

ROLE OF INDONESIA IN THE EVOLUTION OF ASEAN

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Abstract

The study aims at examining the past and possible future role of Indonesia in the development of cooperation within the framework of the Association of Southeast Asian Nations (ASEAN). After the description of the main steps and achievements of building a regional community both in the field of politics and economy, the author seeks to identify the reasons of difficulties to deepen economic integration, with special regard to the interests and policy of Indonesia. She concludes that by now Indonesia has not ceased to be interested in the security political cooperation within ASEAN and continues to be counter interested in deeper economic integration because of competitiveness reasons. The new leadership of the country since 2014 has taken a broader than ASEAN regional view in its foreign policy spectrum and for this Indonesia may pay less attention to the cooperation within ASEAN what may hinder the development of the South-East Asian organization.

Key words: ASEAN, Indonesia, regional integration.

INTRODUCTION

Since the 2008 global crisis, the world economic and political order has got into a rather chaotic transition period. The old superstructure has proved to be unable to solve the multidimensional crises that emerged with the burst of the financial bubble in 2008 and the outlines of a new structure have been as yet out of sight. Although after the 2008 crisis the neoliberal way of economic management, that was unchallengeable for decades, has been widely criticised, it could preserve its hegemony due to lack of any alternative in the economic thinking. The least one can say is that the European Union, flagship of regionalisation, social rights and welfare for decades, has reached a stalemate with the unsolved Greek crisis and Brexit round the corner. But even irrespective of the difficulties of integration, there is a turmoil in Europe. It is enough to think of the tensions with Russia, the situation in Ukraine, the intensifica-

tion of migration, the terrorist attacks like the one in Nice or the coup attempt in Turkey. All these, of course, are in close relations with the North African Spring and its consequences, especially with the emergence of Islamic State among them, which themselves are in strong relations with the geopolitical changes that have recently taken place. Furthermore, the development problems of Africa, inherited from its colonial past, always result in newer and deeper conflicts, famine and bloodsheds, most recently in South Sudan. Looking at the other part of the world, the Latin American integration, UNASUR is forced to be preoccupied with the management of crisis in Venezuela instead of focusing on its own development.

All in all, the current global political and economic reality is not favourable to the regional cooperation in the same way as a decade ago. It is reflected in the problems of regional integrations in general, but also in the developments of other regional initiatives including the Association of Southeast Asian Nations (ASEAN).

This paper aims at presenting these changes after a short introduction of the economy of ASEAN and the main steps of development of regional cooperation with special regard to the difficulties of economic collaboration. The next chapter presents first the place of Indonesia within ASEAN, then, after a brief historical overview, describes the Indonesian approach of economic and political integration. The last section before the conclusions deals with the newest developments in the Indonesian foreign policy that may have a negative effect on the future development of regional integration.

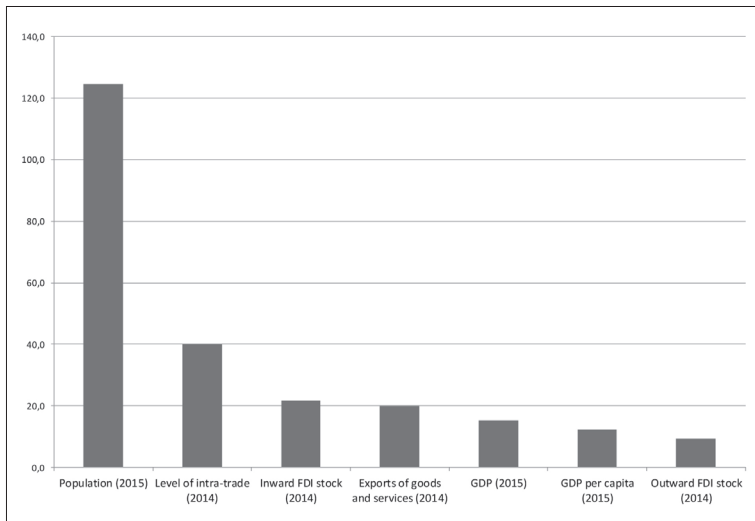
ECONOMY OF ASEAN IN GLOBAL CONTEXT

ASEAN consists of 10 countries: Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam. Their total land area is 4.4 million km², about the same

size as the EU-28 and in 2015 the total population of the ten countries reached 632 million, 8.6 percent of the world’s population. In 2015 their aggregated GDP amounted to 2,453 billion USD at current prices being equal to 3.3 percent of the world’s GDP.¹

For further comparison, Figure 1 gives the ratios of certain indicators of ASEAN in relation to those of the 28-member European Union. The figure shows that except for the size of the population, ASEAN represents only a fraction of the economic potential of the EU. The level of intra-ASEAN trade (24.3% for exports and imports together) is only 40 percent of the intra-EU-28 trade (60.1%), a figure which clearly reflects the big difference between the depths of economic integration of the two organizations.

Figure 1. Statistical indicators of ASEAN in percentage, compared with those of the EU28 in 2014 and 2015 (USD at current prices and current exchange rates)



Source: Own calculations based on UNCTADstat, Data center.

¹ UNCTADstat, Data center, *Economic trends, National accounts*.

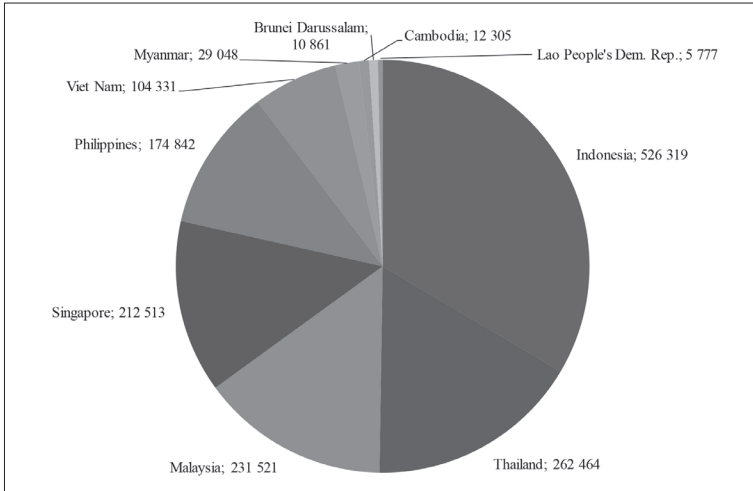
ASEAN comprises very diverse states including large and small, developed (for example Singapore) and developing countries as well. The differences between the GDP/capita of the poorest and the richest members, the largest and smallest numbers of populations or the size of territories are larger than those in the European Union (Table 1 and Figure 2).

