A Dirty Word? Neo-liberalism in Indonesia's foreign economic policies

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Abstract

Neo-liberal economic ideology is once again under the spotlight in Indonesia. Although in principle neo-liberal ideology has never featured much in the history of Indonesian foreign economic policy (FEP), the same cannot be said about current Indonesian FEP. Indeed, although Indonesia has in general adopted a rather pragmatic FEP, the ideology of neo-liberalism has indeed crept in. Both external factors (e.g. the changing global and regional economic environment) and internal factors (e.g. the emergence of new intellectual groups and individuals keen to promote economic reforms) are central to the promotion of neo-liberal economic ideology in the country. While it remains to be seen whether the market reform agenda is good or bad for the country, one thing is certain: there appears to be a significant gap between the more socialist approach on which the Indonesian economy is supposedly based and the neo-liberal principles embedded in the economic policies that nearly all post-reform governments have pursued. As a result, the paper argues for the need for Indonesia to revisit its constitution so as to allow more flexibility in the present and future foreign economic policy-making process. Without such an effort, it is likely that the contradiction between what Indonesia stands for and what its governments actually do in the area of economic policy will remain.

About the Author

Alexander C. Chandra is the regional coordinator for TKN Southeast Asia.

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Abbreviations and Acronyms

ACFTA	ASEAN–China Free Trade Agreement
ASEAN	Association of Southeast Asian Nations
EPA	economic partnership agreement
FDI	foreign direct investment
FEP	foreign economic policy
FTA	free trade agreement
IMF	International Monetary Fund
MA-OTRI	market access overall trade restrictiveness index
MA-TTRI	market access tariff trade restrictiveness index
MFN	most-favoured nation
OECD	Organization for Economic Cooperation and Development
OTRI	overall trade restrictiveness index
TTRI	tariff trade restrictiveness index
USD	U.S. dollar
WTO	World Trade Organization

Executive Summary

In principle, neo-liberal ideology has never featured much in Indonesia's foreign economic policy. As an ideology, neo-liberalism—a market-driven approach to social and economic policies that is based on neo-classical or orthodox economic theory—focuses on the importance of the open market system and trade liberalization to achieve prosperity, which runs counter to the basic principle of the Indonesian economic ideology as contained in the country's constitution. Moreover, the large geographical size and population of the country also encourage Indonesia's desire for economic self-sufficiency. Therefore, neo-liberal ideology, which emphasizes the notion of individualism and market exchange, does not correspond well with the basic economic beliefs and physical condition of Indonesia.

Despite this, the character of Indonesian FEP has undergone significant changes since the country achieved its independence in 1945. Indeed, successive Indonesian administrations have pursued various economic policies, ranging from protectionism to liberal, open economic strategies. Throughout much of the post-reform era (1998–the present), however, economic liberalization has been prevalent in Indonesia. Apart from the result of the International Monetary Fund structural adjustment program after the 1997/98 economic crisis, Indonesia today is also a keen participant in multilateral, regional, and bilateral economic and trade arrangements.

Is neo-liberalism really embedded in Indonesia's current FEP? If so, how and why did this ideology emerge from the previously nationalistic, inward-looking and (at one point in the country's history) leftist-oriented economic system? Are any opposing forces capable of promoting alternative views about the country's FEP, and how do they fare in comparison to those in the neo-liberal camp? What is the public's reaction towards such changes in the country's FEP? Is neo-liberalism really good for the country? These are some important questions that that this paper attempts to address.

Overall, the paper argues that, although Indonesia has in general adopted a rather pragmatic FEP, the ideology of neo-liberalism has indeed crept into the country's FEP. It discusses why two key factors make neo-liberal ideology attractive among Indonesian FEP policy-making circles. The first is the changing global and regional economic environment that requires Indonesia to shift its foreign economic strategy from an inward-looking economic system to a more outward-oriented economic approach. Critical to this is the failure of the protectionist system to expand the opportunities available to the country's economic actors and enhance the overall economic welfare of the people. The second factor is the emergence of new intellectual groups and individuals who have promoted alternative views to the prevailing protectionist policies that made for corruption, collusion and nepotism during the New Order era.

While it remains to be seen whether the market-reform agenda is good or bad for the country as a whole, one thing is certain: there appears to be a significant gap between the more socialist approach on which the Indonesian economy is supposedly based and much of the neo-liberal principles embedded in the economic policies that nearly all post-reform governments have pursued. For this reason, the paper argues for the need for Indonesia to revisit its constitution so as to allow more flexibility in the present and future foreign economic policy-making process. Without such an effort, it is likely that the contradiction between what Indonesia stands for and what its governments actually do in the area of economic policy will remain.

1. Introduction

In principle, neo-liberal ideology has never featured much in Indonesia's foreign economic policy (FEP). As an ideology, neo-liberalism, which is a market-driven approach to social and economic policies that is based on neo-classical or orthodox economic theory, emphasizes the importance of an open market system and trade liberalization to achieve prosperity, democracy and peace for all humanity and runs counter to the basic premise of the Indonesian economic ideology as contained in the country's constitution. Article 33.1 of the constitution emphasises that the Indonesian economy should be based on the family (kekeluargaan) or mutual assistance principle. Furthermore, Article 33.2 also stipulates that "production branches which are important for the state and which affect the livelihood of the public shall be controlled by the state," while Article 33.3 states that "land and water and the natural resources contained therein shall be controlled by the state and shall be used for the greatest prosperity of the people."[2] Moreover, the large geographical size and population of the country further encourages Indonesia's tendency to seek economic self-sufficiency. Therefore, neo-liberal ideology, which emphasizes the notion of individualism and market exchange (Hewitt, Johnson, & Wield, 1997), does not correspond well with the basic economic beliefs and physical conditions of Indonesia.

Despite this, the character of Indonesian FEP has undergone significant changes since the country achieved its independence in 1945. Indeed, successive Indonesian administrations have pursued various economic policies, ranging from protectionism to liberal, open economic strategies (Chandra & Hanim, 2010). While the Sukarno or Old Order administration (1945–1966) embedded nationalistic ideology with a leftist orientation in the country's overall FEP, the Suharto or New Order administration (1967–1998) adopted a laissez-faire approach to promote economic growth and attract foreign investment. Among some of the major economic reforms that were relevant to the FEP of the New Order regime was the country's joining of the Asia-Pacific Economic Cooperation, the Association of Southeast Asian Nations (ASEAN) Free Trade Area, and the World Trade Organization (WTO) in 1989, 1992 and 1994, respectively. Indonesia became even more integrated into the global economy during the post-reform (reformasi) era (1998–present). Partly as a result of the prescription from international financial institutions such as the World Bank and the International Monetary Fund (IMF) in response to the 1997/98 economic crisis, and partly because of the demand for and/or competition facing the country's exports in the world market, Indonesian policy-makers and intellectual elites saw economic liberalization as an opportunity to improve the country's economic performance. Throughout the post-reform era, Indonesia has not only agreed to the acceleration of ASEAN's economic integration initiative under the auspices of the ASEAN Economic Community, but has also concluded several bilateral free trade agreements and/or economic partnership agreements.

The question therefore arises: is neo-liberalism really embedded in current Indonesian FEP? If so, how and why did such an ideology emerge from the previously nationalistic, inward-looking and (at one point in Indonesia's history) leftist-oriented economic system? Are any opposing forces capable of promoting alternative views about the country's FEP, and how do they fare in comparison to those in the neo-liberal camp? What about the public's reaction to such changes in the country's FEP? Is neo-liberalism really good for the country? These are some important questions that need to be addressed in relation to the presumed emergence of neo-liberal ideology in Indonesian FEP.

