outstanding growth with a double-digit increase in 2017 and potentially see a higher growth in 2018 (*The Straits Times*, 2017). Lion Air, Indonesian largest low-cost carrier, has ordered the most aircraft in numbers, making it the second largest carrier in Asia after AirAsia (Morris, 2017).

Contrary to expectations, the optimistic market outlook could be an impediment for implementing an open sky policy in the region (Forsyth, King, & Rodolfo, 2006). Recent evidence suggests that Indonesia (and Lao PDR, not included in this study) was the last ASEAN open skies signatory to ratify the ASEAN Single Aviation Market (ASAM) protocols (Govindasamy, 2016). Previous studies have shown that despite the massive growth of the domestic airlines in Indonesia, there was an increasing concern over regional competition at home. A study conducted by Economic Research Institute for ASEAN and East Asia (ERIA) in 2014 has illustrated that Indonesia's hesitation to liberalise its domestic aviation markets was due to the local airline providers demand to protect their markets. Domestic carriers might face tough competition that potentially threatens their established market share. In the meantime, the government tends to incline towards protectionism as the government concerned about the domestic airlines losing out to foreign competitors (Forsyth et al., 2006).

A number of studies have focussed on measuring the economic impact of the OSP but left the domestic interplay of resistance empirically unanswered. For instance, the study of Hanaoka, Takebayashi, Ishikura, and Saraswati (2014) highlights the relevancies of joint ventures between the low-cost carriers (LCCs)

and the full service carrier (FSC) as a strategy to tackle the potential impact of LCC expansion before and after the implementation of the OSP. To our knowledge, there was continuously growing interest to study the political economy of the OSP in a multilateral perspective. The study of Woll (2012) on EU–US Open Skies has shown that the EU and the UK reluctance to sign the EU–US was to provide a room for competing actors to respond.

Specifically, in ASEAN and Indonesia, the study of Saraswati and Hanaoka (2013) suggests that Indonesia's reluctance to fully implement the OSP was due to mutual benefit issue that Indonesia might gain from the policy. Indonesia would rather step into the OSP gradually, to provide a period of adjustment, particularly for the airlines to adapt, as well as for the infrastructures to keep up. Besides, Azalia (2017) argued that ASEAN regional characteristics have affected domestic approach on decision making and the postponement of the OSP implementation itself.

From these studies, the domestic power relations and the counter forces remain a puzzle. Too little attention has been paid to the business aspirations and the potential interplay between business and government that constraint Indonesia's move to fully implement the OSP. This study frames business as a pressure group which tends to support or oppose the OSP. In addition, there is no research that has been found empirically covered Indonesian domestic airlines perspectives on the implementation of OSP. Political-economic perspective on the impact of the state-business coalition to the national commitment over an economic initiative in ASEAN region also remains unexplored. One major theoretical issue that has dominated the field of political economy of integration in Southeast Asia is that the study is state-centric, focussing on state behaviour rather than business as a prominent domestic actor that constraint the economic integration.

This article is structured by first delivering a literature section that covers theoretical foundations of the study and how the theories have constructed a framework to focus the analysis. This study also reviews the Indonesian context of ASEAN OSP. The section provides an understanding of Indonesia's approach towards the policy. The OSP in ASEAN and particularly in Indonesia works in different settings than the OSP elsewhere such as in the European Union.

Research Questions

Learning from the OSP implementation case in Indonesia this study proposes two research questions to discuss within a theoretical framework. One of the most important issues to discuss within the perspective of political economy is the preference aggregation from basic interest at the domestic level dynamics to political and economic interest in the regional sphere, and the role of the state to find consensus in dealing with various interests. We framed the perspectives in the following questions: How did business preferences constrain a commitment towards economic integration? and how did the state respond to the business preferences?

Research Focus and Methodology

This article focusses on the politics of traffic rights agreement for the scheduled airlines serving passengers for the international routes that have been approved under the ASEAN OSP schemes (the fourth and the fifth freedom traffic rights), with three Indonesian airlines as a case study. The study was conducted in the form of a qualitative method, empirically based on semi-structured interviews with the key informants. We were also invited to attend a focus group discussion in Yogyakarta concerning bilateral and multilateral agreements on the traffic rights that was conducted by the Transport Ministry.