Table 1. Basic indicators of ASEAN, 2015

Country	Total land area	Total population	Population density	Annual population growth	Gross domestic product at current prices	Gross domestic product per capita at current prices		International merchandise trade			Foreign direct investments inflow	
	km ²	thousand	persons per km ²	percent	US\$ million	US\$	US\$ PPP	US\$ million	US\$ million	US\$ million	US\$ million	US\$ million
						2015	2015	2015	2015	2015	2015	2014
Brunei Darussalam	5,769	4172	72	1.3	12,909	30,942	87,117	6,350	3,042	9,392	568	171
Cambodia	181,035	15,405.2	85	1.5	18,463	1,198	3,578	8,839	10,838	19,676	1,727	1,701
Indonesia	1,913,579	255,461.7	133	1.3	857,603	3,357	11,108	150,282	142,695	292,977	21,810	16,073
Lao PDR	236,800	6,902.4	29	1.4	12,639	1,831	5,466	3,714	3,049	6,763	913	1,079
Malaysia	330,290	30,485.3	92	0.7	294,390	9,657	26,515	199,869	175,961	375,830	10,875	11,290
Myanmar	676,577	52,476.0	78	1.9	65,392	1,246	5,275	11,432	16,844	28,275	946	2,824
Philippines	300,000	101,562.3	339	1.7	289,503	2,850	7,241	58,648	70,295	128,944	5,815	5,724
Singapore	719	5,535.0	7,697	1.2	291,938	52,744	85,021	366,344	296,765	663,109	74,420	61,285
Thailand	513,120	68,979.0	134	0.5	395,726	5,737	16,064	214,396	202,751	417,147	3,720	8,027
Viet Nam	330,951	91,713.3	277	1.1	193,407	2,109	6,083	162,014	165,730	327,744	9,200	11,800
ASEAN	4,488,839	628,937.3	140	1.3	2,431,969	3,867	11,009	1,181,889	1,087,970	2,269,859	129,995	119,975

Source: ASEAN Statistics, Selected Key Indicators, Table 1. http://asean.org/?static_post=selected-key-indicators-2

Figure 2. Distribution of GDP of ASEAN in 2015, millions of USD at constant prices and exchange rates (2005)

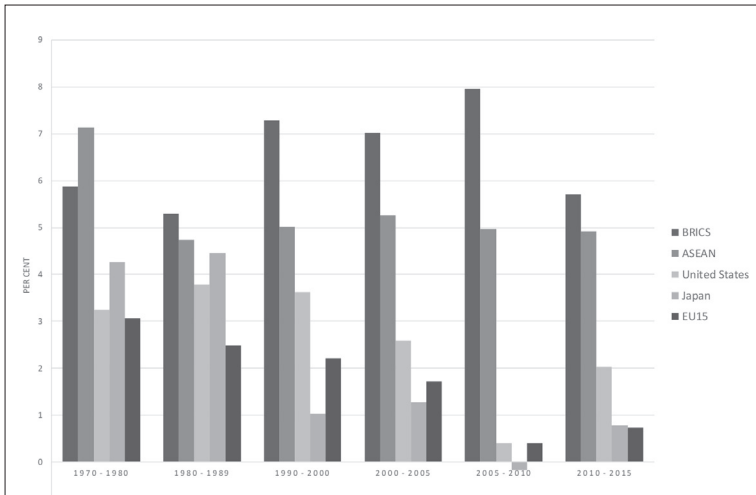


Source: UNCTADStat Data center, *Economic trends, National accounts*.

The annual average economic growth of ASEAN countries on aggregate level was especially high, above seven per cent in the 1970s. The growth rate fell under five percent in the next decade, which was still high in international comparison. Since the 1990s ASEAN as a whole has been growing by over five percent a year on year average that is slower than the rate of BRICS² but considerably faster than that of the most advanced countries, the US, the EU15 or Japan, as Figure 3 clearly indicates this. Although in the very end of 2015 the ASEAN declared that it established a single market (the ASEAN Economic Community), i.e. the free movement of goods, services, capitals and labour, the economic integration is far from being developed. The reason for this is the diverging interests of the member states, mainly the counter interests of Indonesia in deeper economic integration –we will discuss it later.

² Brazil, Russia, India, China, South Africa.

Figure 3. GDP annual average growth rate, 1970-2015, in percentage



Source: UNCTADStat Data center, *Economic trends, National accounts*.

In the last ten years ASEAN members have been increasingly integrated into the global economy, but the Southeast Asian financial crisis broke this development. The average GDP/capita of ASEAN fell by 8.6 percent in 1998 and the exports lost its dynamism. While until the crisis the exports to GDP ratio had increased in most ASEAN-countries, this trend ceased to continue or started to decrease in the majority of the member states after 1998. On aggregate level the exports to GDP ratio of ASEAN rose from 49 to 80 percent between 1992 and 1998. In the following decade, it fluctuated between 75 and 83 percent. Due to the 2008 global economic crisis, the ratio fell to 64.5 percent in 2009 and could not rise from this level in the following years either.

On the other hand, the intra-regional integration of ASEAN has not become much deeper in the last decades. The external trade of most of the member states has been oriented more significantly towards third countries than ASEAN. Between 1995 and 2007 the intra-regional trade of ASEAN has somewhat strengthened, mainly on the import side (the share of intra-regional imports in the total

imports rose from 18 to 25.8 percent), but the most dynamic export and import markets were the non-ASEAN countries of South and East Asia, first of all China. Between 2007 and 2014 the weight of intra-regional imports to total imports declined again. (The most important trade partners of ASEAN are China, US, Japan, and South Korea.)

THE EVOLUTION OF REGIONAL INTEGRATION

The ASEAN was founded on 8 August 1967 in Bangkok by the ASEAN Declaration (also known as the Bangkok Declaration). The five founding members were Indonesia, Malaysia, Philippines, Singapore, and Thailand. Brunei Darussalam joined in 1984, followed by Vietnam in 1995 and Lao Republic and Myanmar (Burma) in 1997. Cambodia became the tenth member in 1999. With the widening of the community, its main goals have been somewhat altered and extended as well.

Foundation by political reasons

At the time of its foundation, during the Second Indochina War, in a period when the communist ideology has been increasingly popular in the world and so in East Asia, the main ASEAN's main objective was to avoid the "domino effect", according to which communism would expand in Southeast Asia if not contained (Keling et al., 2011, p. 179). Besides, there were several conflicts between the countries of the region (e.g. between Malaysia and Indonesia, Malaysia and the Philippines) that had to be reconciled. For all these reasons the foundation of ASEAN and its first decade was clearly characterised by political considerations (Shimizu, 2004). This was summarized by the slogan 'to ensure the political stability and peace' in the 1967 ASEAN Declaration.

