

University of Groningen

Framing Trade Policy Preferences and Dialogues in ASEAN Economic Integration

Permana, Prayoga; Hoen, Herman; Holz hacker, Ron

Published in:
Challenges of Governance

DOI:
[10.1007/978-3-030-59054-3_5](https://doi.org/10.1007/978-3-030-59054-3_5)

IMPORTANT NOTE: You are advised to consult the publisher's version (publisher's PDF) if you wish to cite from it. Please check the document version below.

Document Version
Publisher's PDF, also known as Version of record

Publication date:
2021

[Link to publication in University of Groningen/UMCG research database](#)

Citation for published version (APA):

Permana, P., Hoen, H., & Holz hacker, R. (2021). Framing Trade Policy Preferences and Dialogues in ASEAN Economic Integration: The Case of The Automotive Industry. In R. L. Holz hacker, & W. G. Z. Tan (Eds.), *Challenges of Governance : Development and Regional Integration in Southeast Asia and ASEAN* (pp. 89-114). (Development and Governance). Springer. https://doi.org/10.1007/978-3-030-59054-3_5

Copyright

Other than for strictly personal use, it is not permitted to download or to forward/distribute the text or part of it without the consent of the author(s) and/or copyright holder(s), unless the work is under an open content license (like Creative Commons).

The publication may also be distributed here under the terms of Article 25fa of the Dutch Copyright Act, indicated by the "Taverne" license. More information can be found on the University of Groningen website: <https://www.rug.nl/library/open-access/self-archiving-pure/taverne-amendment>.

Take-down policy

If you believe that this document breaches copyright please contact us providing details, and we will remove access to the work immediately and investigate your claim.

Downloaded from the University of Groningen/UMCG research database (Pure): <http://www.rug.nl/research/portal>. For technical reasons the number of authors shown on this cover page is limited to 10 maximum.

Chapter 5

Framing Trade Policy Preferences and Dialogues in ASEAN Economic Integration



M. Prayoga Permana, Herman Hoen, and Ronald L. Holzacker

Abstract An exposure to international trade through an economic integration initiative potentially creates winners and losers at the domestic level. This chapter highlights the policy preferences and policy dialogues amongst stakeholders that shaped ASEAN economic integration within the automotive industry in Indonesia by tracing the economic integration process and critically reflects on the often-neglected competing interests and policy agenda settings. Policy preferences are defined as state motivation to pursue economic integration on the regional level, while policy dialogue is a domestic political process that involves various groups namely internationalist and backlash coalitions. Focusing on the automotive industry as an illustrative case, this chapter utilizes the qualitative approach of process tracing as a strategy to collect the data from key interviewees (government and private sector). Given the low intra-trade interaction in ASEAN, the analysis suggests that economic interdependence in sector-specific trade as the main driving force constructing policy preference. By eliminating trade barriers in the automotive industry, political elites aim to transfer domestic policy preferences to the regional level in order to secure domestic support through wealth-creation. Integrated ASEAN economies could contribute significantly to the development of the automotive industry with crucial improvements for a member country's income per capita. The policy dialogue process traced shows that Indonesian domestic political-economic interaction was in diverged opinions between the internationalists that

M. P. Permana (✉)

Faculty of Arts, University of Groningen, Groningen, The Netherlands

Faculty of Social and Political Sciences, Universitas Gadjah Mada, Yogyakarta, Indonesia

e-mail: m.p.permana@rug.nl

H. Hoen

International Political Economy, Faculty of Arts, University of Groningen, Groningen, The Netherlands

e-mail: h.w.hoen@rug.nl

R. L. Holzacker

University of Groningen, Groningen, The Netherlands

e-mail: r.l.holzacker@rug.nl

fully support integration and the backlash that approach economic integration cautiously. The latter perceived nontariff barriers as an acceptable strategy to protect the domestic economic interest. However, both actors' strategies are constrained by their power, authority, as well as bargaining over the needs to address certain internal and external issues.

Keywords ASEAN economic integration · Trade policy preferences · Automotive industry · Backlash and internationalist coalitions

Abbreviations

ABAC	ASEAN Business Advisory Council
AEC	ASEAN Economic Community
AFTA	ASEAN Free Trade Area
AICO	ASEAN Industrial Cooperation Scheme
ASEAN	The Association of Southeast Asian Nations
ATIGA	ASEAN Trade in Goods Agreement
BBC	Brand to Brand Complementarity
BKPM	Investment Coordinating Board, Republic of Indonesia
BPM	Bureaucratic Politics Model
CKD	Completely Knock Down
EMU	European Monetary Union
EU	European Union
GAIKINDO	The Association of Indonesian Automotive Industries
IIT	Intra Industry Index
IKD	Incompletely Knock Down
LI	Liberal Intergovernmentalism
NTB	Non-Tariff Barriers
RCA	Revealed Comparative Advantage
RCEP	Regional Comprehensive Economic Partnerships
RTA	Regional Trade Agreement
SME	Small and Medium Enterprises
SNI	Indonesian National Standard
SPT	Strategic Preference Theory
UNECE	United Nations Economic Commission for Europe
WEF	World Economic Forum
WTO	The World Trade Organization

5.1 Introduction

Contemporary Southeast Asia embarked upon their new economic landscape by the end of 2015. This is realized by opting to fully operationalize an agreement on the regional free trade, by eliminating trade barriers to facilitate the goods and services exchange and to grant market access privilege for investment. Discriminatory measures will be removed, and economic policy harmonization has been scheduled for acceleration to reassure the timely realization of regionalization process. In contrast with AFTA (ASEAN Free Trade Area) as an economic initiative in the late 1990s, Kosandi (2012) regards the current development of ASEAN (Association of Southeast Asian Nations) economic integration as an acceleration phase.

This chapter aims to draw a comprehensive picture of the trade policy process and domestic political forces behind the backdrops of regional economic integration in Southeast Asia. A study to trace the policy process in the formation of an ASEAN economic initiative is crucial because ASEAN has long been perceived as an elitist association where the decisions were made by a handful of foreign ministers of the member states rather than the majority of the population (Ananta, 2009). Moreover, Ruland (2017) posits that greater public involvement had no chance in practice, except endorsing a statement to commit in a ‘people-oriented ASEAN’. This is not, the case of Indonesia at the domestic level as Ruland (2017) argues. He further suggests that after the democratic transition, foreign policymaking in Indonesia has developed a hallmark of allowing more stakeholders to participate.

At this juncture, this chapter was designed to cover two approaches namely the statist and the non-statist approach to respond the challenge of democratizing ASEAN from the domestic level. The former focuses on state behaviour while the latter highlights the role of non-state stakeholders such as private industries in the automotive industry. In this context, the state interest in economic integration is to reap benefit from cross-border trading for public interests. Simultaneously, private stakeholders are concerned about eliminating tariffs, reducing economic uncertainties and enhancing economies of scale in a highly fragmented region such as ASEAN.

Two competing interests (internationalist and backlash coalitions) are often seen as unitary, or symbiotic, or even non-existent in the previous ASEAN economic integration literature (Nesadurai, 2003; Chandra, 2008). Besides, little did we know that economic integration is a policy program that resulted from a series of policy dialogues across the ministries, industries, or even some local government entities. Even though economic integration has often been associated with a policy program (Yi, 2007), there is a little theoretical and empirical evidence on the policy process behind the backdrops. In fact, studies have revealed that the economic effects of integration depend on the preference of policy makers, interest groups, as well as domestic institutions (Mansfield & Milner, 1999).

This chapter chooses the automotive industry in Indonesia as an illustrative case. The industry represents prominent actors that determine policy preferences of economic integration in Southeast Asia. An extensive study conducted by Doner (1991) as described by Chalmers (1994), revealed that the organized and successful

state-business interactions had accounted for the rise of large capitalist groups in the region. Specifically, in Indonesia, the automotive industry developed an alliance with nationalist elements in the bureaucracy, as well as adapted their industrial aspirations. ABAC (ASEAN Business Advisory Council), an organized body that mobilizes private sector's consent from the domestic level, has been closely affiliated with the automotive industry. Apart from Suzuki Indomobil Indonesia, the CEO of Astra International (Indonesia's largest conglomerate company based on the automobile industry) has become a prominent member (Ruland, 2016).