Our interviews involved the bureaucrats from the Ministry of Transportation, Republic of Indonesia; a senior manager of Garuda Indonesia (GA); a commercial director of Indonesia AirAsia (QZ); a director of Sriwijaya Air (SJ) and NAM Air (IN); a civil society element: secretary general of Indonesian Air Law Society, and a permanent committee for Air Transport, Indonesian Chamber of Commerce (KADIN); a senior officer of Indonesia National Air Carriers Association (INACA); and a vice president of PT Angkasa Pura II (Indonesia's airport company).

Due to practical constraints, this study did not engage with the Lion Air Group, the largest domestic market segment in Indonesia. The main reason for selecting GA, SJ and QZ is that the airlines representing three major business segments in Indonesian aviation industry so that this study would be able to capture a wide variety of perspectives regarding the OSP. GA represents a state-owned, a national carrier and a full-service airline with both international and domestic routes. QZ has long been recognised as a low-cost airline, an associate carrier of AirAsia (a foreign carrier from Malaysia) with a focus on international routes. SJ and IN are privately owned airlines, serving domestic routes with international routes in Asia as new potential markets.

Literature Review

Preference Formation: A Domestic Level Approach

Taking collectively from the works of Moravcsik and Schimmelfennig (2009), Schimmelfennig (2015) and Jones (2016), this study would highlight the importance of exposing micro-level conflict of interests in domestic preference formation. The struggle over channelling economic preferences through economic integration is not simply an aggregation of interest by the state as the sole actor, whereby the economic actors could play a critical role in shaping the preference.

At the theoretical level, preferences on regional economic integration are formed by a translation process of state interest as well as business interest which stems from the domestic level. In a review of liberal intergovernmentalism (LI), Schimmelfennig (2015) suggests that European integration was shaped by national preference rather than geopolitical interest. The integration was constructed from the aggregation of domestic preference formation by looking at the possibility of maximising national welfare. Therefore, political actors would

advocate the integration as long as they are convinced that integration could maximise the benefits. LI illustrates that a move towards integration at regional level is a result from common perceptions of economic interdependent among the actors. As from Moravcsik and Schimmelfennig (2009), the most fundamental element that constructs integration is commercial interest with the assumptions that states play a role that conducts policy coordination and bargaining. The member states channel economic preference of producers in alliance with the ruling government's rational choices.

Similarly, Jones (2016) has argued that regional integration can only be possible with a dialogue between economic interests and ruling coalition rather than regional normative approaches. Jones (2016) thus explains in political economic point of view, 'regionalism is contested, its outcome fundamentally shaped by socio-political conflict' (Carroll & Sovacool, 2010 and Jones, 2016 cited in Jones, 2016). Taking some lessons from sectoral integration in ASEAN, Jones (2016) further describes that regional integration is shaped by micro-level conflicts in certain sectors. Thus, the future of integration is depending on struggles over structural adjustments in each sector that are being negotiated with the dominant economic interests and the politicians.

Policy Preference Formation: From Interests to Preferences

Interest constitutes values that business actors are assumed to pursue as a goal. Preference is defined as a translation process from the businesses' basic interests to their political stances or strategy (Woll, 2005). The translation process is affected by their *identity, causal and normative beliefs and strategic environment*. The translation process is depicted in Figure 1.

The translation path from Figure 1 begins with the basic interest. For businesses, this can be the survival of their companies as a goal. To achieve the goal, the business actor has to ensure profitability as a subjective interest. The business actor could further contextualise their interests through means of preference, such as aiming to seek economic protection from the government. In a more concrete policy, the actors might demand tariffs or quota as a strategy.

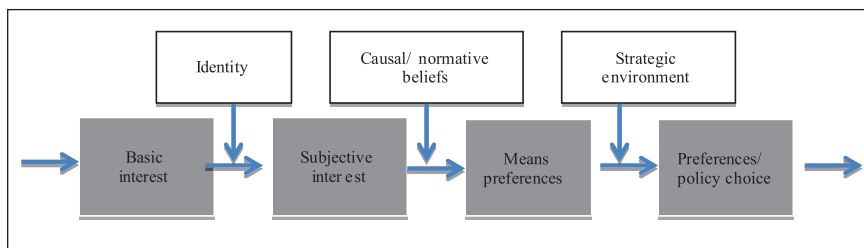


Figure 1. Translation Process From Interest to Policy Choice (Preference)

Source: Adapted from Woll (2005).