2 Quoted from the official website of the People's Consultative Assembly (Majelis Permusyawaratan Rakyat), www.mpr.go.id/pdf/UUDVersiInngris.pdf (accessed 18 May 2011).

In light of these questions, it will be argued that, although Indonesia has in general adopted a rather pragmatic FEP, the ideology of neo-liberalism has indeed crept in. At least two key factors have encouraged neo-liberal ideology to gain support among FEP policy-makers and interest groups in the country. The first is the changing global and regional economic environment, which requires Indonesia to shift its foreign economic strategy from an inward-looking to a more outward-oriented economic approach. Critical to this is the failure of the protectionist system to expand the opportunities available to the country's economic actors and enhance the overall economic welfare of the Indonesian people. The second factor is the emergence of new intellectual groups and individuals who have promoted alternative views to the prevailing protectionist policies that provided space for corruption, collusion and nepotism (korupsi, kolusi dan nepotisme) during the New Order era. While strongly contested by some sections of society, there appears to be an increasing inclination among policy-makers and key economic interest groups to favour economic openness as a way to accelerate domestic economic reform.

2. Historical Evolution of Indonesian FEP[3]

Indonesian FEP has undergone significant transformations since the country gained its independence in 1945, with different administrations pursuing different FEPs in response to the economic needs of the country at a particular time. In the early years after independence, nationalism mattered greatly to Indonesia, and it was for this reason that the country's leaders incorporated a nationalistic agenda in the overall political, economic and social policies of the country. Apart from the Indonesianisation policy, which transferred foreign economic interests into the hands of Indonesians (Linblad, 2002), complementary policies, including the Benteng Programme and the Economic Urgency Programme, were also launched to promote Indonesian businesspeople and to develop industrial projects that involved extensive economic intervention in an attempt to establish indigenous industries (Mackie, 1971; Djojohadikusumo, 1954). From 1957 onwards, President Sukarno also introduced so-called Guided Democracy, which was practically socialisme à la Indonesia in its emphasis on the family principle, or gotong royong (mutual assistance), and a collectivist approach to the organization of the economy (Mackie, 1971). The introduction of Guided Democracy also paved the way for the Guided Economy that not only gave substantial power to Sukarno as the administrator of the national economy, but also enhanced the state's intervention in the national economy (Chandra, 2008).[4]

3 Since the present author has written extensively elsewhere on the historical aspects of Indonesian foreign economic and/or trade policies, this section only highlights key events affecting the formulation of FEP. For further details on the subject, see Chandra (2008, particularly chap. 4) and Chandra and Hanim (2010).

4 Although there was no authoritative definition of the Guided Economy, its components can be seen in the Eight Year (Development) Plan of 1960 and the Economic Declaration of 1963, which highlighted the strengthening of the role of the state in the national economy, the expropriation of foreign capital, and an attempt to create a more self-sufficient and more industrialized economy by replacing the colonial import/export economy with indigeous business (Robison, 1986).

Table 1: Value of exports and imports in current prices, 1950–1970 (USD million)

	1950	1970
Exports		
Developed market economy countries	37,200	223,900
Socialist countries	4,930	33,390
Developing countries and territories	18,930	55,000
Indonesia	800	800
Imports		
Developed market economy countries	41,600	236,100
Socialist countries	5,000	34,660
Developing countries and territories	17,500	56,200
Indonesia	440	883

Source: UNCTAD (1972)

The FEP under the Old Order (Sukarno) regime, however, caused much economic difficulty for the country's population. By the end of the regime, Indonesia was experiencing an average income that was abysmally low, while the country's roads, shipping and infrastructure were run down. In addition, the manufacturing sector only worked at less than 20 per cent of its capacity, while foreign trade was throttled by complex regulations and multiple exchange rates (Coleman, Cornish, & Drake, 2007). On the whole, Indonesian FEP at the time was nationalistic, inward looking and protectionist in nature, with a strong leftist orientation. To a large extent, this reflected the views of Indonesian policy elites at the time that international trade and investments were the means by which industrialized nations subjugated developing countries (Weinstein, 2007).[5] Indonesia's exit from colonialism and the leftward drift within its political spectrum provided a fundamental basis for such nationalist sentiments to emerge among the country's policy-makers, which explain the implementation of inward-looking economic policies at the time.

The subsequent Suharto or New Order administration was similarly authoritarian, but its economic reform agenda managed to lift Indonesia out of the economic ruin left by its predecessor. The shift from the economic nationalism[6] ideology that prevailed during the Guided Democracy period to the laissez-faire approach adopted by the New Order regime was particularly important to Indonesia's overall FEP direction. As soon as it took power, the New Order government issued Foreign Investment Law No. 1/1967, which attempted to make the investment climate in the country more attractive to foreign investors by providing substantial incentives, such as tax holidays and certain guarantees. The new government also launched a new export bonus scheme to encourage exports by Indonesian entrepreneurs. In the period between 1981 and 1985 no fewer than 20 additional economic reforms were introduced to increase economic competitiveness and encourage investments and non-oil exports. These reforms included lowering the country's tariff ceiling to 60 per cent; reducing the number of tariff levels from 25 to 11; and converting several import licences, which at their peak covered about 43 per cent of tariff lines, into tariff equivalents (DFAT, 2001). Throughout this period, Indonesia also saw a significant reduction of the role of the state and the increased importance and size of the private sector

5 As Weinstein (2007, p. 154) further argues, "a general long-term trend of rising prices for the industrial goods they bought and the falling prices for the raw materials they sold gave many Indonesian leaders the feeling that they were being exploited." A trade data analysis provided by UNCTAD (1972), for example, illustrates this point (refer to Table 1).

6 In the context of Indonesia during the New Order period, economic nationalism stemmed from the desire to transform the economy from one focusing on low-value-added industrial production to a technologically advanced industrial economy. In order to achieve this, the Indonesian government normally pursued strong intervention and trade protection policies in the country's domestic and international economic activities (Chandra, 2008).

(Chandra & Hanim, 2010).[7] In the subsequent period (1986–1991) the New Order government further reduced the average simple tariffs from 20–27 per cent to about 7 per cent. Up until the late 1990s economic crisis the simple average tariff for agriculture and industrial goods stagnated at 13 per cent.

Following the economic reforms of the mid-1980s, the Indonesian government was also keen to pursue a more active FEP. At the time, the government's primary interest was the enhancement of greater economic cooperation in the Southeast Asian region, if not at the Asia-Pacific level. For some observers of Indonesian FEP, such as Hill (2000) and Chandra (2008), this indicated a major shift of interest among Indonesian FEP-makers from the traditional concentration on the Northern hemisphere to the Asian region, particularly Japan and the newly industrialized economies. To a large extent, three factors can explain this shift: the increasing economic complementarities among the low-wage but resource-rich Indonesia, the resource-poor, high-wage Japan and the newly industrialized economies; the political-institutional changes that gradually weakened old ties to traditional trading partners, particularly Europe; and the strengthening of regionalism in Western Europe and North America (Hill, 2000), which created trade diversion fears in the East Asian region, including Indonesia. It was for this reason that at the end of the 1980s and in the early 1990s Indonesia pursued active international economic engagement within the frameworks of the Asia-Pacific Economic Cooperation (1989) and the ASEAN Free Trade Area (1992), and later joined the WTO in 1994.