The ASEAN Declaration is a very short document, no longer than 2 pages and contains five articles only. Although the cooperation of Southeast Asian nations was urged by their fear of the spread of communism, they have already expressed their will in the founding document to cooperate with each other on a broad basis. Besides the promotion of peace and stability the five founders express their intention to accelerate socio-economic and cultural progress, facilitate collaboration in the economic, social, cultural, scientific, technical and administrative fields, provide assistance for each other concerning education and training, improve and use more effectively member states' resources in all fields of socio-economic activity, raise the living standard of people and promote Southeast Asian studies while maintaining cooperation with international and regional organizations having similar objectives.

Efforts to develop economic cooperation

The economic collaboration was addressed already in the first years of ASEAN when the United Nation prepared a study ('Economic Cooperation among Member Countries of the Association of Southeast Asian Nations' – the so called Kansu-Robinson Report named after the leaders of the working group), which was discussed by the ASEAN Ministerial Meeting in 1972 and laid the foundation for a series of collaboration initiatives. According to the spirit of the period, the Kansu-Robinson Report represented a view which could be described as "protectionist developmentalism". It suggested "collective import-substitution" concentrating in the heavy and chemical industries and restrictions on foreign direct investments. The leaders of the then five member states accepted this approach and formulated the regional cooperation on this basis. The ministers of economic affairs first met in 1975 in Jakarta (Senior Economic Officials Meeting – SEOM), which was followed by the first ASEAN Summit in February 1976 in Bali. Here a more efficient organisa-

tional structure was established, five committees of different levels were created (Head of Ministers, Foreign Ministers, Economic Ministers, Other Ministers and the Secretariat), the Treaty of Amity and Cooperation was signed and the ASEAN Industrial Projects (AIPs) were decided as well. In the following year, cautious trade liberalization was launched within the framework of the ASEAN Preferential Trade Arrangement (PTA).³

Under the aegis of AIPs, joint companies would have been created in order to produce certain products for the whole ASEAN market. The idea would have better fit planned economies – like the COMECON⁴ countries of Eastern Europe – as it turned out to be a failure in the case of market economies of ASEAN members especially during the ‘crisis years’ of the 1970s. The next experiment to promote industrial cooperation and economic development was the establishment of ASEAN Industrial Complementation Scheme (AIC) in 1981. AIC was planned specifically for the manufacturing of automobiles. In the same year, to help industrial cooperative projects like AICs, the ASEAN Finance Corporation (AFC) was founded as a co-operative venture of the commercial banks, but the first years of its activity were not very successful. The concept of the AIC was that the different parts of cars would have been produced in different ASEAN countries, so the member states together would have produced an ‘ASEAN Car’. However, neither this method of cooperation proved to be successful, because every member state wanted to build their own automobile industries (mainly in cooperation with Japanese manufacturers). To circumvent this problem and still encourage production cooperation in 1988, the leaders of ASEAN have given up the idea of a “community car” and replaced AICs

³ On the development of industrial cooperation and trade liberalization in the first decades of ASEAN see Soesastro (2002).

⁴ Council for Mutual Economic Assistance. It was created by six Eastern-European countries in 1949. Five other socialist countries joined COMECON later on. The organization was dissolved in 1991.

with the so-called Brand-to-Brand Complementation (BBC) Scheme, which guaranteed the use of corporate brands for the manufacturers of automobile parts (Shimizu 1999).

The ASEAN Industrial Joint Ventures (AIJVs) project, launched in 1983, was more flexible than the AIP or AIC but still could not reach its goals, because ASEAN companies have preferred to form joint ventures with foreign companies of developed countries (mainly Japan) instead of their ASEAN counterparts.

The above-described initiatives were sufficient to express a wish for a closer collaboration among the member states but were insufficient to deepen their economic integration and stimulate their economic growth. By the 1980s, the import substitution strategies have been exhausted and became outdated everywhere in the world. The 1980s brought the introduction and spread of neoliberal policies with the leadership of the IMF and the World Bank, powerful financial institutions that have assisted the indebted developing countries on the basis of ideas of the 'Washington Consensus' (Williamson, 1990). The economic policy of ASEAN members changed in these years as well. This was made clear by the third Summit (Manila) in 1987, where the foundations of a new strategy were laid down. The ASEAN countries got rid of the import substitution logic, turned towards liberalization and began to pursue a collective export-oriented and foreign direct investments-dependent strategy (Völgyi – Lukács, 2014).

In 1987, the member states signed an agreement on the mutual protection and promotion of investments. This agreement was modified in 1997, when the number of ASEAN members was nine already. A major step along this way was the establishment of ASEAN Investment Area (AIA) by a Framework Agreement in October 1998. The aim of AIA was to enhance the attractiveness of the region for foreign investors from third countries and also to encourage mutual investments in the member states through, among others, the reduction or elimination of regulations, while liberalizing the

flow (repatriation) of capital in order to – as the joint press release said – make ‘ASEAN an attractive, competitive, open and liberal investment area’ (cited by Thanadsillapakul, [s.a.]

Trade liberalization

The encouragement of capital investments would not have been successful without trade liberalization. The realization that a deeper economic integration would be needed was first officially articulated by the Framework Agreement on Enhancing ASEAN Economic Cooperation on the Fourth Summit in Singapore in 1992. This paved the road to the earliest key liberalization agreements. Among the latter the first was the ‘Agreement on the Common Effective Preferential Tariff (CEPT) Scheme for the ASEAN Free Trade Area’ (AFTA – from 2010 on ‘ASEAN Trade in Goods Agreement’ or ATIGA) that was signed on the same summit. After that, trade liberalization has begun with a gradual reduction of tariffs on manufactured products (ASEAN Secretariat, 2015).

The following years are also known as the period of liberalization all over the world. In April 1994, the World Trade Organization was established and in 1995, it began its activity. In November 1994, in the so-called Bogor Declaration, the Asia-Pacific Economic Cooperation (APEC)⁵ agreed to liberalize the flow of goods and capital among each other by 2020. In May 1995, at the ASEAN-EU Senior Official’s Meeting, the Prime Minister of Singapore proposed to strengthen relations between the two regions (Europe and Asia) by organizing a summit. This was welcomed by the EU having a ‘New Asia Strategy’ since 1994. As a result, the Asia-Europe Meeting (ASEM) was launched in 1996 (Bangkok)⁶. Since then summits with

⁵ APEC was founded in 1989 (Canberra, Australia) as a consultation forum between 10 Asian countries, among them the then six members of ASEAN, the USA and Canada. By now, APEC has 21 member states.