It is important to note that a traditional approach of aggregating business in a single frame of commercial interest might be problematic because the interest of business might be changing over time, depending on business and political environment at the time the policy was launched vis-a-vis the period of implementation. To frame the business preference, Verdier (1993) posits the Industrial Calculus, 'producers have fundamentally mixed preferences, seeking competition on what they consume but a rent on what they produce. For instance, import sensitive producers can either benefit from lower tariffs on their inputs or from higher tariffs from their outputs'. Chase (2003), on the other hand, has proposed two conditions on whether the businesses as domestic groups would likely to support or against regional trade liberalisation. *First*, when it enables the producers to reach economies of scale and *second*, when it allows them to operate across borders. Furthermore, Woll (2005) argued that businesses sometimes have to make decisions based on incomplete information and uncalculated moves.

Public Choice and Commitment to Regional Economic Integration

A conventional perspective often assumes that the government aims at 'the public interest'. Vaubel (1986) opposed the assumption by asserting that international commitments could further constrain national leaders and bureaucrats' freedom of discretion. As a result, the actors seek an agreement which potentially satisfies them personally, helps them to gain votes and reduces the cost of losing support by implementing their own favoured domestic policies. In other words, the political actors might deny any potential of unpopular domestic policies that were introduced by international agreements.

Mattli (1999) proposed two types of conditions for regional integration to succeed. *First*, there are significant potential economic gains that drive a market player to demand for regulations, rules or regional policies. *Second*, the supply conditions must be fulfilled. The conditions are when political leaders have a willingness to accommodate the integration process step by step. Their willingness builds upon the payoff of integration for their political motivation such as retaining power through the betterment of domestic economic condition. However, domestic political willingness is not a sole factor, regional coordination matters to ensure fair economic distribution among the member states in the region. A state would likely to commit for an integration to serve as a focal point of regional policies, as well as to ease the tensions that may arise.

Analytical Framework

Krasner (1983, cited in Laursen (2010)) has identified several variables that construct institutional choice towards integration which consists of independent, intervening and dependent variable (Figure 2). We adapted Krasner's research

design to explain the supply of commitment to economic integration, in this case, is OSP ratification postponement, by constructing new sub-variables from the theoretical reviews.

Business preferences at the domestic level are treated as the main supply of integration outcomes. The preferences of policy choices emerge from their basic interests, identities and strategic environment. Business preferences later translated to the outcome by a dialogue with two important intervening variables: *elite level preferences* and *regional institution context*. The first intervening variable depicts the interest of elites, their perceived economic benefit from the open skies and the possibility of pursuing more bargaining in regional negotiations. Both interests, business and elites are intermediated in a frame of ASEAN regional institutions that include their norms and architecture.

Discussion

The discussion is structured into two parts. The first part mainly deals with assessing the intervening variable, the ASEAN context of OSP and the Indonesian attitude towards the open skies. The second part explains business preferences, and the potential interplay between the business preferences and elite preferences in empirical narratives. This structure is framed based upon the analytical framework that we designed.