The integration of the automotive industry was also listed as one of the 12 priority integration sectors in ASEAN. The key feature of the industry in ASEAN region, for instance, is fuelled by strong economic growth favourable government policy, as well as high level of cooperation and economic integration (Oxford Economics, 2015). Similarly, at domestic level, the automotive industry is a leading sector for economic integration.¹ Aswicahyono (2000) has indicated that the industry has attracted government intervention than any other manufacturing sectors ranging from import protection to intense government regulation.

5.1.1 ASEAN Economic Integration and Challenges of Governance in Southeast Asia and ASEAN

Realizing ASEAN economic integration's full potential is a huge undertaking. Up until 2017, ASEAN economic integration has achieved a few tangible results because the level of integration in many sectors varies greatly (Tangkitvanich & Rattanakhamfu, 2017). Issues arise, such as increasing number of nontariff barriers (NTB), the fear of competition, and managing domestic consensus towards integration. *The Economist* briefly notes that tariffs may vanish, but NTB are rising because ASEAN member states set to formulate intellectual properties, immigration, and land-use regulations (Anonymous, 2016). Ruland (2016) further argued that many of the SMEs (Small and Medium Enterprises) in Indonesia are concerned about tough competition with bigger enterprises. Similarly, Basu Das and Tham (2015) indicated that conflicting interests within the domestic economies ranging from bureaucratic complexities to incoherent policies are prevalent. All in all, the World Economic Forum (WEF) on ASEAN in 2017 highlights a very important issue to address the challenges of economic integration. It pushes more efforts to ensure the benefits of regional integration are fairly distributed across the member states and all segments of society.

¹Anonymous. (2014). Inilah Sektor Unggulan Indonesia Hadapi MEA. Accessed from <http://industri.kontan.co.id/news/inilah-sektor-unggulan-indonesia-menghadapi-mea>

5.1.2 *Research Questions*

In order to frame trade policy from state and non-state actors and its relations to ASEAN economic integration, this chapter proposes two research questions:

- Why did the state (Indonesia) propose the Automotive Industry as one of the priority sectors of integration in ASEAN? What are the interests that construct the policy preference?
- How have the policy dialogues among various actors (government and nongovernment stakeholders) shaped Indonesia's direction towards ASEAN Economic Integration, particularly in the Automotive Industry?

5.1.3 *Social and Scientific Relevance*

This chapter attempts to fill the gaps left by previous studies on regional economic integration in ASEAN in two ways. First, theories on integration possess some limitations in providing a compelling basis to explain phenomena within the ASEAN integration process. This is because theories on integration rely on the EU (European Union) experiences (Kim, 2014) whereas the study of the integration process requires a deeper analysis on exogenous (as an articulation of major global shifts) and endogenous (how the regionalism is shaped by different actors within the region such as ASEAN) perspectives (Hettne et al., 1999 in Lombaerde, Soderbaum, Langenhove, & Baert, 2010). Indeed, EU has provided a model of integration for ASEAN. Severino (2003) for instance, has mentioned that the EU is the mother of all other integrations while ASEAN is at the early stages of the integration progress in the EU. However, given its distinct characteristics as a loose regional body, the European approach is not fully applicable to ASEAN. Commitments towards integration in ASEAN are left to individual member states with non-interference approaches. *Second*, the major ASEAN integration theory such as regional developmentalism (Severino, 2003) aggregates political process at the domestic level. The theory tends to see domestic actors to have the single frame of opinion within the government, while in fact; they potentially have different rationalities to address the issues.

It is equally critical to note that an exposure to international trade creates winners and losers. Alt and Gilligan (1994) has mentioned that the fundamental issue of international trade is that the international economic initiative might create greater economic outputs to society, but can be also disruptive to the individual's lives. Through mapping such potential obstacles, the study of economic integration process is necessary to formulate a more comprehensive understanding of how the integration should work in the ASEAN settings in the future. For instance, the study of Ruland (2016) has revealed that in Indonesia, major economic initiatives are suffering from lack of legitimacy and has met with a lot of resistance during the implementation. The government has to ensure that during the policy process, actors from

both sides are involved and have effective representations to channel their interests. This chapter, furthermore, can be a baseline to develop a more inclusive model of decision-making in ASEAN economic initiatives.

5.1.4 Research Methods

To achieve the research objectives, this chapter relies mainly on the qualitative method. *'Process tracing'* was conducted as a method for empirical data collection. Process tracing was one of the most frequently used methods to collect data on group influences in the European Union (Dur, 2008) which can also be applied to the other regional groupings such as ASEAN. In this research, process tracing was conducted by a series of interviews with key informants.

For state actors, relevant ministries for ASEAN economic initiatives were involved: The Coordinating Ministry of Economic Affairs, The Ministry of Trade, The Ministry of Industry and The Ministry of Foreign Affairs of The Republic of Indonesia. The ministries were interviewed separately to confirm how policy dialogues took place among them. This method was aimed at clarifying whether each ministry has a different perspective towards integration as suggested by Bureaucratic Politics Model (BPM) in the literature review section (Sect. 5.2). The ministries were not treated as a unitary actor that represents a single state preference towards the ASEAN economic integration. In addition, the researcher approached the ministry staff members from the lower to the higher level. The lower ministry staff members grasp the technicalities of economic policy while the top management tends to deal with political bargaining with other top officials. With regard to the non-state actors, the researcher investigated the automotive industry in conveying their demands, their economic preferences, how well their access to policy decision-makers was and how policy makers addressed their aspirations. For this purpose, interviews were conducted with the Chair of ABAC (ASEAN Business Advisory Council) and the President of Suzuki Indomobil Indonesia.

Rounding off the methodology section, this chapter also employs secondary economic data to provide a picture of economic interdependence. The Revealed Comparative Advantage (RCA) and Intra Industry Trade (IIT) Index were cited from a statistical report of a published book edited by Denis Hew, Brick by Brick: The Building of an ASEAN Economic Community. Secondary data were also gathered from multiple sources of Indonesian online newspapers and economic magazines.

5.2 Literature Review

5.2.1 *Constructing State's Preference in Regional Economic Integration: Economic Interdependence and Domestic Politics*

5.2.1.1 Liberal Intergovernmentalism (LI)

What constructs state's policy preference in regional economic integration? two-stage approaches in Liberal Intergovernmentalism (LI) by Moravcsik provide the baseline for the inquiry using the formation of the EMU (European Monetary Union) as a case study. LI has a central claim that the most fundamental factor which constructs European integration is the commercial interest. Policy preference towards regional economic integration resulted from a rational choice from national leaders who pursued an economic interest of powerful producers as well as the macroeconomic preference of the ruling elites. This preference emerges from domestic political contestations where sectoral interests, adjustment costs, and geo-political concerns play a critical role. In the regional sphere, states negotiate with a relative power which is determined by asymmetrical interdependence and commitment for regional credibility (Moravcsik & Schimmelfenig, 2009). Andrew Moravcsik (1998) has further suggested that regional economic integration was not shaped by a mere domestic political convergence. Interstate bargaining that was determined by asymmetrical interdependence, economic costs, and gains for the imposed condition within the integrated economy, accounts for policy outcome that leads to economic integration commitment.

