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Why (Most) Indonesian Businesses Fear the ASEAN Economic Community. Struggling with Southeast Asia's Regional Corporatism

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Abstract

By the end of 2015 the Association of Southeast Asian Nations (ASEAN) ushers in a common market, the ASEAN Economic Community (AEC). However, the groups most affected – small businesses – were by-passed in the decision-making. They are the victims of a selectively inclusive state corporatism which member countries transferred from their domestic political system to the regional level. In the article I argue that the decision for AEC was promoted by ASEAN governments in tandem with foreign economic and local corporate interests. This coalition was able to frame the AEC in a way that small businesses perceived it as a win-win scheme. Empirically the article focuses on Indonesia.

Key words

ASEAN, regionalism, Indonesia, business associations, micro, small and medium enterprises (MSMEs)

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Introduction

By end of this year ASEAN will usher in the ASEAN Economic Community (AEC). Resting on four pillars – a single market and production base, a competitive economic region, equitable economic development and integration into the global economy – the AEC envisages a deepening of Southeast Asia's economic integration. For many businesses in the region 31 December 2015 is thus a magic date. Many of them expect markedly increased opportunities, but the private sectors of the region's less developed economies, and in particular, micro, small and medium-sized industries (MSMEs), await the date with apprehension. Many of them fear that they will have to compete with much bigger companies which are better prepared to operate in an enlarged market.

In Indonesia, where 99 percent of business entities are classified as MSMEs (McClanahan, Chandra, Hattari & Vis-Dunbar 2014: 27), there is ample debate over the structural handicaps these firms face. Frequently mentioned in this respect are infrastructure bottlenecks, lack of access to credit, inadequate skills of workers, endemic corruption and red tape, an uncertain legal system, outdated technologies and management problems.¹ What has not been examined so far is the extent to which the seeming lack of preparedness of major parts of the economy and the late awakening of many business players to the dangers of the AEC is also the result of ASEAN's regional decision-making system, which can be characterized as regional corporatism (Rüländ 2014a). In this paper, I argue that the majority of Indonesian businesses have indeed failed to get effective representation for their interests in the process of regional decision-making, ASEAN's rhetoric of people-orientation notwithstanding. Regional decision-making denotes a two-staged process: Decision-making at the level of ASEAN institutions and decision-making at the Indonesian domestic level. The latter provides a fallback position in case regional participatory bodies do not provide channels for effective interest representation. In that case interest groups should have the opportunity to alert their government to their concerns and expect the latter to take them into account in regional-level negotiations.

In this paper, I first briefly introduce the concept of regional corporatism before exploring in greater detail the participatory channels of the private sector at the ASEAN level and then the domestic Indonesian level. The last section summarizes the findings and adds some reflections on the consequences of corporatist state-society relations transferred to the regional level.

Analytical Framework: A Typology of Regional Interest Representation

Regional interest representation and state-society relations at the regional level can be categorized in a four-point scale which denotes a continuum ranging from non-participatory settings (*executive domination*) to highly inclusive ones (*liberal pluralism*) with a middle ground which includes institutional arrangements characterized by state-controlled exclusive concertation (*state corporatism*) and more inclusive functional concertation (*liberal corporatism*).² The boundaries of these types are fluid, but dependent on how many of the criteria attached to each type are fulfilled, the matrix allows us to specify the type of interest representation in a regional organization (RO).

¹ *The Jakarta Post*, 5 June 2013, 7 May 2014, 3 November 2014; *Antara*, 24 October 2014.

² The typology draws from previous research on corporatism, in particular, Schmitter (1979), Malloy (1976), Lehbruch & Schmitter (1979) and Wiarda (1997).

Non-participatory ROs do not provide any formal channels for consultation and feedback to the respective RO's decision-making bodies. There are neither parliamentary bodies nor institutional devices for the representation of economic interests and civil society groups. Negotiations and policies are the exclusive domain of the member governments. Decision-making is strictly intergovernmental, dominated by bureaucracies and occurs in a top-down direction. Non-state actors seeking to influence policies must exclusively rely on non-transparent informal and personal ties to decision-makers.

State-corporatist arrangements allow for a modicum of institutionalized participation, although this is strongly controlled by member governments. Ideationally, such arrangements are influenced by organic state theory which prioritizes unity, social harmony and leadership. Characteristic of this type of regional interest representation are sectoral and functional apex organizations (i.e. only one single representational body in a given policy field), which require accreditation or licensing by the RO. This is usually done by a regional body (for instance, the secretariat) on behalf of the member governments. The key criterion for accreditation is that the representative body's objectives align with those of the RO. Resources, leadership, participatory rights and the activities of accredited organizations are subject to tight controls. State-corporatist participatory arrangements may include a parliamentary body, albeit one which is non-representative (e.g. dominated by pro-government legislators) and restricted to recommendatory functions. Otherwise they execute auxiliary functions for the RO, including transmission belt functions such as familiarizing the public with the policies of the RO and mobilizing support for the collective decisions of the RO's member governments. Groups or individuals outside the corporatist institutions must also – like in a non-participatory setting – rely on informal ties if they wish to influence decision-makers. Interest representation in such a setting is thus strongly asymmetric; selective inclusion is the result of close government controls. Applying Cohen and Uphoff's four modes of participation, state corporatism at best denotes a top-down process of "participation in implementation" and "participation in benefits" (Cohen & Uphoff, 1980).