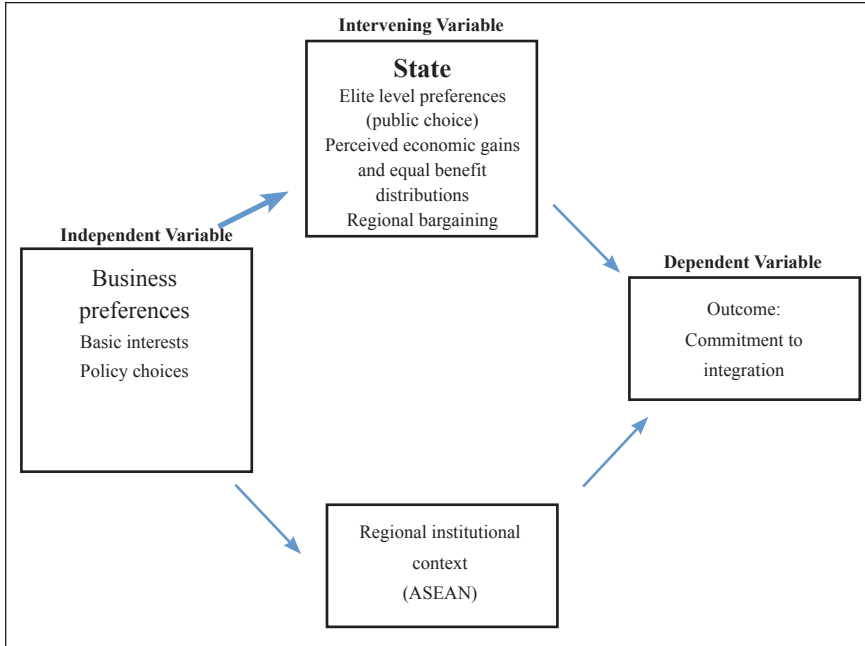


Figure 2. Analytical Framework Adapted from Krasner (1983)

Source: Laursen (2010).

The ASEAN Context of Open Skies Policy

With an initial aim to advance regional economic integration in terms of service and regional connectivity, the ASEAN OSP was meant to take into effect on 1 January 2015. Without any doubt, air transport is a critical area of cooperation for regional trade in ASEAN because this sector contributes to the reduction of transaction cost (Tham, 2008). The policy is also commonly known as ASAM.¹ The multilateral ASAM agreement endorses ASEAN Member States to adopt the unlimited third, fourth and fifth freedom of airlines operations in the region (Jin Tan, 2014). The third freedom allows designated airlines owned by state A to fly passengers and cargo to state B within the region. For Instance, GA has a right to fly from Jakarta to Bangkok, Surabaya to Singapore or Bali to Manila (see Table 1). The fourth freedom allows the airlines to return from the same route, that is, GA has a right to fly from Bangkok to Jakarta, Singapore to Surabaya and Manila to Bali. The fifth freedom permits an airline to serve a route from a point to another point within the ASEAN member states with an additional stopover either for profit or discharge, that is, GA serves a route from Jakarta to Bangkok with a stopover in Singapore (Jin Tan, 2014).

The nature of ASEAN OSP is different from the other region such as Europe in several ways which making it more difficult to integrate. In terms of law enforcement, ASEAN OSP is a negotiated move by member states rather than being enforced by a supranational body. In the European Union, the OSP is placed under the European Court of Justice (Forsyth et al., 2006). In other words, the progress of open skies is determined by the member states rather than ASEAN Secretariat (Lee, 2015). In terms of practice, ASAM does not endorse the OSP any further than fifth freedom for the scheduled passenger services. While the European practice shows foreign carriers could operate within member states' domestic routes; ASEAN's policy implies that foreign carriers can only enter the domestic markets of the other ASEAN member states by creating a joint venture carrier which is subject of certain local ownership rules (Hanaoka et al., 2014, p. 96).

Varying degree of interests among the member states has also contributed to the distinctive ASEAN context of open skies. ASEAN consists of countries with huge domestic markets for air transport, such as Indonesia, Thailand, the Philippines and Vietnam; while the other country such as Singapore relies heavily on international routes (Azalia, 2017, p. 136). Lee (2015) describes member countries such as Brunei, Myanmar, Singapore, Thailand and Vietnam as strong supporters of the open skies. Laos, Cambodia and the Philippines stand as partial supporters, while Indonesia has rejected to ratify due to protectionist attitude. As a result, the varying degree of interests towards the open skies potentially slow the full implementation of ASAM in the region.

Table 1. Air Freedom Rights in ASEAN Open Skies Policy

	Country A	Country B	Return
Third freedom	Jakarta, Indonesia	Bangkok, Thailand	
Fourth freedom	Jakarta, Indonesia	Bangkok, Thailand	Yes
Fifth freedom	Jakarta, Indonesia	Bangkok, Thailand	Yes, with a stopover in Singapore (country C), for profit or discharge

Source: Jin Tan (2014).

Note: With Garuda Indonesia flight from Jakarta to Bangkok as a modelling.

Indonesia has signed AMALPAS (ASEAN Multilateral Agreement on Full Liberalisation of Passenger Air Services) on 12 November 2010. However, Indonesia ratified the agreement 7 years later in 2016. The presidential decree number 12 Year 2016 ratifies the agreement to take effect in Indonesia specifically for the protocol 1 (unlimited third and fourth freedom of air traffic rights within ASEAN Member States) and for the protocol 2 which authorises fifth freedom. According to decision of Directorate General of Air Transport, Ministry of Transportation No. 480/2012, Indonesian government stated that it has a roadmap that is different from ASEAN. This decision was declared to prepare the airlines and airports to improve. Moreover, Indonesia would likely to comply the liberalisation plan gradually. It is evident that Indonesian government has step by step allowed foreign carriers to fully operate in Indonesia since 2005 when the government restricted LCCs' operations in four major cities, such as the capital Jakarta, Surabaya, Bali and Medan (Saraswati & Hanaoka, 2013).