⁶ The initial ASEM partnership in 1996 consisted of 15 EU member states and 7 ASEAN

the participation of leaders of member states and representatives of the two integrations and other European and Asian countries have been held in every two years and ministers with different portfolios (economy, finance, culture) have met regularly too. After the strong USA-EU connections and the cooperation between Asia-North America in the form of the APEC, the ASEM has become the “missing link” in the connections of the Triad (North America, Western Europe and Asia). In the frame of these forms of cooperation, the liberalization of trade and investments continued in the 1990s, and the ASEAN members have speeded up the liberalization of their intra-regional trade as well.

The next important step on the way towards a more integrated inner market was the creation of the ASEAN Industrial Cooperation (AICO) scheme in 1996 that replaced the AIJV and the Brand-to-Brand Complementation (BBC) Schemes. AICO retained some of the features of AIJVs and BBC but offered more in terms of tariff and non-tariff incentives. AICO aimed to encourage cross border intra-regional investments and trade between ASEAN-based companies in the technology-intensive industries, offering import duties reduction to the participants. The overwhelming majority of the projects that fulfilled the requirements (40% ASEAN-content, a minimum of two participating companies in two different ASEAN countries⁷) and thus could enjoy the benefits of the scheme belonged to the automobile industry. Although the Japanese companies could benefit a lot from the reduced import duties, the AICO scheme could be considered quite successful from the viewpoint of ASEAN member states as well, inasmuch as it helped to increase

member states plus China, Japan, Korea and the European Commission. Due to the enlargement of both integrations and the involvement of other states from Europe and Asia, the number of dialogue partners is already 53 today. (About the Asia-Europe Meeting (ASEM). <http://www.aseminfoboard.org/about>)

⁷ ASEAN Industrial Cooperation Scheme. ASEAN website. http://asean.org/?static_post=asean-industrial-cooperation-scheme.

the level of regional integration of automobile production. As, however, tariff reductions in the framework of AFTA was no longer available from 2010 onwards (with the exception of the four more recent members, Cambodia, Laos, Myanmar and Vietnam, which joined the ASEAN after that AFTA had been launched and hence were allowed to reduce their tariffs over a longer period), AICO ceased to offer extra advantages to most of the member states and was terminated and superseded by ASEAN Trade in Goods Agreement (ATIGA) (Sim, 2011).

Endeavours for financial cooperation

The trade liberalization and the different production cooperation schemes have been sufficient only to maintain the level of intra-regional economic ties but could not deepen economic integration significantly. However, the financial turmoil in 1997 and 1998 had a serious knock-on effect on the biggest nations of ASEAN (Thailand, Malaysia, Indonesia, and the Philippines) and also on South Korea.⁸ The positive yield of this crisis for ASEAN was the recognition of the need for regional financial cooperation at state level in order to prevent and/or successfully manage similar crises in the future. Japan provided loan to the troubled countries and proposed to formulate an Asian Monetary Fund in order to replace the role of the IMF in the region. The idea of self-reliance in financial matters was not completely new to the founding members of ASEAN which had agreed to establish reciprocal currency or swap arrangements as early as in 1977. However, the volume of these deals (200 million USD from 1978 on) was far from being sufficient during the East Asian financial crisis.

This assumption has led to the expansion of regional coopera-

⁸ The evolution of the financial cooperation in Southeast Asia after the 1997-98 financial crisis was described in more detail by Seung-Cheol (2004).

tion in East Asia. The crisis-hit ASEAN invited the leaders of China, Japan and South Korea to their summit in November 1997, then again in 1998, in Hanoi, where China proposed that central banks of the “ASEAN+3” should meet on a regular basis. Next year in Manila the leaders of ASEAN+3 issued a formal statement on their wish to cooperate in several fields, including financial matters. This process led to the formulation of a financial cooperation in Chiang Mai, Thailand, in 2000. In the so-called Chiang Mai Initiative (CMI) the partners agreed to establish a regional monitoring framework, facilitate regional surveillance, create swap networks and conduct common research and training personnel.⁹ Since then the financial cooperation has been strengthening thanks first of all to China’s efforts towards community building in East Asia (Lee 2010, Sussangkarn 2010).

In 2009 the CMI was ‘multilateralized’ (CMIM) with the creation of a fund of 120 billion USD (20 percent of this amount was contributed by ASEAN, 16 percent by South Korea and 32 percent by China together with Hong Kong and 32 percent by Japan). The amount was doubled in 2012 and a CMIM Stability Fund was introduced (more precisely, it was separated within the 240 billion USD fund) to provide short-term liquidity support in case of temporary liquidity problems. Other modifications have also been made. Nonetheless, CMIM remained highly inefficient for managing the financial problems of the region. The money in CMIM only amounts to 1.5 percent of the GDP of ASEAN+3 (the European financial safety net that served similar goals was much larger both in absolute and relative terms, being equal with 750 billion euro or 8 percent of the then Eurozone GDP). For this reason, CMIM can be neither a supplement nor even a partner of the IMF in the region as yet (West, 2014).

⁹ The Joint Ministerial Statement of the ASEAN+3 Finance Ministers Meeting (6 May 2000, Chiang Mai).

Single market – an unfeasible dream?

The formulation of a single market has been on the agenda of ASEAN since the 1997-1998 financial crisis. According to the original plan (“Vision 2020” – Kuala Lumpur 1997) the economic community should have been achieved by 2020 (The establishment of the ASEAN Investment Area in 1998, mentioned earlier, was also part of this plan). On the ninth summit (2003, Bali, Indonesia) with the Declaration of ASEAN Concord II, also known as Bali Concord II, the ASEAN made a ‘historic step toward regional integration’. This document, which was inspired by Indonesia (see later), declared that the member states would establish the ASEAN Community by 2020 and specified the three pillars of this community: Political-security, Economic and Socio-cultural.

During the 12th summit (Cebu, Philippines, 2007) the member states agreed to accelerate the procedure of economic integration and decided that it should be realised until 2015. On the 13th summit (Singapore, November 2007) the leaders signed the ‘constitution’ of ASEAN, the ASEAN Charter, that was ratified by the member states in a year and could enter into force on 15 December 2008. The Charter declared that the purpose of ASEAN is to establish a single, economically integrated market, the free flow of goods, services and investment by 2015. It created, among others, the position of a secretary-general and permanent representatives of ASEAN and increased the number of summits from one to two per year.¹⁰ The Charter is a legally binding agreement that provides legal status and institutional framework for ASEAN and codified the values and rules for it.