Liberal-corporatist regional institutions provide more leeway for participatory interaction in regional governance. Ideationally, they are a synthesis of sediments of organic state theory and liberal-democratic ideas. As remnants of organicism, there may be sectoral apex organizations, but unlike in the state-corporatist form of interest representation their membership is not subject to a tightly controlled selection process. Non-state actors interested in influencing regional governance must register with the RO, but this is merely a formality for the sake of transparency. This means that groups critical of the objectives and policies of the respective RO also have the right to be registered and to participate in deliberations and decision-making. The membership of regional parliaments is more representative and, apart from their recommendatory functions, regional parliaments may also have limited legislative and supervisory powers. Participatory rights are more than token democratic procedures: the groups registered have a much higher degree of autonomy and the process of consultation and decision-making is markedly more inclusive than in state-corporatist regional governance. In a system of liberal corporatism interest groups also use their autonomy to criticize the government, enabling them to adopt early warning functions. However, this does not mean that liberal-corporatist systems of interest representation are free from asymmetries. Participatory defects are here less the result of government controls than of market-driven inequities such as major disparities in resources and veto power.

Liberal pluralism is the other pole of the participatory continuum. There is no concertation of interest groups through apex organizations. Interest groups of all kinds – be they business

groups, labor unions or civil society advocacy networks – compete freely in decentralized and fragmented, multiple organizational arrangements for influence in the respective RO. Again, in order to maintain a modicum of transparency, lobby groups and NGOs interested in regional decision-making may be obliged to register with the RO. Regional parliaments exist and are much more developed than those found in state-corporatist arrangements (Kraft-Kasack 2008). They can be subsumed under the assembly-type of transnational parliamentary bodies or even be fully-fledged parliaments, which means that the legislators are directly elected and endowed with substantial legislative and supervisory powers. The participatory processes of ROs, which may be categorized as liberal-pluralist, are highly inclusive, at least in formal terms, although they face the same structural problems as non-state groups in liberal-corporatist settings. Nonetheless, as least in principle, liberal-pluralist systems of decision-making seem to empower non-state interests. They are much closer to “participation in decision-making” and “participation in evaluation” (Cohen & Uphoff 1980) than any other of the types of participatory arrangements discussed before. They criticize the government and thus also provide early warning functions. In reality, however, it is unlikely that an RO would develop such an ideal level of participation to the fullest extent.

The Regional Level: Private Sector Interests in ASEAN’s Regional Corporatism

ASEAN clearly belongs to the category of state-corporatist arrangements of regional interest representation. Member states look back to strong legacies of various forms of indigenous and imported organic state theory and state-corporatist traditions, which in view of the region’s great diversity of political systems have been transferred as the lowest common denominator from the national level to the regional level. Apex organizations selectively aggregate private sector and societal interests, perform limited consulting functions for ASEAN member governments and, in particular, serve as transmissions belts for ASEAN policies (Rüländ 2014a).

Economic interests were initially represented by the ASEAN Chamber of Commerce (ASEAN-CCI). Fitting the state-corporatist categorization, ASEAN-CCI was state-sponsored and founded on the initiative of ASEAN’s foreign ministers in 1972 as a private sector apex organization which would channel the proposals of its member associations to ASEAN decision-making bodies (Young 1986: 690; Chng 1992: 58; Urgel 1994: 24; Yoshimatsu 2007b: 232; Collins 2008: 315). At that time ASEAN tried to intensify economic relations with Western industrialized countries and it was believed that business associations modelled after those in Western countries would enhance foreign investor trust in the region and spur economic interactions (Rüländ 2014a). But the state-corporatist statute, which obligated the organization to be closely aligned with the objectives of ASEAN (Urgel 1994: 24), deprived ASEAN-CCI of any independent political space in which to influence the grouping’s economic policies. Tellingly, ASEAN-CCI sources at the time complained vividly about restricted access to official documents. ASEAN governments, they stated, “appear more concerned with the principle than with the substance of consultation.” As a result, discussions tended “to be monologues rather than dialogues” (Urgel 1994: 41). Hence the conclusion that the entire exercise was *de facto* “meaningless” (ibid.).

The situation changed in the second half of the 1980s, when under the influence of foreign business associations and transnational corporations (TNCs) ASEAN-CCI became a more active organization, an advocate of economic liberalization and institutional reforms geared towards

deepening ASEAN integration (Young 1986; Yoshimatsu 2002: 129).³ The report by the Group of Fourteen is emblematic in this respect, constituting probably the boldest proposal for regional institutional reforms prior to the Eminent Persons Group (EPG). The EPG was appointed by ASEAN leaders in 2005 in order to provide a blue print for an ASEAN Charter, a quasi-constitution for the grouping (ASEAN Chamber of Commerce and Industries 1987; Anwar 1994; Yoshimatsu 2007b: 233). ASEAN-CCI was also credited with contributing valuable inputs to the ASEAN Free Trade Area (AFTA) launched in 1993 (Bowles & MacLean 1996: 339; Yoshimatsu 2007a: 42; Collins 2008: 315; Chandra 2009: 5).

However, with increasing economic liberalization ASEAN-CCI's influence on ASEAN's economic policies waned.⁴ ASEAN governments successfully recovered their role as the main architects of economic policies and relegated ASEAN-CCI to transmission belt functions. Drumming up support for the grouping's economic policies (Yoshimatsu 2007a) and highlighting the latter's benefits for the private sector were the prime tasks assigned to ASEAN-CCI. Bowles and MacLean, for instance, observed that ASEAN-CCI "played a role in unifying business support for AFTA and deflecting criticism by those groups which might be adversely affected by AFTA's formation" (Bowles & MacLean 1996: 339). This is corroborated by then ASEAN-CCI President Chokchai Aksaranan, stating that "ASEAN-CCI has to convince any business group which opposes it (AFTA)."⁵ Government pressures on ASEAN-CCI to mobilize its membership even increased in the aftermath of the Asian financial crisis (1997/98), when it was urged to persuade businesses to consent to a range of austerity measures.⁶ The "participation in implementation" and "participation in benefits," which I have defined as major traits of a state-corporatist system of interest representation, are thus clearly visible in the case of ASEAN-CCI.⁷

In the process, ASEAN-CCI's cohesion fell markedly and it increasingly became an organization haunted by internal politicking and the pursuit of vested, often protectionist interests, and rent-seeking.⁸ The presence of ASEAN-CCI members at meetings with ASEAN economic ministers (AEM) declined and sometimes meetings had to be cancelled altogether.⁹ At the same time, governments became impatient with ASEAN-CCI's seemingly unsatisfactory transmission belt functions. ASEAN Economic Ministers, for instance, felt that ASEAN CCI could do more to help business exploit opportunities within ASEAN.¹⁰ One reason for this lack of outreach was ASEAN-CCI's weak relations with its constituent national industry clubs, many of which were personal fiefdoms of leaders who were unable or unwilling to serve as intermediaries communicating policy innovations and aggregating member interests (Urgel 1994: 92).¹¹ ASEAN-CCI thus progressively lost its capacity to be a (junior) partner of ASEAN governments. From 1998 to 2003

³ Interview information, 5 March 2010.