Framing Business Preferences and Indonesian Commitment Towards Integration

Garuda Indonesia

GA, the national airline of Indonesia, did not perceive ASEAN Open Skies as an opportunity to reap profits. Their *basic interest* as a business to profit from this agreement is doubtful since Garuda believes that the low-cost carrier business model has a far better opportunity to thrive. Garuda has to fly from a point at Indonesian territory to other countries, but this case is different when it is compared to the LCCs from Singapore and Malaysia. These carriers could pick up the passengers from an Indonesian airport, transport them at their airports and fly them to their final destination within or beyond the ASEAN region. Garuda also has concerns about Indonesia's geographical position, which is situated in the southern part of Southeast Asia. Indonesia's position did not allow Indonesian airlines to become a hub in the region, which resulted in the low possibility of making the traffic freedoms beneficial.

Table 2. Garuda Indonesia Market Share for Passengers Flying from Indonesia, January–December 2017

Routes	Market Share (%)	Rank
Indonesia–Asia	17.61	2
Indonesia–Australia	20.27	2
Indonesia–Middle East	17.25	2
Indonesia–Europe	9.19	4
Indonesia–Africa	0.96	10
Indonesia–USA	0.10	10

Source: IATA DDS. Presented by Garuda Indonesia in a focus group discussion with the respective ministries. Yogyakarta, 9 August 2018. The data were further processed by the author.

Garuda denied competition as the main concern of the ASEAN Open Skies implementation. The manager we interviewed has asserted that given the service quality of Garuda as the only Indonesian 5-star airline (according to Skytrax) and their fleet rejuvenation (4.5 years on average), the airline is ready to compete internationally. He has also expressed a concern about the agreement that led to an unequal playing field with the foreign players.

It is not that we were not ready, but what is the aim of the agreement (Open Skies)? As a 5-star airline we are ready to compete, but the competition (through the open skies) can be unnecessary. Some terms are not ready (to accommodate us) and we have conveyed our aspirations to the government. Sometimes they assumed that we were aiming for more government support, but that was not the case. As you may have heard from the government presentation, they emphasized mutual reciprocity and equal opportunity for traffic rights agreement. For us, the equal level of playing field should also be a concern.

Such concern is deemed reasonable from Garuda's perspective. From Table 2 it can be inferred that foreign carriers have benefited more than Garuda has from the traffic rights agreement. GA has significant market shares for Asia, Australia and Middle Eastern routes, yet the airline lost its dominance for further regions, such as Europe, Africa and the USA.

When we apply the theory of Woll (2005), the OSP did not encourage Garuda to expand their market across the border, as well as to support them in reaching more economies of scale. Therefore, Garuda inspires the government to review the OSP as a policy choice.

We wish there was another policy review, there must be somebody who is bold enough to convey it. Can we learn from the Swiss-Singapore open skies that did not benefit the Swiss? The Swiss has reviewed it. Therefore, we should understand the risk of opening up the traffic rights, and to what extent our country should have its own policy.²

Indonesia AirAsia

Indonesia AirAsia mainly serves international routes with roughly 72 per cent of its route structure.³ Different from GA (Indonesian Flag Carrier), Indonesia AirAsia declared itself as the airline of ASEAN, which operates in a group together with the AirAsia Group at their headquarters in Malaysia. This identity constructs a different viewpoint when it deals with the ASEAN Open Skies. Indonesia AirAsia fully supports the Open Skies. The airline has also requested a further development of an Open Skies agreement in the region. Indonesia AirAsia's basic interest is not only profit but also how to connect the routes to its regional hub in Kuala Lumpur and beyond in ASEAN countries.

As a regional airline and a part of AirAsia group in ASEAN, we have seen the benefits of open skies since the agreement inception in 2012. In 2012, we have developed 3 AOCs (Airline Operator Certificate) in Southeast Asia such as in Malaysia, Indonesia and Thailand and have planned a synergy between the three AOCs. For us, this was an opportunity even though we assumed this might not be the case for Indonesian based airline companies.