On the basis of the Charter, ASEAN gained its new institutional structure that manages the three pillars (political and security, economic and socio-cultural community), the development of which

¹⁰ The ASEAN Charter. http://www.asean.org/storage/images/ASEAN_RTK_2014/ASEAN_Charter.pdf.

should lead to a more integrated community. The ASEAN Community Councils comprise the Council of the three pillars of ASEAN. The relevant ASEAN Sectoral Ministerial Bodies are under the supervision of the Community Councils.

The ASEAN Secretariat is the main administrative body of ASEAN. At the top of it is the Secretary-General, as the Chief Administrative Officer, who is appointed by the ASEAN Summit for five years, selected from among nationals of the ASEAN Member States based on alphabetical rotation. Between 2013 and 2017, the Secretary-General of ASEAN is Le Luong Minh from Vietnam.

Under the ASEAN Secretary-General there are four departments serving for 1) the Political and Security Community (APSC), 2) the Economic Community (AEC), 3) the Socio-Cultural Community (ASCC) (the three pillars) and 4) for the Community and Corporate Affairs (CCA). APSC is divided into two directorates (Political and Security Directorate and External Relations Directorate), while the other Departments work with three directorates each. Under the AEC Department an ASEAN Integration Monitoring Directorate, a Market Integration Directorate and a Sectoral Development Directorate operate. ASSC has an Analysis and Monitoring, a Human Development and a Sustainable Development Directorate. A Corporate Affairs, a Legal Service and Agreements and a Community Affairs Directorate belong to the CCA. Every Directorate is subdivided into two to seven Divisions.¹¹ The ASEAN has got the institutional structure that is suitable for managing a single market.

The global crisis of 2008 influenced the economic performance of the member states through the weakening demand on the world market, but otherwise they could weather the worst crisis years basically well. At the end of December 2015 the completion of ASEAN Community was declared as by then the goals described in

¹¹ For more details see ASEAN Secretariat Organizational Structure. <http://asean.org/asean/asean-structure/organisational-structure-2/>.

the ASEAN Charter have been achieved. For example, the free trade area has been virtually established, the import duties in ASEAN have already been practically eliminated by 2010 (Remo, 2015), and the remaining tariffs have been reduced to less than five percent leading to a 4.5 percent average tariff rate by 2015.

However, tax reduction is equal neither to free trade nor with economic integration. The weight of intra-regional trade has not increased much (it is still about one quarter of the total) and the number of non-tariff-measures swelled from 1,634 in 2000 to 5,975 in 2015 (Ing et al. 2016, p. 21.). So there is a lot to do until the markets of the ten members become really integrated. The tasks are described in the ASEAN Economic Community Blueprint 2025.¹²

Despite the achievements described above, ASEAN has remained an intergovernmental organization with much weaker intra-regional economic relations than that of the European Union. The reasons for this are to be found in the big differences between the size, competitiveness, culture and governance systems of member states and the diverging interests deriving from these. The well-structured but loose, politically non-binding character of ASEAN institutions is also a consequence of and at the same time a reason for this situation, in which Indonesia has always been the decisive factor.

INDONESIA WITHIN THE ASEAN

Relative importance of Indonesia within ASEAN

By its GDP per capita, today Indonesia is a middle income¹³, middle developed country both in international and ASEAN com-

¹² ASEAN Economic Community Blueprint 2025. <http://www.asean.org/storage/images/2015/November/aec-page/AEC-Blueprint-2025-FINAL.pdf>.

¹³ According to the classification of the World Bank, Indonesia belongs to the group of 'lower middle income' countries.

parisons. In 2015 its GDP per capita was 11,100 PP\$ (purchasing parity standard), No 132 out of 229 countries of the world and the fifth largest among the ten ASEAN countries (Table 1).¹⁴ In the Global Competitiveness Index 2015-2016 of the World Economic Forum Indonesia was ranked 37th out of 140 economies, fourth within ASEAN after Singapore (which was No.2 in the Global Competitiveness ranking), Malaysia (No. 18) and Thailand (No.32) (WEF 2015, p. xv). Indonesia is also less 'globalized' than most of its ASEAN partners. In 2015 the country exported less than not only Singapore, but Malaysia, Thailand and Vietnam as well and gave 13 percent of the total exports of ASEAN in 2015.¹⁵

Having the largest domestic market within ASEAN, Indonesia has always been less reliant on foreign markets than other member states of the organization. The openness of Indonesian economy is among the lowest in ASEAN: the ratio of exports of goods and services to GDP was 23.9 percent in 2013¹⁶ higher only than that of Myanmar out of the ten members. Besides, the share of FDI stock to GDP (29.8 percent in 2014¹⁷) is the third lowest after Myanmar and the Philippines – again within the ASEAN.

In spite of this relative middle-position of the advancement of Indonesian economy within the ASEAN, Indonesia occupies a central place in the community, being the biggest nation out of the ten members regarding its territory, population and GDP as well (see Figure 1 and 2). Besides, Indonesia has the largest Sunni Muslim population in the world (87.2 percent of the inhabitants are Muslim). Furthermore, in the past years, Indonesia has become the

¹⁴ CIA The World Factbook, Country comparison: GDP per capita (PPP). <https://www.cia.gov/library/publications/the-world-factbook/rankorder/2004rank.html#id>.

¹⁵ Author's own calculations based on ASEAN External Trade Statistics. Table 17. http://asean.org/?static_post=external-trade-statistics-3

¹⁶ UNCTADStat, Data Center, Trade indicators, Goods and services (BPM6): Trade openness indicators, annual, 2005-2014.

¹⁷ UNCTADStat Data Center, Foreign direct investments.

second most attractive location of transnational corporations within ASEAN after Singapore. Recently in absolute terms more foreign direct investments flowed to or were reinvested in the country than in other member states, except for Singapore, and the share of Indonesia in the total FDI stock of ASEAN reached 15 percent in 2014.¹⁸ The increase of FDI-inflow is likely to continue under the new President, Joko Widodo (elected in 2014) as he has launched deregulation and shortened the 'negative investment list' that contains the names of sectors to which foreign investment restrictions apply (Tang, 2016.)

Because of this duality – the largest but only less globalized and less competitive economy of ASEAN – Indonesia has always played an ambiguous role in the evolution of East Asian cooperation. To understand this ambiguity one must cast a glance to the history of the country.