⁴ Interview information, 1 March 2010.

⁵ *The Straits Times*, 29 May 1992.

⁶ *Xinhua News Agency*, 10 April 1998.

⁷ See also statements in this respect by Enoch Fang, a Singaporean government official at the time, ASEAN-CCI was formed. *The Straits Times*, 25 April 1992.

⁸ See ASEAN Secretariat, "Private Sector Participation," available at: <http://www.aseansec.org/9271.htm>, <http://www.aseansec.org/9271.htm>, (accessed 12 September 2010); interview information, 23 March 2010.

⁹ Interview information, 5 March 2010.

¹⁰ *Business Times*, 26 September 1994.

¹¹ See also Mengenal Asosiasi Pengusaha Ritel Indonesia (APRINDO). Latar Belakang Sejarah Berdirinya Aprindo, available at: http://www.aprindo.net/tentang_kami_154.html, (accessed 22 March 2015).

it was more or less moribund and no meeting with the ASEAN Senior Economic Officials took place (Yoshimatsu 2007b: 235).

With the Asian financial crisis looming at the end of the 1990s, ASEAN governments frantically tried to control the fallout (Rüländ 2000). They thus saw Chinese overtures to enter into a free trade agreement with ASEAN as a promising opportunity to expedite economic recovery. When in 2001 China proposed the formation of an ASEAN-China Free Trade Area (ACFTA), ASEAN leaders realized that they were in dire need of a new business apex organization. In 2001, they agreed to form the ASEAN Business Advisory Council (ASEAN BAC),¹² which was eventually launched in 2003 (Yoshimatsu 2007a: 42).¹³ This coincided with another ambitious economic initiative: At the Bali Summit in 2003 ASEAN decided to create a single market, the ASEAN Economic Community (AEC). As these policies were expected to have strong repercussions in the member countries' economies and to meet resistance from economic nationalists, a more effective business organization than ASEAN-CCI was needed to mobilize the private sector's consent.

From the outset, ASEAN BAC thus also fitted ASEAN's state-corporatist model of interest representation. It was initiated in a top-down manner by the highest levels of government, with governments – similar to ASEAN's leader-CSO interface during Summits (Collins 2013; Gerard, 2014; Rüländ 2014a) – determining who their private sector counterparts would be. ASEAN BAC consists of thirty members, three from each member country, which are personally hand-picked by ASEAN leaders.¹⁴ For the most part they represent ASEAN's corporate sector, including foreign firms.¹⁵ They are persons who already had close ties to government circles prior to their appointment.¹⁶ The statutory requirement that one of the three appointed ASEAN BAC members should represent small and medium-sized industries (SMEs) seems to exist only on paper.¹⁷ All three current Indonesian ASEAN BAC members, for instance, are CEOs of large corporations with global interests and close ties to government circles.¹⁸ Tonny Sumartono, a former Indonesian ASEAN BAC member, was professionally affiliated with conglomerate Astra and married to Sri Mulyani Indrawati, who was minister of finance at the time. As minister of finance, Sri Mulyani pursued a clear pro-market stance. After her resignation from the Cabinet in 2010, she became a World Bank director in Washington, D.C.¹⁹ Some ASEAN BAC members even represent subsidiaries of TNCs, like ASEAN BAC's first chairman, Rudy J. Pesik, an Indonesian businessman who happened to be CEO of the Indonesian branch of German-based logistics giant DHL, which belongs to the Deutsche Post group.²⁰ ASEAN BAC is thus an organization, which – at least in Indonesia – represents a mere 1 percent of the country's business establishments.

¹² *Asia Times*, 17 August 2004.

¹³ *The Jakarta Post*, 7 August 2003 and interview information, 5 March 2010.

¹⁴ Interview information, 23 March 2010 and "ASEAN Business Advisory Council (ASEAN-BAC) to Hold First Meeting in Mid-April," available at: <http://www.aseansec.org/14607.htm>, (accessed 12 September 2010).

¹⁵ Interview information, 23 March 2010.

¹⁶ Interview information, 5 March 2010 and 23 March 2010. *The Jakarta Post*, 26 May 2010.

¹⁷ Interview information, 22 September 2014.

¹⁸ For details, see ASEAN-BAC members, available at: <http://www.asean-bac.org/members.html>, (accessed 12 April 2015).

¹⁹ *The Jakarta Post*, 10 May 2010.

²⁰ *The Jakarta Post*, 19 September 2013.