Indonesia AirAsia is aware that its interests may oppose that of the local airlines. For instance, Indonesian airlines believed that opening up through the Open Skies would possibly share their established market to foreign players, because after open skies implementation, inbound flight capacity would outnumber the outbound flights from Indonesia. This case particularly occurs in high-demand destinations, such as for Bali and Jakarta. As a result, local airlines perceived Open Skies as a threat rather than an opportunity. Indonesia AirAsia, in this case, is perceived in a subjective interest as a part of AirAsia group that works together to link the routes within ASEAN.⁴

Despite its policy support towards the Open Skies, Indonesia AirAsia has expressed that it did not significantly benefit from this agreement. The airline stated that implementing a fifth-freedom flight route within ASEAN would not be efficient, while all of its aircraft could fly within the border of ASEAN member states without a stopover.

ASEAN Open Skies did not help that much for our route expansion in Southeast Asia. We can fly for 4 hours directly, point to point within ASEAN borders because we use Airbus A320 maximum range to operate. Therefore, there is no point of making a stopover. It would just create a 'W' route pattern. Can you imagine flying from Singapore, having a stop in Bangkok and getting back to Jakarta? We would likely to support an open skies agreement beyond ASEAN.⁵

In view of what has been mentioned by Indonesia AirAsia, the policy preference of Indonesia AirAsia is to encourage the agreement formulation that enables them to operate beyond ASEAN. In a concrete policy, however, Indonesia AirAsia did not seek protection to operate beyond borders. As a business that is connected with

other subsidiaries, Indonesia AirAsia demands a policy environment that enables them to synchronise to its main hub. In addition, Indonesia AirAsia has expressed a concern on the airport slots. Without adequate airport slots in the busiest airports throughout Indonesia, flight freedoms will not be useful in the future.

Sriwijaya Air

Established in 2003, SJ serves mainly domestic routes with gradual expansions to regional routes in Southeast and East Asia. SJ, starting in 2014, is a newcomer for an airline that serves international routes in Indonesia. They started serving point-to-point routes, such as Indonesia to China, Indonesia to Malaysia and Indonesia to Timor Leste, but they have yet to operate a flight with fifth freedom in ASEAN or beyond. As per 2018, the operational aspects of the airlines are being handled by the Garuda Indonesia Group, thus opening up the possibility for acquisition.

With regard to the ASEAN Open Skies, a SJ director mentioned that the company has supported the agreement as long as it did not open up the opportunity for cabotage (foreign carrier flying domestic routes) in Indonesia. Thus, the preference of SJ is being shaped by the interest to protect the domestic routes while the OSP has allowed only for further rights in certain international routes.

Many airlines were operating in Indonesia in 2012. When the OSP was being proposed, we (the private airlines) wanted more openness because our country cannot be protected geographically. Thus we need to redefine our sovereignty because despite the open skies, we don't implement the cabotage. We have to be ready, there is no need for protection except for the domestic routes.⁶

There is a consensus between SJ and AirAsia when it comes to benefiting from the OSP. Both carriers perceive broader fifth freedoms as necessary, due to the geographical conditions of Indonesia for serving further international routes beyond ASEAN.

We are the one (the country, Indonesia) that actually needs the fifth freedom due to our geographical location. If we ever aim to fly to Europe or further, we need to stop somewhere, let's say Kuala Lumpur.⁷

Despite the support for OSP, SJ has aimed for more strategic routes to be opened, such as those within the sub-regional growth area BIMP-EAGA (Brunei–Indonesia–Malaysia–Philippines East ASEAN Growth Area) and IMT-GT (Indonesia–Malaysia–Thailand Growth Triangle). The airline has further mentioned that the slots are limited even though flying the routes is possible with ASEAN's freedom rights. This also applies to the flights between the capital cities that are deemed more beneficial. SJ perceives such routes are more profitable, but the company was fully aware of the fact that the routes are highly competitive. According to the director, some ASEAN member states allowed foreign carriers to operate within the routes on a limited basis.