Short historical overview

Like many other colonial territories, Indonesia achieved its independence by years of struggles and became independent in 1949. Its first president was Sukarno, who in 1957, after years of parliamentary democracy, introduced a new political system called 'guided democracy'. He intended to reconcile the three main ideologies of Indonesia and the social forces behind them: nationalism (the army), religion (the Islamic groups) and communism (the Communist Party of Indonesia). The latter enjoyed increasing popularity in that time both worldwide and in Indonesia as well. As a consequence, Sukarno's regime had a strong anti-imperialistic, nationalistic and increasingly socialistic character – similarly to North Korea, for example. Sukarno made meaningful steps to alleviate poverty and increase the standard of living of country's population (devel-

¹⁸ UNCTADStat Data Center, Foreign direct investments.

opment of the educational and health systems, labour protection rules etc.), but in financing these measures the country has become increasingly dependent on foreign (American and Soviet) financial aid.

In the middle of the 1960s, Indonesia faced a severe economic crisis – not independently from the fact that because of Sukarno’s increasingly communist-friendly political line the US withdrew its financial assistance from the country (Mehr 2009, p. 70). Although there is not clear evidence, certain historians still believe that the United States (the CIA) was involved in the elimination of the Sukarno regime (Scott 2015, Simpson 2015). Sukarno’s ‘old order’ was swept away by its Muslim and military oppositions and General Suharto’s strong assistance through a massacre between October 1965 and March 1966, when 500,000 – or, according to some estimations, even three million – communists, alleged communists and Chinese were killed.¹⁹ This event was welcomed by the United States (Mehr 2009, Simpson 2015). The person who followed Sukarno in the presidency directed the historical development of Indonesia towards a capital market economy.²⁰ To ensure this ‘new order’, Suharto, first as military leader (between 1965 and 1967, in the period when also the large-scale killings occurred), then as the President (1967-1998) of Indonesia was the engine of political block-building that aimed at peace and security (i.e. curbing communist influence) in the region. The foundation of the ASEAN would not have been possible without Indonesia, the largest nation of the region in terms of population, territory and economy as well. Under the Suharto era (1965-1998) ASEAN was important in the Indonesian foreign policy, and the country was proactive in the ASEAN at least concerning political (security) cooperation, and promoted its own image as the leader nation within the community

¹⁹ Al Jazeera (2012), Cribb (2004, p. 133).

²⁰ NSA EBB (s.a.).

or the 'primus inter pares' among the members (Heiduk 2016a). Following Suharto's regime, the importance of ASEAN in the Indonesian foreign policy has fluctuated. It increased in the first few years after Suharto, then, during and after Megawati's presidency (2001-2004) increased, while since 2014 it has seemed to lower again. This we will discuss in Section 3.4 and 3.5 in more detail. Before that, we devote a section to the question of economic integration, that has never been so important for Indonesia as the political cooperation.

Indonesian approach of economic integration

The Indonesian political leaders, but also the academics of the country have always feared the export competition from other ASEAN-countries like Singapore. Besides, they have held the opinion that smaller countries like Brunei or Singapore would benefit from it more than the larger ones as small countries would gain access to the markets of large countries.

For this reason, Indonesia was reluctant to accept the conditions of AFTA in 1992 and agreed only after gaining a fifteen-year delay in the implementation of liberalization. In spite of this, however, the country has implemented all its commitments in due time, by 1 January 2002. Indonesia also had reservations in connection with the bilateral free trade agreements (AFTA plus) that the ASEAN has signed with third countries in the region (China, Japan, South Korea, India and New Zealand) from 2002 onwards. Similarly, Indonesia has been reluctant to liberalize its aviation and taken a conservative position in connection with the liberalization of labour mobility and in other issues as well (see Heiduk 2016a for further details). There is also a hesitation in Indonesia about joining the US-led Trans-Pacific Partnership (TPP), which would mean further liberalization and according to some estimations would worsen the Indonesian balance of trade (Sahu, 2016).

The fears have been well founded. The course of liberalization in

the 1990s has hit hard the labour-intensive industries of Indonesia, which lost their competitiveness on their export markets that resulted in unemployment and increasing poverty (Chowdhury, 2007). The 'open' unemployment rate increased from below 3 percent in 1992-1993 to over 11 percent or close to 12 million in August 2005 and began to decrease only after that year, when the world economy was dynamic due to the financial bubbles of the core countries (United States and the European Union) and the growth of China. The unemployment rate continued to fall even during the global crisis of 2008 and in February 2016 it was 5.5 percent.²¹

If, however, we take into consideration the underemployment (or 'hidden' unemployment) as well, the labour market situation is much more problematic. The Indonesian underemployment is hard to precisely assess. There are numbers between 30 to 47 percent. In the period of 1994-1997, 23 percent of labour force worked less than 25 hours and 38 percent worked less than 35 hours a week, and only a tenth of these underemployed were looking for a job (Dhanani, 2004, p. 23 and 30). The underemployment has been typical of the traditionally extended informal sector. Although there have been some improvements in this field in the last years, still an estimated 53.6 percent of the employed worked in the informal economy in February 2014 (ILO 2014, p.2).

Not independently from the above-mentioned facts, poverty is still high in Indonesia. Between 1970 and 1996, the number of people living in poverty fell considerably, from 70 million to 22.5 million. The following years, however, brought the East Asian financial crisis – the product of global speculative capital – and the Indonesian economy collapsed. In 1998 the GDP contracted by 13 percent²², unemployment increased and inflation soared. The latter

²¹ BadanPusatStatistik (BPS-Statistics Indonesia), Unemployment Rate (UR) by Province, 1986 - 2016<https://www.bps.go.id/linkTabelStatis/view/id/981>

²² UNCTADstat, Date center, Economicstrends, National accounts.

development hit the poor especially hard and their number rose sharply, reaching 49.5 million in 1998. After that year poverty has been somewhat alleviated, but the number of people living under the poverty line (about 30 USD per person per month in 2013) was still 28 million in March 2016²³ – higher than almost two decades earlier. Besides, in 2013, 43 percent of the country's population lived on less than 2 USD a day (Mietzner, 2014, p. 113), the Gini coefficient (measuring inequality) reached a record high 41 percent in 2011 and has remained constant since then.²⁴ The social dissatisfaction triggered by these developments made people receptive to the 'pragmatic, moderate, and inclusive populism' (Mietzner, 2014, p. 115) that Joko Widodo represented in the next presidential elections in 2014.