Nonetheless, Moravcsik's approach possesses some limitations in explaining the logic of ASEAN economic integration. Moravcsik embarked on the case of the Maastricht Treaty and European Union's monetary integration which was developed with better democratic credentials than ASEAN Member States. Therefore, the aggregation process of national preference in the ASEAN Member States would be different from those in the European Union. Another limitation is that Moravcsik asserted the importance of interdependence among the states as one of the main push factors. Again, different from those in the European Union, the intra-ASEAN trade did not contribute significantly to the share of international trade in most ASEAN countries. It can be implied that economic interdependence in ASEAN is not significant enough to push for regional economic integration (Kim, 2014).

5.2.1.2 Strategic Preference Theory (SPT)

Kim (2014) offered Strategic Preference Theory that fits the ASEAN context better. SPT according to Kim (2011) shared a common ground with Liberal Intergovernmentalism in terms of constructing states preferences. Both theories asserted member states' preference as a key variable for integration outcomes.

Integration is perceived as a process whereby the states select their own preferences first and move forward to bargain a substantive agreement on the regional level. SPT (Kim, 2011) has a central argument that the regional economic integration is determined by two primary variables namely *economic interdependence* and *domestic politics*. The first variable, economic interdependence is measured by intraregional trade and investment. It is said that *'the higher the degree of intra-regional trade and investment, the stronger political will for deeper integration among ASEAN members'*.

The second variable is the domestic factor. In this variable, it is claimed that *the more regional integration is perceived as enhancing sovereignty and domestic regime security, the stronger the political will for deeper integration among ASEAN members*. This variable suggests the preference and political support towards ASEAN economic integration by ASEAN leaders can only be realized when the economic integration initiative enhances their sovereignty and regime security. Thus, the state is carefully choosing regional integration scheme. The member states would likely favour a scheme that best suits their goals of securing support (Kim, 2014). Similarly, as mentioned by Nesadurai in *the Regional Developmentalism* theory (2003), the pursuit of wealth-creation behind regional economic integration initiative brings the domestic politics back. Wealth-creation through regional economic initiatives can be a source of domestic political support.

5.2.1.3 A Conceptual Framework on Policy Preference

Having reviewed LI and SPT, this chapter would suggest two important variables constructing economic integration preferences. The first variable is the degree of economic interdependence in regional economic structure (ASEAN) and how the economic interdependence determines domestic support for the ruling elites. LI has suggested that economic integration is a result of an aggregation of domestic political contestation, while economic interdependence among the member states remains a crucial push factor. SPT, in addition, has asserted the political support for integration can be a source to enhance sovereignty and domestic regime security.

However, in this chapter, the degree of economic interdependence mentioned earlier is not measured by indicating overall intra-ASEAN trade. This is because the intra-ASEAN trade has accounted for only 24% whereas extra-ASEAN trade has a larger share of 76% in 2015². This evidence suggests that economic interdependence amongst the ASEAN member states is not significant enough to push for integration, particularly in a specific sector such as the automotive industry. Therefore, this chapter would further suggest a sectoral-trade interdependence indicator as a more viable indicator to construct the variable for analysis. A sectoral intra-trade indicator reflects a specific preference of ASEAN member states in

²ASEAN Secretariat. (2015). External Trade Statistics, 2015. Accessed from http://asean.org/?static_post=external-trade-statistics-3

specific areas of trade in goods or services. Consequently, this chapter will utilize sector specific-trade indicators for the automotive industry in the region, and investigate how the integration in the sector contributes to wealth-creation in Indonesia.

5.2.2 *Conceptualizing Policy Dialogue*

5.2.2.1 **Bureaucratic Politics Model (BPM)**

The second part of the literature review departs from the neo-functional approach in regional economic integration theory. It indicates that the policy direction on trade arrangements is determined by a domestic political process that involves various groups (Gunter, 1989). The neo-functionalists perceived regional integration as a process of transferring public affairs, involving citizens from domestic level to regional context. In such dialogues, interest groups such as social elites, lobbyists, and politicians act as the carriers of values. Mansfield and Milner (1999) highlighted the role of the pressure group influence when shaping trade policy. Mansfield and Milner (1999) added a new contribution by asserting policy maker's preference and institutional variables as inevitable factors. Nevertheless, this contribution was lacking the perspective on the inquiry of what constructs the actors' actions, and how the actions could shape economic integration.

In order to frame the policy dialogue, this chapter utilizes Allison's and Halperin (1972) Bureaucratic Politics Model (BPM) as a primary source to construct the conceptual framework. This model offers a highly comprehensive understanding of the foreign policy formulation process at the domestic level in democratic governance environments. It is mainly argued that the determinants of foreign policy outcomes are derived from a role play of conflicting world views amongst the actors within a government. The BPM approach criticizes traditional views that foreign policy decisions are straightforward and merely based on the ideas of national interest (Cezar, 2017). BPM further suggests that the conceptions of national interest within domestic agencies may vary. Each agency perceived national interest as a reflection of its own interests, and as a result, had tendencies to struggle for what they perceived was right. In this situation, BPM regards no one as an absolute power in regards to the decision-making process (Cezar, 2017).

The central concept of the BPM aims to answer three important questions in policymaking: (1) Who plays? (2) What determines each actor's stance, and (3) How the actors' stance determines and aggregates a government's strategic decisions (Allison & Halperin, 1972)? The first question focuses on the determinant of whose interests and behaviour possess an influential effect on the government's decisions. The determinants are the circle of senior players, or a circle that includes major political figures or an influential organization that manages budgetary allocations. The second question highlights the importance of each actor's primordial role that reflects the proposition of '*where you stand depends on where you sit*' (Cezar, 2017). The primordial roles are defined by the interpretation of the state's actions in

certain policy areas. Their standings are dependent on the interpretation of national interests, organizational interests, as well as domestic interests to the extent of personal interests. Lastly, an actor's stance when determining strategic decisions is dependent on two determinants: *policy and decision games*, and *action games*. Policy and decision games are the issues that the government wants to respond to or change, such as external changes, events, or internal pressures. Action games are determined by bargaining advantages that are sourced from formal power, control over resources and information, and persuasiveness over other players (Allison & Halperin, 1972).

5.2.2.2 Internationalist Vs. Backlash Coalitions

The basic tenet of politics in trade policy suggests that trade liberalization is a test of the state's capacity to sustain sectoral loyalty (Corrales & Cisneros, 1999). Corrales and Cisneros (1999) argued that trade policy to a certain degree is politically inefficient. The policy always creates winners and losers because trade liberalization has direct effects on import-competing sectors. This situation provides an incentive for the losers to take actions against liberalization.

The discussion of winners and losers shapes two competing actors in policy dialogue. Solingen (1999) mentioned at least two competing actors, namely internationalist coalitions and backlash coalitions. Internationalist coalitions are traditionally defined as large-scale industries in goods or service, including highly skilled labour, imported product consumers, and those with foreign trade and investment exposure. One should acknowledge Solingen's greatest contributions on illustrating the first coalition by describing the complicity of 'reform-minded' government officials. They are those who shaped international economic policy and direction as a tool for domestic economic reform. In contrast to the internationalists, Solingen (1999) labelled the backlash coalitions for import-competing firms, small businesses, and bureaucracies that are concerned with the erosion of state centrality. Bilal (1998a, 1998b), at the same token, argued that the Regional Trade Agreement (RTA) resulted from the debate of two major forces namely the protectionist and anti-protectionist forces. The proponents of free trade are the consumers, industries that rely on imported products as their inputs, and the industries that benefit from export.

Policy dialogue between internationalist and backlash coalitions is developed through the interaction between policy makers and private sectors at the domestic level before proceeding to the regional and global policy arena. The grand strategy of internationalist coalitions is the formulation of policies that are compatible with global market access. The strategy includes securing access to foreign markets, capital, investments, and technologies. The internationalists transfer their domestic interests to the regional arena. On the other hand, the strategy of backlash coalitions is for sustaining resource allocations to industries and attempting to weaken internationalist beneficiaries. They endure pressures for internationalization at home,

and challenge the existence of the international regime for their national objectives (Solingen, 1999).