Internally, ASEAN BAC meets about eight times per year and thus more frequently than ASEAN-CCI with its bi-annual Council meetings.²¹ ASEAN BAC also meets regularly with ASEAN's Senior Economic Officials (SEOM), ASEAN Economic Ministers (AEM), the ASEAN Secretariat (ASEC) and ASEAN leaders (Yoshimatsu 2007b: 236).²² However, it seems that these meetings focused on economic policies in rather general terms. Only after 2009 did meetings between ASEAN BAC and the AEM become more specific by also including representatives of individual economic sectors.²³ At Summits there is a regular time slot reserved for ASEAN BAC to meet ASEAN leaders and exchange thoughts on issues of economic development. These are on average longer (about one hour compared to 15-30 minutes for CSOs)²⁴ and more deliberative than the largely symbolic leaders-CSO interfaces (Collins 2013; Gerard 2014; Rüländ 2014a), although a major part seems to be devoted to a report on what ASEAN BAC has achieved in the past year.²⁵ Leaders thus expect not only that ASEAN BAC be accountable to them, but also that they fulfil the same transmission belt functions as previously provided by ASEAN-CCI.²⁶ The paternalistic way ASEAN officialdom celebrates its leading role in economic policies is best epitomized in a statement of former ASEAN Secretary General Surin Pitsuwan, who in a speech addressing the newly founded ASEAN Business Club (ABC) encouraged the business community to connect "with the new landscape that *we have created for you*" (italics added by me, J.R.).²⁷ Indeed, on closer scrutiny it can be shown that in the past ASEAN BAC has duly performed the consultation and transmission belt functions which are typical of the state corporatist design of ASEAN's regional corporatism. Positions critical to ASEAN's policy of economic liberalization were largely excluded from consultation.²⁸

Given the fact that many ASEAN BAC members are CEOs of large companies, companies that operate internationally and therefore support market opening initiatives, it is hardly surprising that ASEAN BAC has refrained from criticism of the AEC and ASEAN's other free trade schemes such as the ACFTA, at least publicly. The concerns and interests of Indonesian MSMEs played virtually no role at the time of the decision on AEC, nor when the details were mapped out.²⁹ References to SMEs in the AEC Blue Print, an ASEAN strategy paper for the implementation of the AEC, and in occasional public statements are lip service and do not address the problems of MSMEs in a substantive way. They are to a much greater extent statements seeking to assuage a large segment of the economy from which they expect political trouble should there be economic

²¹ Interview information, 23 March 2010.

²² Interview information, 5 March 2010 and 3 March 2015.

²³ Joint Media Statement of the 41st ASEAN Economic Ministers' (AEM) Meeting, Bangkok, 13-14 August 2009.

²⁴ Interview information, 23 March 2010.

²⁵ Interview information, 5 March 2010.

²⁶ *Philippine Daily Inquirer* and interview information, 23 March 2010.

²⁷ Speech by Dr Surin Pitsuwan, Secretary-General of ASEAN, at the Launch of the ASEAN Business Club (ABC), available at: <http://www.asean.org/resources/2012-02-10-08-47-56/speeches-statements-of-the-former-secretaries-general-of-asean/item/speech-by-dr-surin-pitsuwan-secretary-general-of-asean-at-the-launch-of-the-asean-business-clubs-abc>, (accessed 6 May 2013).

²⁸ Interview information, 12 March 2010.

²⁹ Interestingly, the Eminent Persons Group (EPG) consulted ASEAN-CCI and not ASEAN BAC. ASEAN-CCI seems to have mentioned SME interests in its talks with the EPG in Bali in April 2006, but obviously without much success. Keynote address by President S.R. Nathan at the ASEAN-CCI Gala Dinner Held in Conjunction with the handover of ASEAN-CCI Presidency from Singapore to Thailand, on Sunday, 13 August 2006 at the Ritz Carlton Millennia Singapore, available at: <http://www.istana.gov.sg/News/Keynote+Address+by+President+S+R+Nathan+at+the+Asean-CCI+Gala+Dinner+held+in+conjunction+with+the+Ha.htm>, (accessed 12 September 2010).

turbulence.³⁰ What ASEAN BAC members have in mind when they speak of SMEs are firms which have reached a level of professional sophistication that enables them to enter into business alignments with large conglomerates. In line with ASEAN's regional corporatism, ASEAN BAC activities are thus mainly confined to providing information, raising awareness of the AEC and sounding out sentiments in the private sector through opinion polls.³¹ However, with its limited infrastructure (including a small office in the ASEAN Secretariat with an executive director who – judging from his publications – empathizes with the fears of MSMEs), not too much can be expected of ASEAN BAC in this respect.³²

Ironically, the most vocal advocates of MSME interests at the regional level have been transnationally organized CSOs which have been largely critical of the economic blueprints of the AEC. When the ASEAN Charter was written and ratification was debated in the individual member countries, regional CSO networks such as the Solidarity for Asian People's Advocacy (SAPA), the ASEAN Civil Society Conference (ACSC), later also known as the ASEAN People's Forum (APF), took to task the AEC's design, which they considered to be essentially neo-liberal.³³ They anticipated serious adjustment problems for the member countries, especially the economically less advanced ones, and for those segments of the economy which primarily produced for the domestic market. In their statements, they predicted mass bankruptcies, loss of jobs, flooding of the market with substandard foreign goods, environmental problems, the destruction of the livelihood of the population working in the agricultural sector and the like. Indonesia, given its large percentage of MSMEs, was seen as one of those countries that particularly needed to brace itself for such adverse effects. Yet, despite this seeming correlation of interests between MSMEs and CSOs, there was, as interviews suggest, little interaction between CSOs and business associations during and after the Charter debate.³⁴

The Domestic Level: The Private Sector and Channels of Interest Representation

If there was little participatory space for Indonesian MSMEs at the regional level, they could try to compensate for this handicap at the domestic level by bringing their concerns to the attention of the government in the hope that the latter would consider them in its negotiations with ASEAN partners. In Indonesia, a vocal business organization exists in the form of the Indonesian Chamber of Commerce and Industries (Kamar Dagang dan Industri Indonesia, KADIN), which entrepreneurs could mobilize to lobby on their behalf. KADIN was founded in the New Order period in 1968 and through Law No. 1/1987 became a corporatist apex organization for thirty-three provincial chambers (KADIN Daerah), 440 district branches, more than 200 business

³⁰ *New Straits Times*, 1 November 2014.