To escape poverty, many Indonesians have been seeking work in the Middle East (first of all Saudi Arabia) and in the surrounding countries (first of all Malaysia). The government has helped hundreds of thousands of labour migrants to go abroad every year since the 1990s. In 2006, 2.7 million Indonesian citizens or 2.8 percent of the countries' workforce worked legally abroad (IOM, 2010). There is an unknown but likely significant number of illegal workers as well especially in Malaysia (The estimated number of all migrant workers in the whole ASEAN-region is 14 million. IBON 2015).

To strengthen the economy and prevent the exploitation of (mostly illegal) migrant workers in the host countries of the region, Indonesia has been interested more in building a political community (for example protecting 'human rights') than in free trade with its ASEAN partners. This is one reason why Indonesia has not become an engine of the economic integration.

²³ BadanPusatStatistik (BPS-Statistics Indonesia), Number of Poor People by Province, 2013-2016, <https://www.bps.go.id/linkTableDinamis/view/id/1119>

²⁴ BadanPusatStatistik (BPS-Statistics Indonesia), Gini Ratio byProvince, <https://www.bps.go.id/linkTableDinamis/view/id/1116>

Under Suharto (1965-1998) the primary goal of the Indonesian foreign policy was to reach regional stability and cooperation without too much economic liberalization because of the above-mentioned lack of sufficient competitiveness in relation to some ASEAN partners and asymmetric gains from liberalization. Heiduk (2016a) adds three other factors that explain why ASEAN has not evolved to a strong economic union. First the lack of economic interdependence between Indonesia and its ASEAN-partners; second, Jakarta's orientation towards ex-regional partners in economic cooperation and third, the diverging interests of ASEAN-countries regarding key aspects of regional integration. The latter means that, while Malaysia, Singapore and Thailand would like to see deeper economic integration, Indonesia prioritises political goals, first of all, security (Heiduk, 2016a, p.8). The weight of Indonesia within ASEAN, its reluctance towards deeper regional market integration, together with the ASEAN way of consensus decision making, have all resulted in that ASEAN has failed to create supranational institutions and preserved its strictly intergovernmental character (Heiduk, 2016a, p.7). We must add, however, that Indonesia has not been the only country that has curbed the deepening of the economic cooperation. Singapore, Malaysia, Thailand have also been more integrated into the world economy than into the ASEAN. Besides, Singapore has been the only member of ASEAN that has been competitive enough to gain from trade liberalization, while other members of region have been rightfully reluctant to open their markets to foreign producers.

Interests in security political cooperation

After the terrorist attack against the World Trade Centre in the United States in September 2001, the issue of security was brought into focus worldwide. Indonesia was especially affected by the problem as the country was hit by a number of terrorist attacks (for

various reasons) in the first years of the 2000s. The most serious was the attack in October in Bali, when 202 people, mostly foreign tourists, were killed by Islamic extremists. For this reason, it is not surprising that it was Indonesia that proposed the establishment of an ASEAN Security Community in 2003. We have to remember that until that year, the economic liberalization and cooperation have made some progress and in the given circumstances it became clear that without security cooperation the economic integration cannot be continued. Consequently, other member states, less affected by terrorism and being more interested in economic than political aspects, were also open to the establishment of closer ties within the framework of ASEAN. Especially because the Indonesian proposal aimed at a broader than military cooperation of member states in order to save peace and be able to avoid intervention by extra regional forces (like in Iraq) in case of political destabilization in the region. This proposal and the discussions over that led to the infamous Declaration of ASEAN Concord II (Bali Concord) in October 2003, which declared the formation of the ASEAN Community with its three pillars (security, economic, socio-cultural).

By initiating the security community, which has become the first pillar of ASEAN Community, Indonesia acted as an engine for further development of ASEAN. Besides, Indonesia makes efforts to reform the traditional (consensual) decision making process of ASEAN, to make sanctions possible in cases of non-compliance of agreements, and also, to increase financial contributions of member states to the ASEAN Secretariat. However, these initiatives failed because of the resistance of other member states. As far as the economic integration is concerned, in the history of ASEAN Indonesia has not initiated any measures or policies, what is more, the country has tended to block or delay measures that aimed at deepening economic cooperation (Heiduk, 2016a, pp. 8-9). These efforts and the lack of efforts represent that within the frames of its own interests and only within those, Indonesia would welcome stronger

institutions in ASEAN.

After a more than three-decade long stable political rule and high economic growth, the Southeast Asian financial crisis swept away President Suharto's regime in 1998. The successors (first Habibie, then Wahid, both for short periods, and Megawati between 2001 and 2004) ruled amidst a very difficult economic and political situation (e.g. riots in Aceh province, departure of East-Timor, terrorism). In 2004, Susilo Bambang Yudhoyono (also known as SBY) came to power and served for two terms. In spite of the natural disasters that affected the country under his presidency (tsunamis in 2004 and 2010, earthquakes in 2009 and an eruption of Mount Merapi in 2010) the economy performed relatively well: the annual growth rate of GDP per capita was three to five percent and poverty alleviated too. Thanks to its large domestic market and low dependence on export, Indonesia was among the few ASEAN members that did not suffer from recession due to the global crisis in 2008.

During Suharto, the military effectively controlled the ministry of foreign affairs and the generals' influence on foreign policy has been maintained for several years after Suharto as well. SBY, however, although he has been a senior military officer, he has successfully delinked the military and the ministry of foreign affairs and professionalized foreign policy. Until the end of SBY's second term, the attitude of Indonesia towards ASEAN has somewhat changed. There has been a shift in foreign policy orientation with third countries gaining more attention. This has been reflected in the redefinition of foreign policy as "all direction foreign policy" and the identification of Indonesia as a country that has 'thousands (in SBY's second term: millions) of friends and zero enemies' (Connelly, 2014 p. 2, Yudhoyono, [s.a.]). This, however, did not mean a turning away from ASEAN. Instead, SBY sought to maintain warmer relations with its neighbours and in the same time improve relations with China, the United States and other powers in and outside the region as well.

Turning away from ASEAN?