5.2.2.3 Framing the Policy Dialogue: A Conceptual Framework

In order to frame the policy dialogue on trade policy that shapes economic integration, this chapter combines both the BPM, and Internationalist approach vs. the Backlash Coalition approach. The BPM is considered as the most suitable theory because the current development shows that foreign policymaking in Indonesia is heading towards democratic settings where more stakeholders are becoming involved in crafting the policy (Ruland, 2017). There, policies were meant to be formulated not only through public consultations but also through a series of dialogue among the ministries. In this setting, ministries might have different standings and objectives. However, under one circumstance, the BPM does not fit Indonesian settings perfectly, say, in terms of how the theory defines the actors involved. The BPM also does not assert the influence of non-state actors such as private enterprises. Therefore, the first important question of *who plays* in the policy dialogue conceptual framework will be answered by the Internationalist and Backlash Coalitions category developed by Solingen (1999). In brief, the conceptual framework for the second research question is depicted as follows (Fig. 5.1):

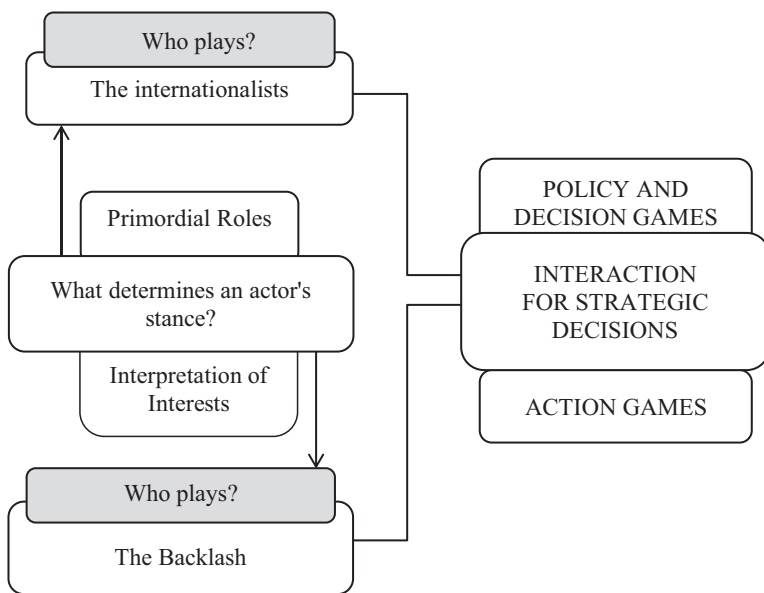


Fig. 5.1 Framing the Policy Dialogue. (Adapted from Solingen (1999) and Allison and Halperin (1972))

The internationalists are those who support regional economic integration. They are reform-minded officials with outward-looking economic policies, and they are the proponents of free trade deals. This category will also include export-oriented firms with some government links. Conflictingly, Backlash coalitions are those who endure the internationalization process at home. They are not necessarily against free trade, but they accommodate international economic initiatives cautiously. Both the internationalists and the backlash are attached to certain primordial roles such as their interpretation of national interests, organizational interests, and to some extent, personal interests. However, what was missing from the BPM is that the determinants of the primordial roles for both parties did not consider the links to non-state actors as an important factor. Therefore, this chapter would suggest that the links to private industries as a determinant that shapes the primordial role.

The policy towards economic integration developed through the interactions between two parties. The outcome of the policy dialogue is dependent on two important factors: policy and decision games, and action games. The policy and decision games are both internal and external issues related to economic integration that the government aims to respond to, while actions games are bargaining advantages such as their formal power and control over information and resources.

5.3 Discussion

The discussion is organized as follows. The first sub-section provides an analysis of state preference in pursuing economic integration in the automotive industry. This chapter then traces the complexity of state actors that involved in policy dialogue. It is aimed to provide a brief overview of which actors are classified in the internationalist and backlash coalitions. Regarding the inquiry of how these actors have shaped policy dialogue, the third sub-section describes the interaction within the frame of policy and decision games, as well as the action games. The final sub-section discusses the role of the automotive industry in shaping the policy direction towards economic integration.

5.3.1 State Preferences in ASEAN Economic Integration

To identify state preferences in regional economic integration, this chapter focuses on the automotive industry in Indonesia as an illustrative case. Economic interdependence in sectoral trade, mainly the automotive industry, and the interplay between economic interest and domestic political forces are the primary variables that construct regional economic integration at the domestic level. Economic interdependence will not be treated independently from the domestic politics variable. Instead, this chapter argues that economic interdependence in sectoral trade could

be a driving force that constructs the domestic support that propelled regional economic integration forward.

Indonesia's preference to integrate the automotive industry is not merely a transfer of its economic specialization to regional level as suggested by RCA for instance. The revealed comparative advantage (RCA) illustrates the ratio of the total shares of exports of a commodity compared to the total world exports. The higher the ratio a country possesses, the greater RCA it may possess (Oktaviani, Rifin and Reinhardt, 2007). RCA also reflects trade specializations of a country (Balassa, 1965). The following data depicts Indonesia having a high RCA in agro-based industries, fisheries, wood-based products, rubber, and electronics while it has no significant RCA in the automotive industry as opposed to Thailand. Other literature referred Indonesia as an assembly industry for Japanese companies (Nag, Banerjee, & Chatterjee, 2007). Consistently, the study of Aswicahyono and Kartika (2010) found that Indonesia's automotive industry has involved itself in a global production network, but Indonesia's involvement goes only as far as assembly activities to serve domestic markets, which was in the lowest position in the cross-border production network.

This Table 5.1 depicts RCA index of ASEAN Countries in 2005. The highlighted column depicts a comparison of RCA Index in the Automotive sector between ASEAN countries.

Intra Industry Trade Index provides a picture of integration in selected sectors. The numbers illustrate the degree sectoral integration in ASEAN. The higher IIT index means the more integrated specified sectoral industry in regional trade. Table 5.2 represents the Intra Industry Trade Index (IIT). The IIT serves as a sectoral indicator of economic integration degrees between countries. The higher the IIT number the higher possibility that mobility factors and trade affect a shift in income per capita. This occurrence, furthermore, may alter domestic demand as well as production patterns (Oktaviani et al., 2007). As seen in Table 5.2, high-income ASEAN countries such as Singapore were affected the most, followed by Malaysia, Thailand, and then Indonesia. Specifically, for Indonesia's automotive industry, the IIT shows the highest number of two points ahead of the rubber-based product in second.

The significant IIT in the automotive industry illustrates that, despite the fact that the automotive industry is not a major export for Indonesia, it serves as one of the more important driving forces for Indonesia's preference to integrate regionally. The more integrated ASEAN makes significant contributions to the automotive industry which is crucial for the country's income per-capita. Moreover, Indonesia has a large number of assembly plants, part suppliers, and employment than any other country in ASEAN except Thailand. GAIKINDO (The Association of Indonesian Automotive Industries), has estimated a total of 715.000 jobs were generated in 2012 (Natsuda, Otsuka, & Thoburn, 2015). This finding supports Nesadurai's (2003) thesis that the driving force of an individual country's decision for integration is to secure national economic growth. For the state, a commitment to securing wealth is a crucial track to acquiring legitimacy from its constituents. The relations between commercial and state interests can be seen as symbiotic in the case of the automotive industry.