State Responses and Indonesian Commitment to the ASEAN Open Skies Policy

Explaining the State Interests

In order to assess the state's interest in the ASEAN Open Skies, the public choice approach was used. We also analysed the perceived economic benefits and whether or not the economic gains can possibly be equally distributed among the ASEAN member states, thus propelling commitment forward. Interestingly enough, there was no clear indication of vested or personal interest involved at the ministerial level. This is because the Indonesian position for the international agreements on the Open Skies is tied to several principles that took the domestic interests into full consideration.

In principles, the formulation of the OSP in Indonesia was selectively decided and considered the national interest, the national airline's capability and it must hold a non-cabotage principle that allows for only domestic airlines to fly the domestic routes. The agreement should also consider traffic value on the negotiated routes, which includes the traffic rights for the cargo. Opening up the inbound international routes to Indonesia must be decided upon the basis of certain considerations, such as the commercial aspects and economy, the social and cultural aspects, defence, as well as their connection with the domestic routes, while every international agreement is subject to domestic regulations. In short, the agreement should encourage the domestic airlines to collaborate with partners from overseas (Air Transport Directorate, 2017). Indonesia is also known to control its aviation market. Government regulates prices, facilities and services at Indonesian airports, while in terms of investment, the government limits foreign investment at 49 per cent. The restrictions have also included air transport services sub-sectors such as reservation system, passenger and cargo handling and leasing (Anas & Panjaitan, 2018).

In regard to the perceived economic benefits, the ministry has benefited from several opportunities by implementing the ASEAN Open Skies. This should serve as an incentive for the state to pursue further commitment towards the OSP. As stated in the ministry's presentation, the OSP could open up a route network, gain more access to foreign markets (within the ASEAN member states) and increase air traffic to the country, thus boosting the tourism sector. Despite these many opportunities, the ministry has expressed some concerns regarding the OSP. They stated that Indonesian airlines are still prioritising the domestic market, due to the limited international and regional network as well as other constraints to fully maximise the traffic rights, such as the difficulties of market expansion. According to the Air Transport Directorate (2017), there are some domestic and regional constraints that benefit from the OSP. ASEAN member states have yet to fully harmonise operating permits while the airports that are being liberalised for the OSP are often overcrowded. For instance, airports no longer have slots for the favourable departure times. It is also problematic that the airports in ASEAN member states have different capacities.

Due to both domestic and regional constraints, Indonesia took a gradual step in implementing the OSP to uphold its principles and to look carefully at a concern over business competition. Indonesia holds on a commitment to the principles of reciprocity and equal opportunity among the ASEAN member states. It is important to ensure that the benefit of OSP would also be equally distributed among the big and small ASEAN member states, namely the states with a greater number of airports (Indonesia, the Philippines and Thailand), and the states with limited airports (Singapore and Brunei Darussalam). Moreover, our interview has indicated that the strategy was also due to a concern over competition among the domestic and the international airlines.

In general, we support the OSP by opening up 5 airports... We have limited the airports (that are opened) to 5 airports. That is also for a preventive move, considering the possibility of tight business competition (between domestic and international airlines), but we saw that other countries have opened their airports as well.⁸

State-business Policy Dialogue on Open Skies

In this part of the analysis, we resolve the interest intermediation aspect between the airlines as business actors and the government that represents the state of Indonesia. Some argue that there was no conflicting interest between the businesses and the government regarding positioning Indonesia's national interest in the OSP, while others perceived that regional commitment towards the open skies was a top-down decision from top officials without carefully taking domestic aviation market situations into account. In addition, all business actors agreed that there are direct channels to convey their interests to the government.

The interviewee from the national carrier, GA, concerned that the government and his company have a different roadmap than the others. This is due to a mismatch between the head of state's move for a commitment at the regional level and the business interest to sustain its market strategy. As a state-owned company, GA is obligated to comply with the government roadmap, which often contrasting the market situation.⁹

According to a government official from the Ministry of Transportation, interest intermediation has been facilitated through regular internal meetings. Oftentimes, the ministry had requested feedback from the airlines before formulating a new Open Skies agreement. This policy feedback process was confirmed by the commercial director of SJ.¹⁰ Similarly, AirAsia's commercial director mentioned that direct contact with the government is straightforward. It can be taking place through phone or personal contacts or at any particular meetings. He has also said that the company has regularly consulted with the Ministry of Tourism to attract more inbound tourists to Indonesia.¹¹

Nevertheless, our findings did not fully provide a strong evidence to the fact that interests of business can be conveyed at the elite level, for instance between the CEOs and high-ranking officials at the ministry or presidential

office. Beech and Suhartono (2018) in *The New York Times* has indicated that the CEO of Lion Air holds a high position within the political party that supports the current Joko Widodo administration.