³¹ Interview information, 9 March 2015; *Malaysia Economic News*, 22 August 2006; *Cambodian Business Review*, 31 December 2014.

³² ASEAN Trade Union Congress, 7 March 2015, "Business in the dark on ASEAN community," available at: <http://aseantuc.org/2015/03/732015-business-in-the-dark-on-asean-community/>, (accessed 10 March 2015).

³³ See, for instance, Wahyu Susilo in *Media Indonesia*, 28 April 2011 and the decidedly anti-liberal manifest "Deklarasi Rakyat Membangun Regionalisme Yang Berdaulat Bongkar dan Lawan Dominasi Kapitalisme Global," 18 November 2011, ditulis oleh WALHI, available at: <http://walhi.or.id/ruang-media/siaran-pers/1675-deklarasi-rakyat-membangun-regionalisme-yang-berdaulat-bongkar-dan-lawan-dominasi-kapitalisme-global.html>, (accessed 27 February 2012).

³⁴ Interview information, 26 March 2010.

associations³⁵ and over 80,000 Indonesian firms.³⁶ It has a current staff of about 100 employees.³⁷ Another vocal business association is the Indonesian Employers Association (APINDO) which has existed since 1952, has thirty-three provincial branches and is a member association of KADIN. As members of KADIN the Young Employers Association of Indonesia (Himpunan Pengusaha Muda Indonesia, HIPMI) and the Indigenous Entrepreneurs Association of Indonesia (Himpunan Pengusaha Pribumi Indonesia, HIPPI) also represent important segments of the private sector.

Although in Indonesia many vestiges of state-corporatism have disappeared in the process of post-New Order democratization, strong remnants remain. They find their expression in the widespread – often unconscious – adherence to organic state theory and integralist thinking and rhetoric (Ziv 2001; Rüländ 2014a). The exclusivity which Law No. 1/1987 grants KADIN as private sector interest representation persists and is thus likewise a remnant of state corporatism. This assessment is corroborated through the largely pro-government stance that KADIN takes in many issues. Cases in point are KADIN's support for the Indonesian military's weapons acquisition policy³⁸ and support for the new President Jokowi's maritime axis policy.³⁹ Given their legally privileged position, KADIN leaders have access to the highest levels of government, including the president, the vice president, the foreign minister and, in particular, the economic ministries. This can be documented by numerous events held by the organization at which senior government figures were present. KADIN executives are also included in delegations accompanying the president on state visits and they are members of delegations in multilateral negotiations.⁴⁰ Likewise, innumerable informal contacts help KADIN leaders to get their messages across to government decision-makers.⁴¹

Nevertheless, complaints that the government is not sufficiently aware of private sector policy preferences and that decision-making is not transparent continue to be raised.⁴² Such claims were made after the ACFTA came into force, and again in the preparation for the AEC.⁴³ In 2013, for instance, KADIN Chairman Suryo Bambang Sulisto complained about a lack of coordination between the business sector and the government. The private sector, he stated, "is still far beyond the state's circle of decision-making."⁴⁴ Such statements are surprising and suggest that despite frequent interaction between top business leaders and the government, there is a transparency problem. It is indeed puzzling that the government refused to provide private sector representatives access to its ACFTA feasibility studies.⁴⁵ Private sector representatives also

³⁵ KADIN Homepage, available at: <http://www.bsd-kadin.org/about/kadin> (accessed 13 March 2015).

³⁶ See *The Jakarta Globe*, 17 June 2010.

³⁷ Interview information, 9 March 2015.

³⁸ *The Jakarta Post*, 16 March 2005.

³⁹ *BSD Bulletin*, 14 January 2015, "Rapat Pimpinan Nasional (RAPIMNAS) 2014 KADIN Indonesia," available at: <http://www.bsd-kadin.org/news/bulletin-detail/id/63>, (accessed 3 March 2015).

⁴⁰ Interview information, 9 March 2010; *The Jakarta Post*, 12 January 2011.

⁴¹ See for instance, *BSD Bulletin*, Rapat Pimpinan Nasional (RAPIMNAS) 2014 KADIN Indonesia, 14 January 2015, available at: <http://www.bsd-kadin.org/news/bulletin-detail/id/64>, (accessed 3 March 2015); *The Jakarta Post*, 1 December 2005, 24 September 2009 and interview information, 3 March 2015.

⁴² *The Jakarta Post*, 22 September 2004, 24 September 2004, 18 November 2009.

⁴³ *The Jakarta Post*, 21 January 2010.

⁴⁴ *Kabar Bisnis*, 24 May 2013.

⁴⁵ *Merdeka*, 26 May 2013. Similar KADIN Jakarta chairman Eddy Kuntadi, see *Antara*, 24 October 2014. This also included charges by APINDO and HIPMI that the government does not socialize AEC enough. *Antara*, 26 June 2013.

decreased coordination among government ministries, which are entangled in bureaucratic politics and often working against each other rather than cooperating.⁴⁶

In response to such complaints, the government set up coordinating bodies with the objective of overcoming this seeming miscommunication. In 2010, for instance, the administration of President Susilo Bambang Yudhoyono eventually formed a team to cope with the consequences of the ACFTA,⁴⁷ and in 2013, it formed a National Committee for the preparation of the AEC to which all major private sector stakeholders were invited.⁴⁸ Related to such initiatives is the resumption of the foreign policy breakfast by the new Foreign Minister Retno Marsudi. The foreign policy breakfast, initiated a decade earlier by former Foreign Minister Hassan Wirajuda, sought to democratize Indonesian foreign policymaking by acknowledging the growing number of stakeholders, but became more or less moribund during the term of his successor Marty Natalegawa.⁴⁹ After assuming office, Retno revitalized the foreign policy breakfast meetings as a forum, which also included economic issues such as the AEC. However, in typical corporatist tradition the government used it primarily for disseminating information, rather than seeking an open exchange of views on policies.⁵⁰