Table 5.1 Revealed Comparative Advantage Index (RCA) by Priority Sector and ASEAN Countries, 2005

Sectors	Brunei	Cambodia	Indonesia	Lao PDR	Malaysia	Myanmar	Philippines	Singapore	Thailand	Vietnam
Agro-based	0.001	0.321	7.398	1.117	4.628	9.118	1.905	0.126	0.970	0.221
Automotive	0.001	0.024	0.383	0.059	0.114	0.000	0.286	0.217	0.880	0.132
Electronics	0.004	0.007	1.092	0.030	2.809	0.015	0.926	2.331	2.096	0.350
Fisheries	0.019	0.635	3.563	0.012	0.618	9.801	1.505	0.267	5.689	11.047
Healthcare	0.015	0.019	0.324	0.073	0.240	0.010	0.097	0.422	0.350	0.188
ICT	0.003	0.003	0.729	0.093	1.976	0.011	1.197	1.647	1.218	0.207
Rubber-based	0.002	0.168	1.804	1.219	0.852	0.649	1.000	0.270	1.684	8.033
Textile	1.665	15.609	0.277	0.406	0.486	0.687	0.128	0.309	1.563	0.830
Wood-based	0.004	0.430	5.026	18.092	2.665	3.642	0.060	0.087	1.292	3.754

Source: Hew (2007)

Table 5.2 Average Intra Industry Trade Index (IIT)^a

Sectors	Brunei	Cambodia	Indonesia	Lao PDR	Malaysia	Myanmar	Philippines	Singapore	Thailand	Vietnam	Sector average
Agro-based	1.43	5.33	16.61	5.29	26.33	0.04	3.52	28.90	14.66	9.42	11.15
Automotive	26.06	11.19	39.86	2.28	39.30	0.61	19.60	40.05	34.68	15.91	22.96
Electronics	24.51	6.03	28.87	0.34	48.09	1.94	22.40	44.34	40.78	16.37	23.37
Fisheries	3.83	12.21	24.19	0.00	44.16	0.02	21.04	33.97	35.36	22.66	19.74
Healthcare	6.84	0.30	23.98	1.02	53.34	2.74	19.68	39.70	29.06	19.30	19.59
ICT	21.86	5.99	29.77	0.06	51.37	2.27	27.23	47.81	45.18	15.40	24.70
Rubber-based	11.37	3.39	37.98	0.04	45.80	0.01	24.98	46.76	47.14	23.12	24.06
Textile	9.61	5.11	17.40	1.16	31.91	0.06	11.46	33.73	20.45	16.57	14.75
Wood-based	10.31	11.79	26.79	10.49	33.50	1.01	16.23	24.58	34.31	32.26	20.13
Country average	12.87	6.82	27.27	2.30	41.53	0.97	18.46	37.76	33.51	19.00	

Source: Hew (2007)

^aIntra Industry Trade Index provides a picture of integration in selected sectors. The numbers illustrate the degree sectoral integration in ASEAN. The higher IIT index means the more integrated specified sectoral industry in regional trade

Besides, the other factor that shapes preferences of integrating the automotive industry is an external factor such as the Asian economic crisis. For instance, the Indonesian government was once thinking twice to fully implementing AICO (ASEAN Industrial Cooperation Scheme) to adhere to their national interest. Indonesia kept imposing certain rules that assemblers are eligible for tariff reductions if they achieved a designated number of local content requirements. Until 1998, the Asian economic crisis pushed ASEAN states into realizing that they should take AICO into account seriously as they had no option but to strengthen exports and reduce imports. The 'Hanoi Plan of Action' in December 1998 marks a new chapter for integrated ASEAN in terms of the automotive industry under the AICO scheme. The members of ASEAN had finally reached their decisions to waive 30% of local equity requirements. Apart from the state's reaction to the economic crisis, AICO deregulation was facilitated by continued pressures from the business community and foreign companies (Yoshimatsu, 2002).

5.3.2 Policy Dialogue: The Internationalist and Backlash Coalitions

5.3.2.1 Mapping the State Actors

In framing the policy dialogue among actors, this chapter begins by mapping which actors could be characterized as the internationalists, and discusses the backlash at the domestic level to provide an analysis for the inquiry of *who plays* mentioned in the conceptual framework. In Indonesia, policy dialogue shaping economic integration involves various ministries and private sectors. Given the divided opinions towards economic integration, it can be argued that state actors are no longer in a single category to frame a policy dialogue among them. One of the main research findings is that, contrary to the unitary approach, the ministries were divided in opinions as mentioned in the Bureaucratic Politics Model (BPM).

In recent years, Indonesia's foreign policy orientation towards ASEAN has shifted to a distinct approach. Poole (2015) saw the country has moved from multi-lateralism to strategic bilateral relations with an emphasis on national interests and benefits for the people, making it uncertain to claim that ASEAN is Indonesia's foreign policy cornerstone.³ In the meantime, some ministries under Joko Widodo's administration have geared up to add local content requirements for trade in goods while others tighten control for foreign professionals in service sectors. The ministries have demanded a review of the benefit of the ASEAN Economic Community (Patunru & Rahardja, 2015). Mahbubani and Sng (2017) have noted that Indonesia could be strained by economic nationalism that leads to resistances to open up its economy to regional competitors.

³ Poole, A. (2015). Is Jokowi Turning His Back on ASEAN? Accessed from <http://indonesiaatmelbourne.unimelb.edu.au/is-jokowi-turning-his-back-on-asean/>

The domestic policy arena that shapes regional economic integration in Indonesia involves 14 ministries and a government body (BKPM/Investment board) under the Coordinating Ministry of Economic Affairs. The ministry serves as a representative for the AEC (ASEAN Economic Community) Council in Indonesia. The ministry's tasks include representing Indonesia in AEC Council meetings, conducting regular meetings with related ministries concerning AEC and ensuring effective coordination among them. The Coordinating Ministry of Economic Affairs is able to consult directly with the President on strategic decision-making for international economic initiatives. They convey the aspirations of top officials to ministerial meetings to ensure that national objectives can be achieved in lieu of the debates over competing interests. The Coordinating Ministry also act as a mediator when the ministries are in conflict or have different opinions.⁴ Nevertheless, the Coordinating Ministry of Economic Affairs is not adequately equipped in terms of human resources.⁵ The ministry must handle the complexities of various economic initiatives in ASEAN at the domestic level, ranging from trade in goods to services, and investment and energy. The ministry is challenged by a limited number of personnel, as well as unsuitable staffs' qualifications. As a result, the ministry's staffs must consult respective ministries on every detail of economic agreements before heading to the ASEAN council meetings.⁶

The primordial roles of the Coordinating Ministry of Economic Affairs are leaning towards the internationalists. They cite that the Indonesian economy should look outward and that domestic economic actors would benefit from greater access to the international market, and thus could achieve national interest in regional economic integration. The ministry also expresses concern for the low participation among private industries in benefiting the AEC due to a huge potential within Indonesian domestic markets. Additionally, the ministry has advocated for greater economic access overseas through RCEP (Regional Comprehensive Economic Partnerships), which was debatable across the 15 economic ministries.⁷

The second prominent actor in regional economic integration at the domestic level is the Ministry of Trade. The Ministry of Trade acts as a negotiator in international trade negotiations, both on a bilateral and a multilateral basis. They are tasked with ensuring greater market access for Indonesian products through trade negotiations. Citing *where you stand, depends on where you sit* from the BPM model, the primordial role of the ministry can be categorized under the internationalists. During interviews, ministry officials state that Indonesia would benefit more from regional economic integration by shifting the inward-looking mindset of businesses. They

⁴First author's interview with a mid-career staff, the Coordinating Ministry of Economic Affairs, Republic of Indonesia. Jakarta, 10 May 2017.

⁵First author's interview with the staffs of ASEAN Cooperation Directorate at Ministry of Trade, Republic of Indonesia, 17 May 2017.

⁶As expressed in an interview a mid-career staff at Coordinating Ministry of Economic Affairs, Republic of Indonesia. Jakarta, 10 May 2017.

⁷Ibid, 10 May 2017.

have criticized various domestic constraints as a speed bump that hinders the country from economically benefiting the integration.⁸

In my opinion, our industries are domestic oriented. We don't really see ASEAN as our priority. We simply trade the same goods to our traditional market destinations. When we pushed for more export, local economic players would complain about their capacities to fulfill the domestic needs. For them, domestic demand comes first, while in fact, everyone has to compete internationally. We don't really know where we are heading to, we can't really see the sense of urgency to compete (a high official at the Ministry of Trade, Republic of Indonesia).