In 2014, SBY was succeeded by Joko Widodo (“Jokowi”) and speculations have emerged that the Indonesian foreign policy and the place of ASEAN in it would change. These speculations were based on the fact that Jokowi represents a basically new type of political carrier in Indonesia— he has been compared by the media to Barack Obama —, which is likely to determine how he looks at the world. All the previous presidents of Indonesia have been military persons or (as in Megawati Sukarnoputri’s case) had strong relations with the army. Jokowi, however, has neither military nor political elite background. He is of humble origins who used to live with his family in illegally built shacks in much of his childhood. He began to work at twelve years of age in his father’s small business. In 1985, he obtained a degree in forestry engineering at GadjahMada University in Yogyakarta. Then he worked for a state owned pulp mill company in Aceh province before establishing his own furniture factory. He has been exporting furniture for 24 years, travelling a lot to Europe, the United States and Australia. Although Jokowi has got knowledge about the world beyond Indonesia, he has not become a member of the cosmopolitan business elite that is equipped with good political relations. He served as a Mayor of Surakarta (his hometown in Java with 500 thousand inhabitants) from 2005 until 2012, then as a Governor of Jakarta between 2012 and 2014. Jokowi’s strength is domestic policy. He plans to stimulate economic growth by upgrading the infrastructure (which he performed successfully in Surakarta) and attracting foreign investors to the country. On domestic political field, he identified curbing corruption as one of its top priorities. As to social policy, he wants to improve public services and help the poor with other measures as well (Connelly 2014 pp. 4-5, Hollar [s.a.]).

Jokowi’s foreign policy guidelines can be summarized as follows (Connelly, 2014, Pandu, 2015, Shekhar – Liow, 2014): Indonesia is

primarily an archipelagic state that can enhance its global role by pursuing a middle power diplomacy and expanding its influence in the Indo-Pacific region ('We want Indonesia to become the world's maritime axis' – Jokowi said already as a presidential candidate in June 2014, Ramadhani – Marbun 2014); the economic diplomacy has to gain stronger positions and for this reason the foreign ministry is to be reformed. In the first month of Jokowi's presidency, analysis stated that as Jokowi lacked foreign political and strategic skills and diplomatic experience, as opposed to SBY, he would not be able to pursue such a 'streamlined' and outward-looking internationalist foreign policy and he would neither be able to preserve the independence of foreign ministry from the influence of the army. Consequently, the observers predicted that Jakarta would turn away from ASEAN and take a more nationalistic path in its foreign policy (see Connelly 2014, Prashanth 2015a and Qin 2015). The assumptions were so sound that Jokowi and its cabinet had to refute it repeatedly (Prashanth, 2015b).

The fears might be exaggerated but not completely unfounded. Jokowi intends to increase defence spending up to 1.5 percent of GDP (Parlina 2016) and stop illegal fishing by sinking foreign vessels that enter territorial waters of the country. He reintroduced the death penalty for drug smugglers that caused diplomatic problems as well after Brazilian and Dutch citizens were executed in early 2015 (Today, 2015). Furthermore, one of Jokowi's foreign policy advisers, Rizal Sukma, has declared that ASEAN is no more 'the' cornerstone of the Indonesian foreign policy, it is only 'a' cornerstone of that (Prashanth, 2014). The Jokowi administration, although aiming at encouraging foreign investments, also increased tariffs for a set of consumer goods and introduced new tariff and non-tariff trade barriers in order to protect local producers (Heiduk, 2016b).

Furthermore, it seems that the anti-imperialists rhetoric returns with Jokowi to some extent – albeit in a 21st century form. Jokowi is a member of the Indonesian Democratic Party of Struggle which

is led by Megawati Sukarnoputri, daughter of the first President of Indonesia, Sukarno. Six months after his inauguration, at the Asian-African Conference (that was initiated by Sukarno in 1955), Jokowi openly criticized the United Nations (in connection with its Palestinian policy), the International Monetary Fund and the policy of global superpowers in general, stating that the idea that global problems can be solved by the West is “obsolete” and a new economic order is needed, where emerging powers also have a say “to avoid the domination of certain groups of countries” (Today, 2015).

All these do not mean that ASEAN would have ceased to be the base of the regional stability and security for Indonesia. The Jokowi administration will likely continue similar policy than its predecessors in connection with the cooperation in issues like migration, terrorism, the Islamic State and also disaster management. In the latter cases Indonesia is interested in and forcing even closer cooperation in ASEAN. The reluctance of the Indonesian leaders towards deeper economic cooperation with other ASEAN members, as we have discussed it above, is not a new phenomenon. It has been characteristic of the Indonesian ASEAN-policy from the very beginning. What can be identified as a turning away from ASEAN is the passivism in regional affairs. As we saw, Indonesia has always been a driving force for the development of regional cooperation by pursuing active policy concerning security. It seems, however, that this activism has been set aside by Jokowi’s administration (Heiduk, 2016b), as it has other priorities as well. If so, the development of the regional cooperation within ASEAN will likely to stall.

CONCLUSIONS

The ASEAN has come a long way since its foundation by a short declaration in 1967. By now, it has a Charter that summarizes its so-

cio-economic and political goals and specifies its institutional structure. However, despite repeated efforts, ASEAN has never been so successful in economic integration as the European Union has been or even the integration of the Eastern European countries (COMECON) was earlier. At first glance, the reason for it is the diverging interests of member states of ASEAN because of the differences in their competitiveness and the possible asymmetry of gains from liberalization. This is, however, not unique for ASEAN, as there have always been countries of different development levels within the much more integrated European Union as well. Looking for more satisfactory explanation for the difference in the depth of economic integration of the two organizations, we can find the different attitudes of leading nations of integrations (Germany in the case of EU and Indonesia in the case of ASEAN) on the issue. This difference between the respective attitudes of Indonesia and Germany can be further explained by the difference of their competitiveness in comparison to other members of their organizations. Having a relatively weak economy, Indonesia has had to fear regional liberalization, while the very developed Germany has not.

On the other hand, Indonesia has been traditionally interested in security cooperation in the region and by actively supporting this, the country has been a driving force both of the foundation and the development of ASEAN. With President Jokowi, however, an old-new style of political leadership emerged in 2014. Growing up in poverty, having personal experiences as a worker, businessman and Mayor of Surakarta and Governor of Jakarta, and according to the traditional political stance of his political party, led by Sukarno's daughter, Jokowi occupied a more globalization-critical platform than his predecessor. Jokowi has been following a populist-nationalist path that defines Indonesia as a middle power or a 'global maritime axis' that has to be more active in the Indo-Pacific region.

It does not mean that Indonesia under Jokowi will turn against

Western powers or turns its back on ASEAN. Instead of this, the Jokowi administration has been maintaining the traditionally very good relations with the US, from which Indonesia has got billions of dollars in the past decades, and continues to look at ASEAN as its most important partner for preserving regional peace and security. The shift of emphasis in foreign policy towards a broader than ASEAN regional political role, however, may result in a durable decrease of activity within the Association of Southeast Asian Nations that would halt the deepening of cooperation within this organisation.

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