The fall of the New Order regime following the economic crisis of 1997/98 brought about changes to Indonesian FEP. At the beginning of the post-reform era, Indonesian FEP was characterized by an increasing dependence on various international financial institutions and other foreign donors. At the time, the primary objective of the various post-reform governments, particularly those during the B. J. Habibie (1998–1999), Abdurrahman Wahid (1999–2001) and Megawati Sukarnoputri (2001–2004) administrations, was the smooth disbursement of foreign loans to get Indonesia's economy back on its feet. Apart from this, the regime change that took place in the country also brought about the advent of democracy, which significantly affected the way in which the government currently pursues its FEP (Chandra & Hanim, 2010). While regarded by most Indonesians as a positive development in the country's history, democracy also brought Indonesian FEP under greater public scrutiny. Although this represents a sign of a healthily functioning democratic society, it also makes it more challenging for the government to pursue a consistent and effective FEP. For example, the enhancement of economic liberalization initiatives pursued by the post-reform governments has always been challenged by influential pressures groups (e.g. from the private sector and civil society organizations) that called for economic protectionism. Such resistance to market reform from protectionists, who hold key positions in both the government and the business sector, was reflected in rising protectionism from 2001 to 2004 in the agricultural sector (Basri & Patunru, 2009).

7 Despite the reduction of the role of the state in the country's economic activities, such an economic reform only transformed state-owned monopolies into private corporations controlled largely by Suharto's family and cronies. By 1998 the World Bank estimated that as much as 30 per cent of the country's development budget over the previous two decades had disappeared, while the Suharto family's holdings were estimated at anywhere from USD 12 billion to USD 40 billion (Zabriskie, 2008).

3. How "Liberal" Is the Indonesian Economy?

An assessment of Indonesia's trade and investment outlook, regimes and patterns is useful to illustrate the extent to which the country's economy has been liberalized. To a large extent, Indonesian trade and investment regimes have undergone significant liberalization since the 1980s, and this was further deepened in the wake of the 1997/98 economic crisis. Indeed, as mentioned earlier, the structural adjustment program introduced by the IMF not only included the reduction of import tariffs on many products previously considered sensitive, such as iron and steel, and chemical and fisheries products, which at the time were reduced to 5–10 per cent,[8] it also allowed other key agricultural commodities, such as wheat flour, soybean and garlic, to be imported freely under a general importer's licence (Soesastro & Basri, 1998). Elsewhere, Soesastro and Basri (2005) also note that Indonesia, ever since embarking on economic reform under the IMF's structural adjustment program, has become a relatively open economy and deserves much credit for its attempts to pursue unilateral liberalization. While the simple average tariff was about 27 per cent in 1985, this rate was further reduced to 9.5 per cent in 1998 and 7.2 per cent in 2002, and at present is around 6.9 per cent.

Table 2: Indonesia's trade indicators, 1995–2009

Time period/Trade indicators	Indonesia (value/rank)				East Asia-Pacific (value/ rank)	ASEAN (value/ rank)
	1995–99	2000–04	2005–08	2006–09	2006–09	2006–09
MFN* applied tariff (AV + AVE***)**						
MFN applied tariff (AV + AVE) – simple average – all goods (%)	12.96/ 64	7.21/49	6.95/71	6.82/73	9.99/98	8.07/82
Tariff escalation						
MFN applied tariff escalation (diff., finished–raw) – all good (%)	n/a	6.08/72	3.49/ 131	3.17/ 132	1.50/94	2.90/116
Tariff peaks						
Share of tariff lines with international peaks – all goods (%)	35.47/ 87	6.67/31	8.60/40	3.39/27	16.88/78	16.59/76
Tariff bounds / overhang						
Share of tariff lines bound – all goods (%)	96.65/ 55	96.65/ 90	96.63/ 99	96.60/ 101	72.77/67	70.37/95
Non-tariff measures						
Non-tariff measure frequency ratio – all goods	12.54/ 23	n/a	n/a	n/a	n/a	n/a
Real growth in trade						
Real growth in total trade	-0.16/ 149	9.78/43	11.16/ 35	-1.00/ 54	-5.03/102	-5.07/102
Real growth in total exports	0.49/ 142	9.07/52	11.01/ 29	-3.00/ 74	-6.73/115	-7.66/122
Real growth in total imports	-0.69/ 147	10.28/ 37	11.34/ 50	1.50/40	-3.05/86	-6.73/81
Trade integration (% GDP)						
Total integration (% of GDP)	67.37/ 99	64.38/ 122	59.58/ 136	53.78/ 140	101.1/76	135.1/68

* Most-favoured nation.

** Ad valorem.

*** Ad valorem equivalents.

Source: World Bank (2010)

8 In the 1980s up to 200 per cent import tariffs were set on some of these sensitive products, such as steel.

In general, international trade is becoming a key component of Indonesia's economic activities, and this is reflected in the country's trade-to-GDP ratio, which currently stands at an average of 60 per cent (refer to Table 2). Although relatively high, this ratio remains lower than the pre-1997/98 economic crisis level, which at one point peaked at 100 per cent (Sally, 2008). Despite this, Indonesia's exports and imports have shown an upward trend ever since the economic turbulence of the late 1990s (refer to Table 3). In the period between 1999 and 2010, for example, Indonesia's exports rose by 324.4 per cent from USD 48.6 billion to USD 157.7 billion, whereas its imports increased by about 565 per cent from USD 24.0 billion to USD 135.6 billion. During the same period, the country's total trade expanded by around 404.1 per cent from USD 72.6 billion to USD 293.4 billion. Although the 2008/09 global financial crisis slowed Indonesia's trade growth, the country managed to surpass the pre-global financial crisis level in 2010.

Table 3: Indonesia's total exports and imports, 1999–2010 (USD billion)

Year	Exports	Imports	Total trade	Trade surplus/deficit
1999	48.6	24.0	72.6	24.6
2000	62.1	33.5	95.6	28.6
2001	56.3	30.9	87.2	25.3
2002	57.1	31.2	88.4	25.8
2003	61.0	32.5	93.6	28.5
2004	71.5	46.5	118.1	25.0
2005	85.6	57.7	143.3	27.9
2006	100.7	61.0	161.8	39.7
2007	114.1	74.4	188.5	39.6
2008	137.0	129.1	266.2	7.8
2009	116.5	96.8	213.3	19.6
2010	157.7	135.6	293.4	22.1

Source: BPS (n.d.)

Another way of estimating Indonesia's level of trade liberalization is through an assessment of the country's trade restrictiveness indices, which are indicators that aggregate trade restrictions that apply in a number of individual markets (Anderson & Neary, 2004). Although some information prior to 1999 or sometimes 2005 is incomplete, data in Table 3, which is gathered from the World Bank's World Trade Indicators 2009/10, summarises Indonesia's international trading position in relation to other countries in the world (refer to Table 4). Generally, the lower the value of the index, the less restricted the economy of the country. To start with, Indonesia's MFN tariff trade restrictiveness index (TTRI), which is an indicator that "calculates the equivalent uniform tariff of a country's tariff schedule that would keep domestic import levels constant" (World Bank, 2009/10, p. 5), has seen some improvements since the turn of the new millennium. While in the 2000–2004 period Indonesia's TTRI score was 5.23 per cent, this was improved in the subsequent 2006–2009 period to 4.63 per cent, which is similar to the TTRI of the East Asia-Pacific and ASEAN regions, with 4.89 per cent and 4.60 per cent, respectively. If, as illustrated in the overall trade restrictiveness index (OTRI), non-tariff measures are included in the indicator, the score for Indonesia's trade restrictiveness for the 2006–2009 was higher than that shown by its TTRI score, but it remained lower than the OTRI level of the East Asia-Pacific and ASEAN regions, with an OTRI of 12.91 per cent and 15.19 per cent, respectively. Overall, in terms of the country's trade policy, Indonesia ranked 56th out of 125 countries measured in terms of the world's least-restrictive economies.