In contrast to the Ministry of Trade, a Ministry of Industry senior staff stated that Indonesian businesses are not ready to face competition with international players domestically as they could not match the pace of international agreements while the agreements often neglect the interest of local industries. Local businesses also tend to focus on the domestic market, citing that the country has a huge domestic demand that is not fully supplied by its own economic players. Moreover, the Indonesian business community often criticizes market internationalization with the infant industry argument. They raise issues on lack of infrastructure, incoherent industrial policy, and market uncertainties, while failing to build awareness efforts towards international economic initiatives.⁹ As a result, the Ministry of Industry responds the demand by aiming to buffer local businesses with certain domestic regulations, or slowing the pace of new free trade agreement creation through inter-ministerial consultations. They perceived the strategy as an acceptable approach to locally minimizing international agreement consequences.¹⁰

The Ministry of Foreign Affairs has also been fully involved in shaping ASEAN economic initiative.

The ministry positions itself as the defender of the current regime's political objectives¹¹:

Our task is to (politically) ensure that economic integration would not go beyond our national mandate. It must be economic-wise and national interests should be fully adhered. The Joko Widodo administration has emphasized the importance of tangible economic benefit. The question of what do we get has always be arisen compared to the previous administration (a high official at the Ministry of Foreign Affairs, 2017).

It is likely that the ministry is on the backlash side. The previous statement implies that the primordial role of the ministry is depending on the vision of the current government with regard to the economic integration. This finding, however, needs to be interpreted with caution because regime's attitude to ASEAN could be adapted over time depending on the domestic and global situation.

⁸As expressed in an interview with a high official at Ministry of Trade, Republic of Indonesia, 17 May 2017.

⁹First author's Interview with the staffs of the Ministry of Industry of Republic of Indonesia, 1 June 2017.

¹⁰Interview with a senior staff, the Ministry of Industry of Republic of Indonesia, 1 June 2017.

¹¹Interview with a high official at Ministry of Foreign Affairs, Republic of Indonesia, 13 May 2017.

5.3.2.2 Policy and Decision Games, and the Action Games in Policy Dialogue

It is encouraging to take a closer look at the aspect of *policy and decision games*, and *the action games* to frame the policy dialogue. As mentioned previously in conceptual framework, this chapter addresses *policy and decision games* as a government response to internal and external issues with regard to economic integration, while *the action games* are defined as bargaining advantages for certain actors, such as their formal power, control over information, and resources acquired to determine the direction of policymaking. This chapter would argue that both actors' strategies in shaping the policy are constrained by their power, authority, as well as bargaining over the needs to address certain internal and external issues.

In this chapter, there are two main areas of conflicts in the policy dialogue. First, regarding Indonesia's policy commitment for liberalization and second, on the effort towards harmonizing standards to eliminate NTB. Conflict arises when the commitments to internationalize the automotive sector could potentially create losers at the domestic level. The difference worked through a series of consultation across the ministries. When conflicting policies continue within various ministries, the President can ultimately decide the policy direction. The strategy of the backlash to endure the internationalization at home is by formulating a policy innovation to promote the local contents use without to the extent of not violating the WTO rules.

In the trade policy dialogue process, interactions among the ministries were deliberative. This perfectly fits a major change after democratization in Indonesia that allowed more actors to participate in foreign policymaking. Competing interests among the ministries were consulted through a series of meetings. *Policy and Decision Games*, in general, arise when the government as a whole has to comply with the deadline of liberalization scorecards, such as eliminating trade barriers to the lowest amount possible. Specifically, in the post-2015 integration of the automotive sector, Indonesia has to harmonize its national standards according to 19 UNECE (United Nations Economic Commission for Europe) regulations.¹² This move is critical because compliance with the scorecard determines Indonesia's commitment and credibility towards ASEAN economic integration. Furthermore, there have been international pressures to reform Indonesian industrial policy in the automotive sector towards an open trade policy (Aswicahyono, 2000).

It is also worth noting that some efforts towards harmonizing standards to fully reduce NTB can be a hurdle to ensure the commitment. The Indonesian domestic political economy is divided in opinion between the internationalists that fully support the integration and backlash coalitions that approach economic integration cautiously. The former Minister of Industry, MS Hidayat has stated that economic integration in the automotive industry provides a window of opportunity for the local industry. But with insufficient anticipation, the integration could harm local

¹²ASEAN Secretariat. (2015). Accessed from <http://www.asean.org/storage/images/2015/October/outreach-document/Edited%20Automotive.pdf>

industry.¹³ Thus, to stay competitive, the Minister suggested the industries to use local components despite the fact that Indonesia is not yet supported by a sufficient number of local component producers.¹⁴ The Indonesian government has introduced IKD (Incompletely knocked-down) system in 2006 to encourage sub-component imports rather than CKD (Completely Knock Down) as a whole. This strategy was set by imposing tax-duty rates with the primary goal of ensuring the know-how investment from foreign assemblers. And this policy innovation is not prohibited under the WTO rules (Natsuda et al., 2015). In addition, an interview with a staff from Ministry of Industry revealed that sometimes NTB can be used as an acceptable strategy to protect the domestic economic interest as long as the policy does not violate WTO regulations.¹⁵ For instance, the application of NTB such as local content requirements is necessary to benefit domestic producers with an established supply chains (Oxford Economics, 2015).

To ensure Indonesia's commitment towards liberalization, Coordinating Ministry of Economic Affairs has conducted regular meetings. First, at staff's level, and it moved forward to director's level up until the minister's level. If deadlock of opinions occurred, the ministry would turn over the case to the president:

All the ministries are treated equally under the coordination of coordinating ministry of economic affairs. However, the economic initiatives are subject to approval from the coordinating ministry of economic affairs. We have conducted several meetings to hear their opinions. However, when more and more disagreements are involved, we strongly suggest them to talk with the president directly (a mid-career official at Coordinating Ministry of Economic Affairs, 2017).

Thus, ensuring Indonesian commitment is not an easy task. According to the coordinating ministry of economic affairs staff, several ministries are reluctant to liberalize the sectors under their authorities. They refused to speed up the pace of liberalization due to the demand of local business entities.

This situation was also expressed by a Ministry of Trade staff:

Contrary to popular belief, Indonesian automotive sectors have approached ministries to protect some items in the supply chain. They have also complained about PSR (Product Specific Rules of Origin) (a Ministry of Trade Staff, 2017).

Formal power, power over information, and *the action games* also played a significant role during the policy dialogue. The Ministry of Industry is equipped with a strong bargaining of formal authority to consult the 75% of commodity list that determines whether or not the specific export/import commodities are included in

¹³Hardum, S. E. (2014). Hadapi MEA, Kemenperin Pacu Daya Saing Industri Nasional. Accessed from <http://www.beritasatu.com/ekonomi/192192-hadapi-mea-2015-kemperin-pacu-daya-saing-industri-otomotif-nasional.html>

¹⁴Anonymous. (2014). Bea Masuk Jegal Sektor Otomotif. Accessed from <http://www.republika.co.id/berita/koran/news-update/14/12/01/nfwbog36-bea-masuk-jegal-sektor-otomotif>

¹⁵From an interview with a senior staff at Ministry of Industry of Republic of Indonesia, 1 June 2017.

the liberalization lists.¹⁶ Therefore, moving towards trade negotiations without involving the Ministry of Industry is deemed impossible. Similarly, the Coordinating Ministry of Economic Affairs is privileged to have a direct consultation with the President as mentioned in the previous discussion. The President's mandate is perceived as the most important consideration during the policy dialogue. Competing interests were often neglected to accommodate the mandate of the President.¹⁷

The internal and external issues related to the automotive industry and AEC that the ministry of industry aimed to respond is that to realize a vision to transform Indonesia from the assembly hub to be a producer of automotive machinery, primary components, as well as transmissions. The minister also set a higher standard, to produce more automobiles than Indonesian competitor in ASEAN, Thailand.¹⁸

5.3.3 The Automotive Industry Roles as Non-State Actor in Policy Dialogue

The second question of this research was the role of non-state actors in shaping Indonesia's policy direction towards economic integration in the automotive industry. In this chapter, non-state actors are automotive corporations, both the principals and their subsidiaries.¹⁹ The current study found that domestic automotive players are in favour of economic integration because they demand an efficient mode of production through the regional supply chain of components. However, at the same time, they also aim to safeguard their domestic market in Indonesia. The most striking result from this chapter shows that positioning the automotive industry in Indonesia as the internationalists can be problematic. In addition, despite the fact that ABAC (ASEAN Business Advisory Council) officials are the prominent names in the automotive industry, they are not mainly representing the interest of the industry in policy dialogue.