As KADIN is a complex organization, the question of who precisely is dislocated from government decisions arises. It is certainly not the top leadership, which usually comes from the big corporations with international business interests and thus in principle is in line with the more ambitious market opening aspirations of export-oriented firms located in the Jakarta capital region and the government.⁵¹ It is widely documented that corporate interests dominate in KADIN.⁵² In official statements, the KADIN top leadership thus generally supports the regional economic integration policy of the government, including the AEC, stating repeatedly that the AEC offers great opportunities, although in some cases conceding that there may also be challenges.⁵³ Like ASEAN BAC at the regional level, KADIN aired fundamental disagreement with the AEC neither during the decision-making process nor the elaboration of the AEC implementation blueprint. Also, during the Indonesian debate on the ASEAN Charter, business organizations were virtually mute and contributed little to the otherwise lively discourse on Indonesia's role in ASEAN, although completion of the AEC was shifted from 2020 to 2015 (Rüländ

⁴⁶ Interview information, 9 March 2015.

⁴⁷ *Kabar Bisnis*, 4 January 2010.

⁴⁸ BSD Bulletin, 28 August 2013, "Indonesia Trade and Investment News 8/13," available at: <http://www.bsd.kadin.org/news/bulletin-detail/id/37>, (accessed 3 March 2015).

⁴⁹ *The Jakarta Post*, 19 August 2014 and interview information, 10 September 2014.

⁵⁰ Interview information, 6 March 2015 and "Foreign Policy Breakfast, Cara Kemlu Libatkan Stakeholders di Diplomasi Ekonomi," available at: <http://www.kadin-indonesia.or.id/berita/ketuaumum/2015/01/323547635423/Foreign-Policy-Breakfast-Cara-Kemlu-Libatkan-Stakeholders-di-Diplomasi-Ekonomi>, (accessed 6 March 2015).

⁵¹ Survey results corroborate that ASEAN-wide and in Indonesia only a minor percentage of larger firms and those with foreign equity make use of FTA incentives. *The Nation*, 24 June 2013 and *BSD Bulletin*, 21 April 2014, Indonesia Trade and Investment News 4/14. Impact of FTAs Implementation in Indonesia, available at: <http://www.bsd-kadin.org/news/bulletin-detail/id/51>, (accessed 3 March 2015).

⁵² See, *inter alia*, *The Jakarta Globe*, 17 June 2010.

⁵³ *Berita Satu*, 24 May 2013, "Chamber of Commerce: Asean Free Trade Not a Threat, But Great Opportunities," available at: <http://www.beritasatu.com/ekonomi/115758-kadin-pasar-bebas-bukan-ancaman-tetapi-peluang-besar.html>, (accessed 3 March 2015); *Antara*, 4 June 2013; *Republika*, 25 October 2014; "Minister of Trade and Industry of Singapore Visit the Indonesian Chamber of Commerce," available at: <http://www.kadin-indonesia.or.id/berita/ketuaumum/2014/11/368491615421/Menteri-Perdagangan-dan-Perindustrian-Singapura-Kunjungi-Kadin-Indonesia>, (accessed 6 March 2015).

2014b). The reason for this attitude is quite simple. KADIN's top executives and CEOs of large corporations were sure that the AEC would be conducive to the goals of their businesses in the long term.⁵⁴

However, when the respective economic integration schemes eventually came into force, KADIN officials came to the forefront of those who warned against the damage this policy would inflict on MSMEs.⁵⁵ It was precisely these segments of the private sector which were disconnected from government policies when decisions were made. Cases in point are the completion of AFTA in 2003,⁵⁶ the ACFTA in 2010⁵⁷ and more recently the AEC. KADIN then appears to have been a vocal advocate of MSME interests. In 2010, for instance, KADIN vividly supported APINDO demands for a re-negotiation of the terms-of-reference of the ACFTA.⁵⁸ A KADIN official interviewed for this paper also tinkered with the idea of a re-negotiation of the AEC agreement.⁵⁹ KADIN then also sought the support of the national legislature, the Dewan Perwakilan Rakyat (DPR), which for most of the post-Suharto era has been an advocate of economic nationalism.⁶⁰

It is not difficult to dismiss such policy moves as populism. Such populist ploys become comprehensible when one takes into account that KADIN is an eminently political organization which in the past has been close to the GOLKAR Party.⁶¹ KADIN also serves as a springboard for high political office and prides itself that no less than six of its leaders have become Cabinet members.⁶² Being a political organization facilitating the personal ambitions of its leaders, it must pursue policies that are seemingly in tune with the aspirations of large sections of the population. This is definitely the case when it makes protectionist calls and paints a picture of dire consequences of market opening schemes for the country's economy and major segments of the workforce. But this is usually rearguard action as such protests come at a time when it is impossible to make fundamental changes in the country's and region's overall economic policy direction. Knowing that there could be no return, entrepreneurs close to APINDO, for instance, proposed mitigating the adverse effects of the ACFTA by erecting non-tariff barriers, justifying

⁵⁴ For straightforward statement in this respect, see John A. Prasetio, a senior executive of KADIN, in *The Jakarta Post*, 24 August 2006. ASEAN-CCI participated in consultation meetings which the Eminent Persons Group mandated by ASEAN leaders for writing an ASEAN Charter blueprint held with stakeholders. In those meetings ASEAN-CCI members pronounced their support for the promotion of a single market and economic integration. See Igarashi (2011: 13).

⁵⁵ *The Jakarta Post*, 3 November 2014.

⁵⁶ *Gatra*, 26 February 2001, 24 September 2001; *The Jakarta Post*, 20 December 2001 and 2 January 2003.

⁵⁷ *The Jakarta Post*, 6 April 2010, p. 13.

⁵⁸ *The Jakarta Globe*, 5 April 2010.