Furthermore, other indices under the umbrella of market access trade restrictiveness indices measure the ability of a country to access the markets of its trading partners, and these include the market access trade tariff restrictiveness index (MA-TTRI) and the market access overall trade restrictiveness index

(MA-OTRI). While the MA-TTRI measures "the equivalent uniform tariff of trading partners facing the exporter country, that would maintain the imports of the trading partners constant, including preferential tariffs" (World Bank Institute, 2010, p. 16), the MA-OTRI assesses "the uniform tariff that, if imposed by all of the country's trading partners, would keep that country's exports constant" (Krishna, 2009, p. 18). Like the trade restrictiveness indices above, the lower the value of the market access trade restrictiveness indices indicates that the economy concerned has high levels of market access to the rest of the world (and corresponds to a high rank). In regard to the MA-TTRI, Indonesia's value was 4.62 per cent in the period 2005–2008, but this was further reduced to 4.23 per cent in the subsequent 2006–2009 period. The latest value of Indonesia's MA-TTRI, however, was higher in comparison with the overall MA-TTRI values of the East Asia-Pacific and ASEAN regions, with 3.76 per cent and 3.87 per cent, respectively. The figure is even higher when compared to the MA-TTRI value of lower-middle-income countries, all of which scored 2.35 per cent in the 2006–2009 period. On the other hand, the score of Indonesia's MA-OTRI, which also includes the calculation of the country's preferences and non-tariff measures, was 12.71 per cent, which was lower than the MA-OTRI values of the East Asia-Pacific (14.8 per cent) and ASEAN (14.29 per cent) regions. Although the score of Indonesia's MA-OTRI is lower than the average of the East Asia-Pacific and ASEAN regions, it is the highest among the newly emerging economies of Brazil, the Russian Federation, India, Indonesia, China and South Africa.[9]

Table 4: Indonesia's trade restrictiveness indices

Time period/Trade indicators	Indonesia (value/rank)				East Asia-Pacific (value/rank)	ASEAN (value/rank)
	1995–99	2000–04	2005–08	2006–09	2006–09	2006–09
Trade restrictiveness indices						
TTRI (MFN applied tariff) – all goods	n/a	5.23/33	4.24/49	4.63/56	4.89/48	4.60/41
OTRI (MFN applied tariff + NTMs*) – all goods	n/a	7.99/19	6.61/9	7.63/19	13.09/44	14.50/53
TTRI (applied tariff, incl. prefs.) – all goods	n/a	n/a	4.44/56	4.47/62	4.70/58	4.33/54
MA-TTRIs						
MA-TTRI (applied tariff, incl. preferences) – all goods	n/a	n/a/	4.62/72	4.23/80	3.76/64	3.87/66
MA-OTRI (applied tariff incl. preferences + NTMs) – all goods	n/a	n/a	14.38/ 86	12.71/ 85	14.80/77	14.29/69

* Non-tariff measures.

Source: World Bank (2010)

Furthermore, regulations applied to foreign direct investment (FDI) have been drastically changed since the economic crisis of the late 1990s. Along with the country's overall trade policy, the IMF loan package also pushed the government to remove strict foreign ownership procedures that were prevalent prior to the crisis. In 1997, for instance, the removal of all forms of restrictions attached to foreign ownership in companies listed on the Jakarta Stock Exchange began to take place (Chandra, Manurung, Pambudi, & Pakpahan, 2009). This was also followed by the government initiative to allow foreign investment in the retail and wholesale sectors in 1998. The relaxation of foreign investment restrictions was soon followed in other sectors, such as the financial and telecommunication industries. Moreover, Indonesia also launched the new Foreign Investment Law (Undang-Undang Penanaman Modal) in 2007 to replace the out-dated 1967 investment law. Some of the key improvements in the new law include: (1) equal treatment of national and foreign investors; (2) the absence of nationalization or expropriation;

9 The country with highest level of market access in ASEAN is Singapore, with an MA-OTRI score of 6.88 per cent in the 2006–2009 period.

and (3) the opening of investment to all sectors, except those declared closed or declared open with specific requirements (e.g. defence-related industries) (Jhamtani, 2007). The Foreign Investment Law also extends the period of time foreign investors can lease land to an initial 65 years, with the possibility of extending this for another 35 years (Nusantara Networks, 2007).

In order to lure more FDI to the country, the government has also pursued a number of initiatives to improve the competitive environment of the economy. One such initiative is Law No. 5/1999, which prohibits monopolistic and unfair business practices. Among other things, the law mandates the formation of an independent body to monitor business competition in the country, and this was later translated into the establishment of the Commission for the Supervision of Business Competition (Komisi Pengawas Persaingan Usaha). Apart from supervising and enforcing the Competition Law, the commission was also tasked to create a sound competition policy for the country. Throughout the 2000s the commission has become increasingly active. Apart from handling cases referred to it, it also conducts competition impact assessments of government policies and regulations. As of 2011 the commission has issued 184 decisions and 91 policy recommendations to the government (Junaidi, 2011).[10]

Table 5: Net inflow of FDI into Indonesia and other ASEAN countries, 1995–2003 and 2007–2009 (USD million)

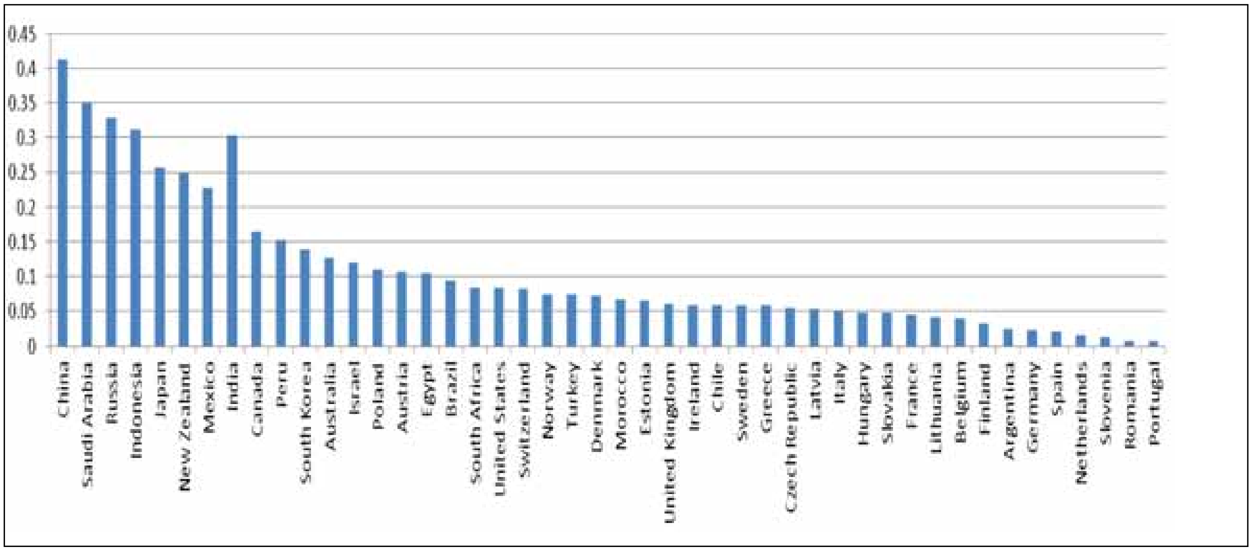
Country	1995–2003*	2007	2008	2009
Brunei Darussalam	1,380	260.2	239.2	176.8
Cambodia	n/a	867.3	815.2	530.2
Indonesia	1,857	6,928.3	9,318.1	4,876.8
Laos	261	323.5	22.7.8	318.6
Malaysia	7,009	8,538.4	7,318.4	1,381.0
Myanmar	1,039	714.8	975.6	578.6
Philippines	1,239	2,916.0	1,544.0	1,948.0
Singapore	6,575	35,777.5	10,912.2	16,256.2
Thailand	5,840	11,330.2	8,570.5	5,956.9
Vietnam	2,696	6,739.0	9,579.0	7,600.0
Total	27,894	74,395.3	49,499.8	39,623.0

* Average FDI inflows into ASEAN.