From Business Preferences, State Interests to Commitment to Economic Integration: How Did the Commitment Being Constrained?

As we return to the analytical framework, commitment to economic integration is determined by businesses' policy choice. The independent variable is further intervened by state preferences in dealing with the regional ASEAN context to implement the ASEAN OSP. Our findings suggest that mixed reactions took place among Indonesian airlines due to many factors such as their market share, business strategy (whether focussing on domestic or international routes) as well as the link to international airlines grouping. Concerns over a more equal level of the playing field between the domestic and international players occur, while others are questioning the real benefit of implementing the agreement.

It is also apparent from the state interests that Indonesia is still holding on the principles of prioritising its national interest over regional commitment. Strong evidence was found when Indonesia limits foreign equity in air transport, rejects cabotage and suggests that the implementation of open skies must consider various domestic aspects ranging from commercial to defence aspects, as well as the linkage to domestic airlines, while the open skies implementation is subject to domestic regulations.

However, when dealing with regional bargaining one has indicated that the commitment was made at the elite level that to some extent neglecting the real market situation. This rather contradictory given Indonesia's policy choice to gradually open its airports as a preventive move for a possible tight competition among the airlines. At the regional level, Indonesia promotes the principles of equal opportunity and reciprocity considering differences of access among ASEAN member states.

As a result, there are several possible explanations for the commitment constraints. First, the domestic aspects. Indonesia has carefully taking a gradual step due to its airlines' mixed aspirations and national interest. Second, the ASEAN regional context that makes a negotiated move possible, has allowed Indonesia to exert more bargaining based on its domestic considerations, as well as the principles the equal opportunity and reciprocity.

Conclusion

This study set out to discuss two questions on the interplay of the ways business preferences may constrain a commitment to economic integration, and the state response to the business preferences. We have argued that commitment towards economic integration is contested domestically and this has resulted in the postponement of ASEAN OSP implementation in Indonesia. Business preferences

cannot be taken as a single aspiration due to the different types of business identity and strategy, while their perceived economic benefits from open skies also shaped their preferences towards the open skies. Our study suggests there has been little agreement on how the OSP could benefit the domestic airlines. It is apparent that one of them was demanding an equal level of playing field to compete and the others were questioning the benefit of open skies due to their particular business strategy.

In response to the mixed preferences of the businesses, the state actors have to comply the principles that adhere national interests and constraint tight competition that possibly makes the domestic airlines losing out their markets. Therefore, the state has partially liberalised its market by granting a certain period of adjustment through postponement, while ensuring the reciprocity and the equal opportunity principles can be accommodated at the regional level. With a regional architecture that allows a negotiated move, ASEAN regional context has constrained a full implementation of a single aviation market in Southeast Asia within its given deadlines.

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Notes

1. ASEAN OSP to be implemented in 2015. See <https://www.aseanbriefing.com/news/2015/01/02/asean-open-skies-policy-implemented-2015.html>
2. From an interview with the Senior Manager Alliances and International Affairs, Garuda Indonesia in Yogyakarta, 9 August 2018.
3. Data from Indonesia AirAsia's presentation in an FGD with respective ministries in Yogyakarta, 9 August 2018.
4. From an interview with the Director of Commercial, Indonesia AirAsia in Jakarta, 15 August 2018.
5. From an interview with the Director of Commercial, Indonesia AirAsia in Jakarta, 15 August 2018.
6. From an interview with Director of Commercial, Sriwijaya Air Group in Jakarta, 21 August 2018.
7. From an interview with Director of Commercial, Sriwijaya Air Group in Jakarta, 21 August 2018.
8. From an interview with The Head of Air Transport Cooperation, Ministry of Transportation, Republic of Indonesia, 1 August 2018 in Jakarta.
9. From an interview with the Senior Manager of Alliances and International Affairs, Garuda Indonesia in Yogyakarta, 9 August 2018.

- 10 From an interview with the Director of Commercial, Sriwijaya Air Group in Jakarta, 21 August 2018.
- 11 From an interview with the Director of Commercial, Indonesia AirAsia in Jakarta, 15 August 2018.

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