The automotive industry has been privileged within ASEAN Economic initiatives since its early stages. ASEAN states have introduced BBC (Brand to brand complementarity) scheme, AICO (ASEAN Industrial Cooperation), CEPT (Common Effective Preferential Tariff Scheme) (Hassler, 2012) and later, ATIGA (ASEAN Trade in Goods Agreement) to facilitate further integration in the automo-

¹⁶As expressed in an interview with the Head of ASEAN Economic Cooperation Subdivision at Coordinating Ministry of Economic Affairs, Republic of Indonesia. Jakarta, 10 May 2017.

¹⁷Remarks from an interview with the staffs of International Cooperation Directorate, Ministry of Industry of Republic of Indonesia, 1 June 2017.

¹⁸Anonymous. (2016). Target Ekspor Sienta ke ASEAN 500 Unit Per Bulan. Accessed from <http://industri.kontan.co.id/news/target-ekspor-sienta-ke-asean-500-unit-sebulan>

¹⁹Company's leader and representative, they are mainly large corporations in Japan such as Toyota, Suzuki, and Mitsubishi. Indonesian automotive Industries are the subsidiaries of the Japanese Companies. The Japanese brands are managed under a holding group locally. For instance, Astra International manages Toyota and Daihatsu; and Indomobil holds Suzuki and Nissan.

tive sectors. The only opposition that the industry has encountered in policy dialogue were the member states with strong national interests (Yoshimatsu, 2002). In the early stages of ASEAN cooperation, the Japanese automotive industry in Southeast Asia was struggled to develop its operations due to protectionist policies (Yoshimatsu, 1999).

At the domestic level, the interests of the automotive industry are represented by GAIKINDO (Indonesian Automobile Industry Association). The former Chair of GAIKINDO is currently the head of ABAC of Indonesia. ABAC conducts regular meetings with relevant ministries to discuss Indonesia's trade policy in ASEAN and to represent Indonesia in those regional meetings. Nonetheless, Indonesian ABAC is not a part of Indonesian Chamber of Commerce, and does not maintain institutional communication with the Chamber.

ABAC does not mainly representing the automotive industry, but this organization was designed to convey the demands of local businesses at large to the higher levels in ASEAN. The representation problem arises when ABAC was perceived as the agent of the automotive industry interests at the domestic and regional level (*see introduction*). In fact, ABAC has no direct institutional relations with GAIKINDO even though at its inception, two of the three ABAC representatives in Indonesia were from Suzuki Indomobil and ASTRA International.²⁰ In this case, both Indonesian government and ASEAN Secretariat are not equipping ABAC with adequate resources, making it impossible for small industrial players to lead the ABAC. ABAC officials often spend their own budget to attend the meetings or to conduct an exhibition on the regional level.

We do have some constraints to empower ABAC. The organization is not well-functioned compared to ABAC Malaysia. Our government does not fund ABAC, that is why our ABAC remains powerless

(a high official at the Ministry of Trade, 2017).

This representation system, however, does not make ABAC a toothless organization. Although ABAC's recognition as an official representative of the businesses remains doubtful, ABAC's people maintain some individual connections to top officials in the cabinet. For instance, the Chair of ABAC was once consulted by former President Yudhoyono and his Minister of Trade, on an issue related to the outcome of ASEAN economic negotiations that they attended. The Chair of ABAC has also assisted the Minister in conducting ASEAN economic initiatives-related consultation with the house of representative.²¹

One might argue that the primordial role of the automotive industry is on the side of the internationalists because automotive industries in Indonesia are in favour of ASEAN economic integration. One possible explanation is that despite the local

²⁰Remarks from an interview with The Chair of ABAC Indonesia and The President of Suzuki Indonesia. Jakarta, 6 June 2017.

²¹Remarks from an interview with The Chair of ABAC Indonesia and The President of Suzuki Indonesia. Jakarta, 6 June 2017.

content requirements and domestic competition issues, the industry remains dependent on imported components:

Can we really produce everything (components) locally? No, it is not easy. When we aim for export, we need the approval of UNECE in terms of safety standards. Take it simple for the locally made car seat, is it safer (compared to the imported ones)?
(The President of Indomobil Indonesia, 2017).

In addition, Jongkie Sugiarto, the Chief of GAIKINDO mentioned a similar situation, stating that using more local component is possible, as long as the government encourages increased local component production capacity. Sugiarto further mentioned that, while the automotive industry does not demand more protection, but he suggests a more comprehensive policy on tariffs because the government continues to impose a tariff on component materials. This situation has increased the price of locally made components.²²

However, regarding the full implementation of AEC, some local automotive industry players have raised their concerns about tough competition at the domestic level. For instance, Noegardjito the secretary general of GAIKINDO, has expressed his fear that AEC would likely bring more imported sedan to the Indonesian domestic market.²³ Similarly, the chief of GAIKINDO, Jongkie Soegiarto mentioned that local automotive industries must harder to enhance the quality of their products, production capacity and their human resources.²⁴ The president of Indomobil Indonesia argued that the automotive sector integration has enabled a zero tariff, yet NTB for the components are prevalent, particularly when it comes to national standard regulation (SNI). Therefore, it is plausible to note that in some circumstances, the automotive industry demands protection to counter competition domestically. But at the same time, it also implies that the industry is desired to lubricate the trade barriers for its interest to import some components. Together, these situations provide an important insight that classifying the automotive industry into the internationalist category can be problematic in the Indonesian context.

Given the divided opinion across the Ministries, policy dialogue between the government and the automotive industry is in a complex interaction. This illustrates that the action games of asserting their bargaining and power to the state can be ambitious. For instance, what the Ministry of Trade and Industry may approve does not necessarily work for the Ministry of Finance given the Ministry of Finance interest in generating import taxes.²⁵ However, to the extent of lubricating international market, the complexity might not be the case. The industry has approached the government as expressed by a high official in the Ministry of Trade to convey its

²² Anonymous. (2014). *Bea Masuk Jegal Sektor Otomotif*. Accessed from <http://www.republika.co.id/berita/koran/news-update/14/12/01/nfwbog36-bea-masuk-jegal-sektor-otomotif>

²³ Anonymous. (2014). *Ini Dia Gambaran Pasar Otomotif RI ketika MEA Dibuka*. Accessed from <http://kabarbisnis.com/read/2850595/ini-dia-gambaran-pasar-otomotif-ri-ketika-mea-dibuka>

²⁴ Anonymous. (2014). *Bea Masuk Jegal Sektor Otomotif*. Accessed from <http://www.republika.co.id/berita/koran/news-update/14/12/01/nfwbog36-bea-masuk-jegal-sektor-otomotif>

²⁵ Remarks from an interview with The Chair of ABAC and The President of Suzuki Indonesia. Jakarta, 6 June 2017.

interest. In this case, the Ministry of Trade can clearly assert its position with the automotive industry.

The automotive industry has complained to us on Thailand's domestic regulations to import automobiles from Indonesia. We then, expressed our objections to Thailand's government about this. We strongly advise that they should obey the rules of zero tariffs in ASEAN (a high official at the Ministry of Trade, 2017).