Source: ASEAN Secretariat (2005; 2010)

10 For further details on the activities of the Commission for the Supervision of Business Competition, see its official website, http://eng.kppu.go.id/enforcement/decision/.

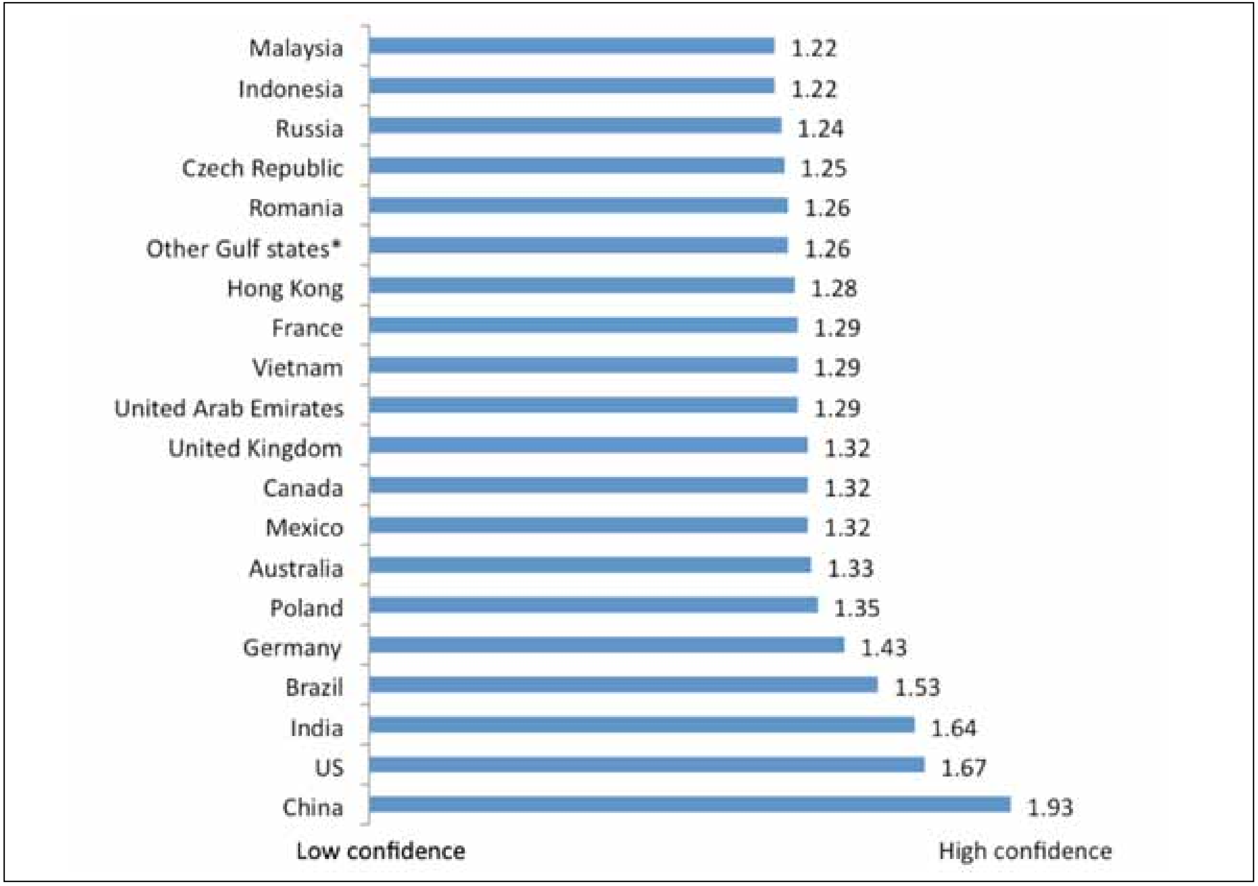
Figure 1: FDI restrictiveness index, selected countries, 2010



Source: Kalinova, Palerm, & Thomsen (2010, p. 18)

Since the emergence of the economic crisis in the late 1990s, the level of FDI in the country has been showing an upward trend. Data on the comparison of the level of FDI inflows between Indonesia and other ASEAN countries is provided in Table 5. The data shows that, while in the 1993–2003 period Indonesia managed to secured an average of USD 1,857 million worth of foreign investment, the figures were much improved in 2007 and 2008, with total net inflows of USD 6,928.3 million and USD 9,318.1 million, respectively. In 2009 the total net inflows dropped to USD 4,876.8 million, primarily because of the global financial crisis that generated much uncertainty at the time. However, despite efforts to liberalize FDI policies, the total of net inflows to Indonesia prior to the height of the global financial crisis in 2009 was relatively small in comparison to other ASEAN countries, such as Singapore (USD 10,912.2 million), Vietnam (USD 9,579.0 million), Thailand (USD 8,570.5 million) and Malaysia (USD 7,318.4 million).

Figure 2: FDI confidence index, selected countries, 2010



* Includes Bahrain, Kuwait, Oman and Qatar.

Source: A. T. Kearney (2010, p. 10)

As in the case with our earlier assessment of the country's international trade, a number of indices are also available to estimate the level of investment liberalization in Indonesia. Although many of these indices suggest that there is room for improvement in Indonesia's investment climate, there are also external factors that help encourage the country to pursue further liberalization in the area of foreign investment. One index is the FDI restrictiveness index of the Organization for Economic Cooperation and Development (OECD), which measures not only the commitment of OECD members to the grouping's investment instruments, but also the level of FDI openness in the OECD's Declaration on International Investment and Multinational Enterprises-adhering countries, Enhanced Engagement countries, and the members of the G-20. Among the 46 countries surveyed in 2010, Indonesia was placed in fifth position as the most restrictive country in terms of FDI behind China, Saudi Arabia, the Russian Federation and India. Meanwhile, developed by a US-based consultancy firm in 2003, A. T. Kearney, the FDI confidence index, which involves a series of surveys of companies with annual global revenue of more than USD 2 trillion, provides an assessment of the present and future prospects of international investment flows. While placed in 21st position in the 2007 FDI confidence index, Indonesia managed to become the 19th-most-attractive investment destination in 2010. Although often hampered by the country's weak legal system and poor infrastructure, Indonesia remained a popular destination for investors in heavy and light industry (A. T. Kearney, 2010).