⁵⁹ Interview information, 9 March 2015. Also proposing re-negotiation was former Coordinating Minister for Economic Affairs, Rizal Ramli, see *Riau Bisnis*, 3 March 2014.

⁶⁰ "DPR Akan Upayakan Penguatan Kadin," 7 October 2014, available at: <http://www.kadin-indonesia.or.id/berita/ketuaumum/2014/10/293278165412/DPR-Akan-Upayakan-Pengatuan-Kadin>, (accessed 6 March 2015); *The Jakarta Post*, 27 February 2001, 12 November 2009; *ASEAN Update, ASEAN Affairs*, 13 November 2009; *Kabar Bisnis*, 4 January 2010.

⁶¹ See also *The Jakarta Post*, 26 June 2010.

⁶² Interview information, 3 March and 9 March 2015.

this by the fact that other countries also apply this practice.⁶³ In a somewhat more muted form KADIN officials supported this strategy, in relation to the ACFTA and the AEC,⁶⁴ as a means of slowing down market opening.⁶⁵ This was paralleled by lobbying for the ousting of overly liberal-minded ministers. The 2011 replacement of Mari Elka Pangestu as minister of trade after the ACFTA came into force and Indonesia was flooded by cheap Chinese goods, is a case in point.⁶⁶ The DPR has been a welcome ally in stage-managing such populist policies because MPs have to demonstrate persistently that they care for the wellbeing of their constituents as otherwise their re-election is jeopardized. In the case of the ACFTA, APINDO even went one step further and closed ranks with labor unions on the basis of wildly fluctuating and exaggerated estimates of job losses due to free trade policies (Lim & Kauppert 2010).

This last-hour activism notwithstanding, the question remains: Why did MSMEs not raise their voices earlier in protest against the adverse effects of market opening policies? Could they not have easily foreseen that the AEC would be detrimental for them? Yes, they could, but on closer inspection they appear to have been lulled into complacency by the KADIN leadership, although their acquiescence to free trade schemes also has to do with the lack of reliable research data regarding the consequences of the AEC and their own limited planning horizons. Although admitting that there may be challenges along the way, the KADIN leadership framed its attitude towards the AEC in a way that made the less informed audience believe that in the end the AEC was not only inevitable, but actually a win-win scheme. For instance, one of the arguments used highlighted that economic liberalization facilitates foreign investment.⁶⁷ Given the adverse experience many SME entrepreneurs had during and after the Asian financial crisis, this seemed to be good news for them. In their struggle for economic survival, they believed that economic liberalization would facilitate foreign investment and thereby give them the chance to increase their companies' capital stock.⁶⁸ Another motivation which became pertinent at a later stage was that the AEC would lead to market concentration. For this reason it would also be advisable to enlarge a company's capital stock through foreign capital. The resistance to liberalization policies was thus muted and only became vocal when liberalization came into force and adverse consequences arose.

The KADIN leadership also framed the AEC as a scheme that would prepare businesses in Indonesia and the ASEAN region for global competition. But it took time for Indonesian MSMEs to

⁶³ KADIN, 14 November 2010, "SBS Bicara Tentang ACFTA dan Dunia Usaha Daerah," available at: <http://www.kadin-indonesia.or.id/berita/kadinpusat/2010/11/315244345419/SBS-Bicara-Tentang-ACFTA-dan-Dunia-Usaha-Daerah>, (accessed 6 June 2011); *The Jakarta Post*, 2 January 2010 and 5 March 2010; *The Jakarta Globe*, 6 January 210; *Kabar Bisnis*, 18 May 2011 and KADIN, 14 November 2010, SBS Bicara Tentang ACFTA dan Dunia Usaha Daerah, available at: <http://www.kadin-indonesia.or.id/berita/kadinpusat/2010/11/315244345419/SBS-Bicara-Tentang-ACFTA-dan-Dunia-Usaha-Daerah>, (accessed 6 June 2011); see also *The Jakarta Post*, 19 September 2008.

⁶⁴ *Merdeka*, 20 March 2014.

⁶⁵ *BSD News*, "ASEAN - Indonesian Stakeholders Dialogue Forum," 22 November 2013, available at: (accessed 3 March 2015). The erection of non-tariff barriers is also the aim of KADIN representatives' calls for stronger institutional capacity for the Indonesian Anti-Dumping Committee (KADI) and the Indonesian Trade Safeguard Committee (KPPI). See the statement of legal and trade safeguarding permanent committee head Ratna Sari Loppies in *The Jakarta Post*, 3 November 2013.

⁶⁶ *The Jakarta Post*, 18 October 2011 and 19 October 2011.

⁶⁷ Thereby adopting an argumentation that ASEAN-BAC pursued already at a very early stage. See *New Straits Times*, 23 September 2003.

⁶⁸ See *The Jakarta Post*, 20 May 2010 and former KADIN Chairman and then Minister of Trade, M.S. Hidayat in *The Jakarta Post*, 26 October 2013 and interview information, 9 March 2015.

realize that the many other FTAs into which ASEAN had entered gave outsiders virtually the same privileges that the AEC gave to regional businesses entrepreneurs.⁶⁹ In other words, the AEC as a preparatory step for global business interaction became increasingly obsolete. That pro-integration forces within KADIN and corporate interests were able to frame the discourse on the AEC, particularly in the critical decision-making phase, in a way that ensured there was little opposition until the decision became irreversible shows once more that the mechanisms of state-corporatism also worked on the domestic level.