Furthermore, lobbying activities have not only been conducted by the local players but also the principals from Japan. Yoshimatsu (2002) has mentioned that some Japanese corporations have approached the government, asking for national equity participation rules to be waived. Nippon Denso has lobbied ASEAN Secretariat and ASEAN governments to BBC preferential tariff measures.

References

- Allison, G. T., & Halperin, H. M. (1972). Bureaucratic politics: A paradigm and some policy implications. In *World politics: Vol. 24. Supplement: Theory and policy in international relations* (pp. 40–79). Cambridge: Cambridge University Press.
- Alt, J. E., & Gilligan, M. (1994). Political economy of trading states: Factor specificity, collective action problems and domestic political institutions. *The Journal of Political Philosophy*, 2(2), 165–192.
- Ananta, A. (2009). Reviewed: Review work(s): Indonesia and free trade agreement: Nationalist and regional integration strategy by Alexander C. Chandra. *ASEAN Economic Bulletin*, 26(August 2009), 232–235.
- Aswicahyono, H. (2000). How not to industrialise? Indonesia's automotive industry. *Bulletin of Indonesian Economic Studies*, 36(1), 209–241.
- Aswicahyono, H., & Kartika, P. (2010). Production linkages and industrial upgrading: Case study of Indonesia's Automotive Industry. In P. Intarakumnerd (Ed.), *Fostering production and science and technology linkages to stimulate innovation in ASEAN. ERIA Research Project Report 2009-7-4* (pp. 57–86). Jakarta: ERIA.
- Balassa, B. (1965). Trade liberalization and revealed comparative advantage. *Manchester School of Economic and Social Studies*, 33, 99–123.
- Basu Das, S., & Tham, S. Y. (2015). *Moving the AEC beyond 2015: Managing domestic consensus for community building*. Singapore: ISEAS Yusof Ishak Institute.
- Bilal, S. (1998a, March). Why regionalism may increase the demand of trade protection. *Journal of Economic Integration*, 13(1), 30–61.
- Bilal, S. (1998b, February). Political economy considerations on the supply of trade protection in regional integration agreements. *Journal of Common Market Studies*, 36, 1–31.
- Cezar, R. F. (2017). Why and how do bureaucratic conflicts matter in trade policy? Evidence from the US trade policymaking process during the Clinton administration (1993–2001). *Contexto Internacional* 39(1).
- Chalmers, I. (1994). *Domestic capital in the evolution of nationalist auto developmental policy in Indonesia: From instrumental to structural power*. Working paper no. 30, August 1994. Murdoch, WA: Asia Research Center, Murdoch University.
- Chandra, A. C. (2008). *Indonesia and the ASEAN free trade agreement: Nationalists and regional integration strategy*. Lanham, MD: Lexington Books.
- Corrales, J., & Cisneros, I. (1999). Corporatism, trade liberalization and sectoral responses: The case of Venezuela, 1989–99. *World Development*, 27(12), 2099–2122.
- Dur, A. (2008). Measuring interest group influence in the EU: A note on methodology. *European Union Politics*, 9(4), 559–576.

- Gunter, F. (1989). Customs union theory: Retrospect and prospect in greenaway. In Hyclak & Thornton (Eds.), *Economic aspects of regional trading arrangements*. New York: New York University Press.
- Hassler, M. (2012). Macroregional economic integration in Southeast Asia: AFTA and the automobile industry from a Thai perspective. *Singapore Journal of Tropical Geography*, 33, 124–136.
- Hew, D. (2007). *Brick by brick: The building of and ASEAN economic community*. ISEAS and Australian National University Asia Pacific Press.
- Kim, M.-H. (2011). Theorizing ASEAN integration. *Asian Perspective*, 35(2011), 407–435.
- Kim, M.-H. (2014). Integration theory and ASEAN integration. *Pacific Focus*, 29(3), 374–394.
- Kosandi, M. (2012). Parallel evolution of practice and research on ASEAN economic integration: From paradigm contestation to eclectic theorization. *Ritsumeikan Annual Review of International Studies*, 11, 101–133.
- Lombaerde, P. D., Soderbaum, F., Langenhove, L. V., & Baert, F. (2010). The problem of comparison in comparative regionalism. *Review of International Studies*, 36(3), 731–753.
- Mahubani, K., & Sng, J. (2017). *The ASEAN miracle: A catalyst of peace*. Singapore: NUS Press.
- Mansfield, E., & Milner, H. (1999). The new wave of regionalism. *International Organization*, 53(Summer), 589–627.
- Moravcsik, A. (1998). *The choice for Europe: Social purpose and state power from Messina to Maastricht*. Ithaca, NY: Cornell University Press.
- Moravcsik, A., & Schimmelfenig, F. (2009). Liberal intergovernmentalism. In *European integration theory*. Oxford: Oxford University Press.
- Nag, B. Banerjee, S & Chatterjee, R. (2007). *Changing features of the automobile industry in Asia: Comparison of production, trade and market structures in selected Asian countries*. Asia Pacific Research and Training Network on Trade Working Paper Series, No. 3, July 2007.
- Natsuda, K., Otsuka, K., & Thoburn, J. (2015). Dawn of industrialisation? The Indonesian automotive industry. *Bulletin of Indonesian Economic Studies*, 51(1), 47–68.
- Nesadurai, H. (2003). Attempting regional Developmentalism through AFTA: The domestic sources of regional governance. *Third World Quarterly*, 24(2), 235–253.
- Oktaviani, R., Rifin, A., & Reinhardt, H. (2007). A review of regional tariffs and trade in the ASEAN priority goods sector. In D. Hew (Ed.), *Brick by brick: The building of an ASEAN economic community*. Singapore: ISEAS.
- Patunru, A., & Rahardja, S. (2015). *Trade protectionism in Indonesia: Bad times and bad policy. Lowy institute analysis*. Accessed from https://thinkasia.org/bitstream/handle/11540/6410/patunru_and_rahardja_trade_protectionism_in_indonesia_0.pdf?sequence=1.
- Poole, A. (2015). *Is Jokowi turning his back on ASEAN?* Accessed from <http://indonesiatmelbourne.unimelb.edu.au/is-jokowi-turning-his-back-onasean/>.
- Ruland, J. (2016). Why (most) Indonesian businesses fear the ASEAN economic community: Struggling with Southeast Asia's regional corporatism. *Third World Quarterly*, 37(6), 1130–1145.
- Ruland, J. (2017). Democratizing foreign policy making in Indonesia and the democratization of ASEAN: a role theory analysis. *Trans Regional and National Studies of Southeast Asia*, 5(1), 49–73.
- Severino, R. C. (2003). Regional integration in Europe and Asia: The future of ASEAN economic integration. *Asia Europe Journal*, 1, 475–479.
- Solingen, E. (1999). ASEAN, Quo Vadis? Domestic coalitions and regional co-operation. *Contemporary Southeast Asia*, 21(1), 30–53.
- Yi, C. (2007). *Emergence of regionalism: About state preference formation. Polis working paper no. 23*. Leeds: School of Politics and International Studies, University of Leeds.
- Yoshimatsu, H. (1999). The State, MNCs and the Car Industry in ASEAN. *Journal of Contemporary Asia*, 29(4), 495–515.
- Yoshimatsu, H. (2002). Preferences, interests and regional integration: The development of the ASEAN Industrial Cooperation Arrangement. *Review of International Political Economy*, 9(1), 123–149.

Other Sources

- Oxford Economics. (2015). *Non tariff measures on the automobile industry: Quantifying the impact on the ASEAN economy*. A report for General Motors International.
- Anonymous. (2016, January 2). South-East Asian integration, more hat than cattle. *The Economist*.
- Tangkitvanich, S., & Rattanakhomfu, S. (2017, March 21). Assessing ASEAN economic community. *East Asia Forum*.