4. Neo-Liberalism as the Predominant Ideology in Current Indonesian FEP?

Although never admitted openly by the government, there is little doubt that neo-liberal ideology has indeed characterized current Indonesian FEP. Given the unpopularity of neo-liberalism in the country, however, various post-reform governments in Indonesia have strongly denied adopting this ideology. The first three administrations during the post-1997/98 economic crisis period had little choice other than to pursue a neo-liberal economic strategy. In fact, the level of success of these administrations was determined by their effectiveness in responding to the IMF's supposedly liberal structural adjustment packages. Despite this, all Indonesian post-reform leaders made strong public remarks against neo-liberalism, either directly or indirectly. To start with, although hardly ever recorded to have made a public statement about neo-liberal ideology during his tenure, former president Habibie, in his speech during the annual celebration of Pancasila Day on 1 June 2011, described the emerging global economic integration as a new form of neo-colonialism.[11] Furthermore, shortly before his death in late 2009, former president Abdurrahman Wahid stated that the Indonesian economy was increasingly in the hands of foreign "investors which are an extension of neo-liberal ideology" (NU Online, 2009). Moreover, despite being responsible for having signed one of the most controversial free trade agreements that Indonesia has ever pursued, the ASEAN–China Free Trade Agreement, former president Megawati stated recently that "in [our] economy, there appears a condition that runs counter ideologically with the aspiration of social justice for the people of Indonesia" (Rimanews, 2011).

A more controversial statement against the concept of neo-liberalism was perhaps made by the current Indonesia president, Susilo Bambang Yudhoyono. In a discussion with top business people during his re-election campaign in 2009, for example, the president strongly denied implementing a neo-liberal economic policy during his previous five-year tenure. Instead, he argued that many of his economic policies were issued to protect financially weak people while simultaneously ensuring economic growth (Jakarta Post, 2009). To many observers in the country, this ran counter to the commitment that the president had made during his inaugural speech five years earlier. At the time, President Yudhoyono stated some of his priorities in the economic area, which include the promotion of economic growth, the adoption of open economic policies to ensure the further integration of the Indonesian economy at the regional and international levels, encouraging more FDI to build infrastructure, and viewing the business community as a key economic actor with whom his administration would pursue constructive engagement.[12]

Despite the pursuit of neo-liberal economic strategies, therefore, most of Indonesia's post-reform governments did not wish to be associated with this ideology. To a large extent, various external and internal factors helped neo-liberal ideology to creep into Indonesia's FEP of during the post-reform era. While the external factors include the imposition of the IMF's economic reform package, the strengthening of regional economic integration initiatives and the emergence of bilateral free trade arrangements, the internal factors cover the roles of different influential state and non-state actors in promoting neo-liberalism in the country's FEP.

11 For further details on former president Habibie's speech during the 2011 commemoration of Pancasila, see Lintas Berita (2011).

12 As quoted in Brotodiningrat (2005).

4.1 External Forces Driving the Promotion of Economic Neo-Liberalism in Indonesia

Throughout the post-reform era, external forces played a significant role in promoting neo-liberalism as the predominant ideology in the overall Indonesian FEP. In fact, in most instances, the formation of Indonesian FEP has been rather pragmatic and reactive in nature, responding to the developments that emerge in the international economic arena. In the immediate post-reform era, international financial institutions, such as the IMF and the World Bank, played major roles in promoting economic liberalization in Indonesia. Although the country had already undertaken significant unilateral trade liberalization as a result of its participation in the WTO prior to 1994, the 1997/98 economic crisis helped deepen its effort to liberalize its economy. In its 1997 letter of intent to the IMF, the Indonesian government promised to phase out tariffs and liberalize its investment regime, and the country's letter of intent to the IMF in 2000 reaffirmed the Indonesian government's commitment to maintaining a liberal trade regime, avoiding introducing any new trade barriers and removing any remaining distortions in its trade structure.

Indonesia's commitment to pursue IMF's structural adjustment measures was subsequently reflected in its trade policy. By 2002, or shortly before the expiry of the IMF's economic crisis program in Indonesia in 2003, the average applied MFN tariff was reduced to 7.2 per cent, a 2.3 per cent cut from 9.5 per cent in 1998. By then, some 93 per cent of Indonesia's tariff lines were bound (which implies a high degree of predictability for the tariff), whereas more than 83 per cent of tariff rates were already in the range of zero to 10 per cent (WTO, 2003). Furthermore, although still considered a major stumbling block to the country's full implementation of economic liberalization, the removal of non-tariff barriers to trade became one of the main issues in Indonesia's overall economic reform processes. By the end of the last millennium, the number of tariff lines covered by import licensing requirement had fallen by half since the early 1990s (WTO, 1998).[13]

Another key factor that helped solidify neo-liberal ideology as the predominant economic paradigm in Indonesia was the move to strengthen regional economic integration, particularly within the framework of ASEAN and East Asian economic cooperation. Frustrated by the IMF's structural adjustment program, Indonesian policy-makers began seeking alternative ways of accelerating the country's economic recovery. Although largely incapable of addressing the crisis of the late 1990s, ASEAN remained a useful forum in which Indonesia and other members of the grouping could address the present and avert future crises. During the Sixth ASEAN Summit at the end of 1998, for example, ASEAN agreed to launch the so-called ASEAN Surveillance Process, which was an initiative to maintain regional macroeconomic and financial stability through the liberalization of the financial sector, as well as the bringing forward of the full implementation of the ASEAN Free Trade Area from 2003 to 2002. In addition, ASEAN also reiterated its earlier intention to implement the ASEAN Investment Area not only to attract greater FDI from both ASEAN and non-ASEAN sources, but also to create a liberal and transparent investment regime in the region (Heinrich & Konan, 2001). The reason for pursuing such liberal economic measures at the time was the realization that the region was in desperate need to re-establish the confidence of both the business community and international investors (Chandra, 2008).

The economic crisis in the late 1990s also helped deepen regional economic cooperation at the East Asian level. Although much of the earlier initiatives of the so-called ASEAN+3 (ASEAN plus China, Japan and South Korea) were directed at gaining more independence from international financial institutions, this did not mean that the neo-liberal economic regime was out of favour among East Asian states. In contrast, market-driven principles and economic openness formed the foundation for deeper economic

13 This is also taking into account the fulfillment of Indonesia's commitment to the WTO.

integration in East Asia. Within both the ASEAN+3 and the wider ASEAN+6[14] arrangements, there have been talks about the establishment of an East Asian free trade area and a comprehensive economic partnership for East Asia. In its report to the ASEAN+3 heads of states, the Joint Expert Group for a Feasibility Study on EAFTA (2006), for example, states that the benefits for the ASEAN+3 of forming an East Asian free trade area would be "the removal of barriers on trade and investment between … members [which would lead] to expansion of trade and investment" in the region. Similarly, if it were to materialize, a comprehensive economic partnership for East Asia would not only cover economic cooperation, but also the comprehensive liberalization of trade in goods, including the elimination of tariffs and other non-tariff barriers, as well as services, investment and the movement of natural persons (Track Two Study Group on Comprehensive Economic Partnership for East Asia, 2008).