Lack of reliable data was another problem many MSMEs faced. This is not to suggest that there were no serious studies related to the AEC and FTA commitments to which ASEAN agreed. But demand for studies and additional data repeatedly came after trade agreements had already been concluded.⁷⁰ Existing studies often supported market liberalization measures and accelerated regional integration. In some cases these studies were commissioned by extra-ASEAN business interests from the wider East Asian region, Americans and Europeans whose TNC subsidiaries hoped to benefit from liberalization policies.⁷¹ KADIN and other private sector associations do not have major think tanks and are thus dependent on external sources of knowledge, for instance from universities and research institutes.⁷² However, the quality of such studies varies; they are a reflection of the position of Indonesia's research institutions in international comparison. Recommendations and policy conclusions are thus dependent on the quality of such research.⁷³

KADIN's Business Support Desk (BSD) cannot compensate for this lack of hard empirical analysis. The unit is a rather modest entity in terms of staffing, with only about seven senior staff. BSD therefore does not carry out research on the effects of the AEC. It is primarily a unit disseminating information on the AEC and the other business-related policies of the Indonesian government and ASEAN, and seeks to help build up entrepreneurship in the country.⁷⁴ KADIN's Institute for Economic Studies Research and Development (Lembaga Pengkajian, Penelitian dan Pengembangan Ekonomi, LP3E) seems to have developed at least some research capacities, but it does not have the staffing, funding or stature to perform sophisticated research functions.⁷⁵ It is a research unit largely unknown among Indonesian economists.

Furthermore, KADIN's many member associations, which represent a broad range of economic branches, are not able to fill that void. Many of them are rather small associations, with limited administrative infrastructure. Moreover, as shown in scattered research, leaders often regard executive positions in the association as platforms from which to promote his or her own business enterprises through access to government contracts (Hicks 2012). This implies that the association is hardly a vocal advocate for member interests and a critic of government policies,

⁶⁹ Interview information, 9 March 2015. Also, KADIN President Suryo Bambang Sulisto used the argumentation that AEC was there to prepare ASEAN businesses to global competition. See *Berita Satu*, 24 May 2013.

⁷⁰ *The Jakarta Post*, 21 January 2010.

⁷¹ Interview information, 1 March 2010 and 9 March 2015. A case in point is the economic road map that KADIN in cooperation with foreign chambers of commerce in Indonesia in 2005. *The Jakarta Post*, 1 December 2005.

⁷² Interview information, 2 September 2014.

⁷³ For a reference to weak research institutions, see Indonesia's former ambassador to the WTO, Gusmardi Bustami, in *The Jakarta Post*, 24 September 2004.

⁷⁴ Interview information, 16 March 2015.

⁷⁵ The institute is virtually invisible. Even on the internet there are few references to the institute, suggesting that it is not a significant player among Indonesian economic think tanks.

thus further perpetuating the remnants of state-corporatist modes of interest representation. Internal conflict and frequent leadership changes are endemic in these associations.

Corporate players, on the other hand, do not have a problem of access to data and scientific information. Usually they have their in-house research units and the best corporate lawyers which provide the company's leadership with enough data and information about the consequences to be expected of market opening. Bank Mandiri, the largest Indonesian bank, for instance, aggressively built up such a research unit, attracting highly competent economists with competitive salaries.⁷⁶

Finally, it should also be noted that in their constant struggle for survival, many MSMEs do not have a long-term business vision. When, during the ASEAN Charter debate, CSOs highlighted the expected negative repercussions for MSMEs, the beginning of the AEC was still eight years in the future, and many entrepreneurs saw no reason to be overly worried with the consequences of the AEC.⁷⁷ This holds particularly true for the overwhelming majority of businesses in the provinces. Few of them export and, even those that do mainly do so to only one or two countries. For them the AEC appeared for a long time to be irrelevant to their operations and only later did they realize – for instance at the implementation stage of the ACFTA – that they suddenly had to cope with much cheaper products from abroad, jeopardizing their production and threatening to transform them from producers to mere traders.⁷⁸

Conclusion

In conclusion, ASEAN's regional corporatism stands for a rather asymmetric system of interest representation. Business interests do have much better access to government decision-makers than, for instance, CSOs. Labor is not represented at all,⁷⁹ and must seek to gain access to ASEAN decision-making bodies by joining CSO networks. But asymmetries also characterize the representation of business interests. Here, large corporate and foreign interests are best represented, while MSME positioning during free trade schemes – at least until they have become irreversible – has been manipulated through state-corporatist institutions (Yoshimatsu 2007b: 237). In principle, such limitations should have been overcome in Indonesian state-society relations through democratization after the demise of President Suharto's autocratic New Order regime, a pluralization of interest groups and a liberalization of the public discourse. But in the field of economics the legacies of state-corporatism (MacIntyre 1994) are still alive. It is to these legacies that the fact that the majority of Indonesian business enterprises have only precarious access to regional decision-making as well as to national decisions concerning regional economic policies must be attributed. The state-corporatist organization of interest representation also maintains a modernization theory-driven development agenda, in which social equity is relegated to a trickle-down function and the respective policy adjustments come after a considerable time lapse. Without a more level playing field among private sector interests, major economic policy innovations will continue to suffer a lack of legitimacy and, as the drawbacks become visible only immediately prior to or during the implementation stage, a lot of resistance

⁷⁶ Interview information, 13 March 2015 and *The Jakarta Post*, 7 April 2014. On the competitiveness of the larger Indonesian banks, see *The Jakarta Post*, 15 July 2014.

⁷⁷ *BSD News*, KADIN Indonesia – ASEAN Business Briefing, 16 October 2013, available at: <http://www.bsd-kadin.org/news/news-detail/id/54>, (accessed 3 March 2015) and interview information, 16 March 2015.

⁷⁸ See *detik.finance.com*, 12 October 2009 and interview information, 9 March 2015.

⁷⁹ The ASEAN Trade Union Congress is an alliance of Southeast Asian trade unions, but is not accredited by ASEAN.

in the process of implementation. The consequence is that the government in the end seeks to appease critics with measures that dilute market opening. This, in effect, will be regarded by other ASEAN members as non-compliance with agreements and will reproduce existing distrust among ASEAN member states. Distrust, of course, is a hindrance to deepening regional integration and the establishment of a rules-based regional organization, which the ASEAN Community purports to pursue.

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