Table 6: Free trade agreements in East Asia as of January 2011

Country	Proposed	Under negotiation		Concluded		Total
		Framework agreement signed/ under negotiation	Under negotiation	Signed	In effect	
Brunei Darussalam	4	1	1	0	8	14
Cambodia	2	0	1	0	6	9
Indonesia	6	1	2	1	7	17
Lao PDR	2	0	1	0	8	11
Malaysia	3	2	6	2	9	22
Myanmar	2	1	1	0	6	10
Philippines	4	0	1	0	7	12
Singapore	4	1	9	3	18	35
Thailand	6	4	3	0	11	24
Vietnam	4	1	2	0	7	14
China	8	2	3	1	11	25
Japan	7	0	3	1	11	22
South Korea	12	2	5	3	6	28
Total ASEAN	37	11	49	6	87	168
Total ASEAN+3	64	15	38	11	115	243

Source: ARIC (2011a)

The final key external factor that helped neo-liberal economic ideology to penetrate Indonesian FEP is the proliferation of bilateral free trade areas (FTAs) and/or economic partnership agreements (EPAs). Although considered a latecomer, Indonesia is increasingly becoming a keen participant in this form of trade agreement. Table 6 shows that while Indonesia has concluded a total of eight bilateral FTAs/EPAs (seven of which are already in effect) as of January 2011, currently nine other similar agreements are either being negotiated (three) or proposed (six) (details of these bilateral FTAs/EPAs are given in Table 7). Initially, bilateral FTAs/EPAs were not a major element of Indonesia's trade diplomacy and policy, with the promotion of bilateral trade normally conducted through means other than forming FTAs (Soesastro, 2004).[15] However, the adoption of bilateral FTA/EPA policies by Indonesia's neighbouring countries in the late 1990s and early 2000s prompted the country to pursue a similar strategy. At the time, Indonesian policy-makers were concerned that the country's failure to embrace

14 ASEAN+3 plus India, Australia and New Zealand.

15 Indeed, as Soesastro (2004) further postulates, it was only in 2003 that the then-Indonesian Ministry of Trade and Industry began forming an FTA team to undertake studies on a number of possible bilateral FTAs. It was only a year later, in 2004, following a series of dialogues with the country's key stakeholders, that Indonesia managed to produce an initial blueprint for its FTA/EPA policy (Chandra, 2005). By that time, a number of Indonesia's neighbouring countries, such as Singapore and Thailand, had either already concluded several bilateral FTAs/EPAs or the framework agreements that led to the full implementation of bilateral FTAs/EPAs.

the bilateral FTA/EPA phenomenon would result in the weakening of its exports in foreign markets. In addition, Indonesia's traditional trade strategy that favoured multilateralism over other international trade forums was also under pressure as a result of the failure of the WTO to conclude the current round of multilateral negotiations.[16]

Table 7: Indonesia and free trade agreements/areas

No.	Free trade agreement/area	Status
1.	ASEAN Free Trade Area	In effect
2.	ASEAN–Australia and New Zealand Free Trade Agreement	In effect
3.	ASEAN–EU Free Trade Agreement	Under negotiation
4.	ASEAN–India Comprehensive Economic Cooperation Agreement	In effect
5.	ASEAN–Japan Comprehensive Economic Partnership	In effect
6.	ASEAN–Korea Comprehensive Economic Cooperation Agreement	In effect
7.	ASEAN–China Comprehensive Economic Cooperation Agreement	In effect
8.	Comprehensive Economic Partnership for East Asia (ASEAN+6)	Proposed/under consultation and study
9.	East Asia Free Trade Area (ASEAN+3)	Proposed/under consultation and study
10.	India–Indonesia Comprehensive Economic Cooperation Arrangement	Proposed/under consultation and study
11.	Indonesia–Australia Free Trade Agreement	Under negotiation
12.	Indonesia–Chile Free Trade Agreement	Proposed/under consultation and study
13.	Indonesia–Europe Free Trade Association Free Trade Agreement	Proposed/under consultation and study
14.	Japan–Indonesia Economic Partnership Agreement	In effect
15.	Pakistan–Indonesia Free Trade Agreement	Framework agreement signed/FTA under negotiation
16.	United States–Indonesia Free Trade Agreement	Proposed/under consultation and study

Source: ARIC (2011b)

Notwithstanding their nationalistic economic rhetoric, many post-reform Indonesian leaders and their governments have been inclined to pursue bilateral FTAs, and this was particularly evident starting with the Megawati administration and further followed by the present government of President Yudhoyono. To a large extent, Indonesia's existing and future bilateral FTAs are relatively comprehensive in nature in that they encompass not only the liberalization of trade in goods, services and investment, but also cover areas such as competition policy, intellectual property rights, standards, procurement, labour mobility and economic cooperation. In other words, the commitments covered under these FTA arrangements exceed those achieved at the WTO level (WTO-plus). Although many of these bilateral FTAs are either still in their infancy or are still being negotiated, they are likely to challenge the existing structure of the Indonesian economy and thus provide much space for the neo-liberal economic system to deepen its presence in the economy of the country.

16 The present author, along with some of his associates, has written extensively on the rationales of Indonesia's pursuance of bilateral FTA strategy vis-à-vis the country's major trading partners elsewhere. For an overall overview of Indonesia's bilateral FTA strategy, see Chandra (2005), while for analyses on rationales for FTAs with specific trading partners, see Pambudi and Chandra (2004) (China), Chandra and Kinasih (2007) (US), and Chandra and Hanim (2010) (the EU).

4.2 Internal Influences on Economic Liberalization in Indonesia

Although a consensus on the subject has hardly ever been reached in Indonesia, a widespread conviction has existed among some of the country's post-reform leaders and intellectual elites that economic liberalization could accelerate domestic economic reforms. Apart from the achievement of economic growth, major trade reforms, capital deregulation and the creation of an environment conducive to foreign investment were also thought to be the key elements to achieve macroeconomic stability, structural balance, efficiency and welfare gains.[17] While in the 1980s and early 1990s trade and investment liberalization initiatives were mostly a response to what the Indonesian government perceived as the trend of globalization and international market integration (Soesastro, 2000), the 1997/98 economic crisis further strengthened this perception among key influential actors in the country. This subsection attempts to identify some of the key actors responsible for promoting economic liberalization in the country and highlight the ways in which these actors penetrate the country's economic policy-making circles.

To start with, leaders matter in providing a sense of direction in the overall conduct of Indonesia's FEP. Throughout the post-reform era, many Indonesian leaders have either been forced to or been keen to promote economic reforms through neo-liberal means, be it as a result of external pressures or their own desire to do so. Indeed, while the first three post-reform leaders (Habibie, Wahid and Megawati) adopted liberal economic strategies as a result of external pressures, President Yudhoyono has been more able to determine the direction of Indonesian economic policy with less external intervention in comparison to his three predecessors. As mentioned earlier, although reluctant to be labelled a neo-liberal advocate, Yudhoyono's willingness to adopt this controversial ideology can be illustrated in his policy statements at the start of his presidency in 2004, which were mentioned in the earlier subsection. Moreover, his decision to partner with Dr. Boediono, a key figure often associated with the neo-liberal camp as a result of his policy preferences for free trade and investment-friendly measures, during the 2009 presidential campaign further strengthened the public's perception of his preference for neo-liberal economic policy. This is not to mention a number of members of his cabinets throughout his presidency who have favoured economic reforms through liberalization and deregulation, some of whom will be further discussed below.

Apart from specific leaders, there are also other key influential state and non-state actors who help advance the neo-liberal economic paradigm in the country. While Suharto's New Order regime benefited from the inputs from the so-called "Berkeley Mafia,"[18] identifying similar key influential actors in post-reform Indonesia is relatively more difficult. Among other things, the advent of democratization following Suharto's fall in 1998 provided considerable space for new actors to gain access to the economic policy-making circles in the country. Important among these new actors were the intellectual elites that gathered around some of the most influential think-tanks in the country, such as the Institute for Economic and Social Research of the University of Indonesia, the Center for Strategic and International Studies[19] and

17 For further assessment of the links among domestic economic reforms and economic growth, stability, efficiency and welfare gains in developing and least-developed countries, see, for example, Hamour (1998) and FAO (2003).

18 "Berkeley Mafia" was the term given to an influential group of economists who were trained at the University of California, Berkeley and were close to Suharto's New Order government. They were responsible for drafting the blueprint for Indonesia's economic structure that led to almost three decades of economic growth. Members of the Berkeley Mafia were also former students from the Faculty of Economics at the University of Indonesia. The members of this influential group were Widjojo Nitisastro, Ali Wardhana, Subroto, Mohammad Sadli and Emil Salim.

19 The Jakarta-based Center for Strategic and International Studies was ranked 31st in the top 50 think-tanks worldwide outside the United States, as well as the fourth most influential think-tank in Asia in 2010. For the rankings of different think-tanks around the world, see McGann (2010).

the Smeru Research Institute, a relative newcomer.[20] Although this does not mean that these think-tanks are neo-liberal advocates, economists and individual experts from these research institutions have introduced lines of economic thinking that favour economic openness and greater liberalization as ways to deepen economic reforms in the country. As of July 2011 a number of intellectuals from these research institutes, such as Sri Mulyani Indrawati,[21] M. Chatib Basri[22] and Mari E. Pangestu,[23] to name only a few, have either taken a decision-making role within the government or are relatively close to the centre of policy-making.

Another key non-governmental actor that plays a crucial role in promoting economic openness is the private sector. Usually grouped under large associations, the voice of the private sector is now key in the government's economic decision-making process. As traditionally a key benefactor of the state's economic protectionist policies of the past, the Indonesian private sector is not necessarily keen to promote a neo-liberal economic agenda. In fact, during the early phase of the post-reform era a number of business sectors, such as the textiles, steel, sugar and clove industries, managed to convince the government to impose trade regulations and licensing that prevented imports in these sectors (Soesastro & Basri, 2005). However, a handful of large enterprises, representing some of the richest Indonesian tycoons, are keen to expand their businesses beyond Indonesia. The Sinar Mas Group, whose main business interests are in pulp, paper, agribusiness, property and financial services, for instance, now considers China as a major sphere of its operations (Zainuddin & Nonto, 2011). Other large Indonesian conglomerate groups, such as Bakrie & Brothers and P. T. Ciputra Property Tbk., have also looked beyond Indonesia to secure economic gains. All these factors have prompted a more open and liberal approach to Indonesia's overall FEP.

20 The Smeru Research Institute was established in 1998 as a result of concerns expressed by many Indonesians about the impacts of the 1997/98 economic crisis on the well-being of many sections of society. At the start of its operation, the institute received funding and support from various foreign donors, such as the Australian Agency for International Development, the U.S. Agency for International Development and, more importantly, the World Bank. Until now, the institute has pursued socio-economic research initiatives advocating supposedly neo-liberal approaches to issues such as poverty, the labour market, health, education, gender and crime. Further details on the Smeru Research Institute are available on its official website, www.smeru.or.id/newslet/2000/ed12/article12-1.htm (accessed 22 June 2011).

21 Dr. Sri Mulyani Indrawati is currently the managing director of the World Bank. She was previously the head of the then-National Development Planning Agency (2004–2005), the country's finance minister (2005–2010) and the acting coordinating minister for economic affairs (2008–2009). Although largely credited for steering Indonesia out of the 2008/09 global financial crisis, her decision to bail out one of Indonesia's troubled banks during the crisis was used by her powerful political rival from the Golkar party, Aburizal Bakrie, to oust the respected minister from the cabinet.

22 Apart from being a senior lecturer at the Department of Economics of the University of Indonesia, M. Chatib Basri is currently the vice chairperson of the National Economic Committee of the President of the Republic of Indonesia. Previously he was also a special adviser to the minister of finance, Sri Mulyani Indrawati, in the period 2006–2010.

23 Mari E. Pangestu has been Indonesia's trade minister since 2004 and is well known for her support for global trade liberalization under the WTO. During the recent World Economic Forum in Jakarta in June 2011 there was a speculation that Dr. Pangestu would be the likely candidate to replace the current director-general of the WTO, Pascal Lamy, when his terms end in 2013 (Jakarta Post, 2011).

5. Protectionism amid Liberalization?

Despite economic liberalization, the drive towards protectionism remains rampant in Indonesia. Prior to the global financial crisis of 2008/09, Soesastro and Basri (2005) observed creeping protectionism in the country. Although it is true that the 1997/98 economic crisis had forced Indonesia to undertake extreme liberalization measures, many in policy-making circles also blamed the liberalization that Indonesia underwent in the early 1990s as the key factor that dragged the country into the economic crisis in the first place.[24] Unfortunately for the neo-liberal camp, resistance to market reform remains a factor today. Apart from the strong patron–client relationships, the increasing role of non-state actors in economic policy-making has enabled various interest groups to organize lobbies for trade protection. It can be expected that the tug of war between the pro- and anti-trade groups will continue, which involves extremely complex bargaining and coalitions among rent seekers, interest groups and the various government agencies.

In the wake of the 2008/09 global financial crisis, the case against the neo-liberal economic agenda is gaining ground. Two brief case studies, i.e. the emerging opposition against the full implementation of the ASEAN–China Free Trade Agreement (ACFTA) in 2010[25] and the efforts by Indonesian civil society groups to bring into question the neo-liberal character of the ASEAN Charter in 2011, help illustrate this point. To start with, the full implementation of the ACFTA in January 2010 caused much anxiety in Indonesia. At the time, representatives of the private sector and civil society organizations argued that implementation of the ACFTA would be harmful to the country's economy and called on the government to either pull out from the agreement or renegotiate its terms with China. Apart from the potential breaching of an international trade agreement, which would in turn harm the country's improving international profile in recent years, the government also thought that the demands made by its domestic constituents were unrealistic, given the fact that all the participating parties were already in the middle of ACFTA implementation. Although largely unknown to the public, the initial phase of the ACFTA, also known as the Early Harvest Program, had actually been implemented since 2004. As a compromise with its domestic constituents, however, the government agreed to renegotiate up to 228 tariff lines that had been committed to in the ACFTA (Kabar Bisnis, 2010) and to propose to its Chinese counterpart the establishment of a working committee to oversee and tackle potential negative implications that the ACFTA may generate in Indonesia (Ekawati, 2010).

Public sentiment against the ACFTA, however, grew stronger following the failure of the Indonesian government to renegotiate the proposed 228 tariff lines. Demonstrations took place in several major cities, while aggressive public campaigns using social network sites such as Facebook were also used by civil society organizations to garner wider public support.[26] Ironically, the euphoria around the ACFTA

24 At the height of the reform era, there were also debates about the merits of Indonesia pursuing economic reforms under the IMF's guidance, and this led some within policy-making circles to push for the alternative form of economic system know as the "People's Economy" (Ekonomi Kerakyatan). Developed by the then-minister of cooperatives, small and medium enterprises, Adi Sasono, the People's Economy was understood as a participative economic system that allowed fair and equal access by all members of society to the processing, production, distribution, and national consumption of good and services without sacrificing human resources and the environent to support the people (Sasono, 1999). Although this policy never actually materialized, when it was first mooted, members of the business community saw this as potentially leading to a wave of nationalization of foreign and ethnic Chinese capital. Although used by leading political figures in political campaigns to this day, the notion of the People's Economy has hardly ever been adopted as a key component of Indonesian FEP.

25 For a more extensive analysis of the national debate that took place in Indonesia about the implementation of the ACTFA, see also Chandra (forthcoming).

26 To date, at least two main public campaigns are under way on Facebook: the 5 Million Movement against the ACFTA (Gerakan 5 Juta Tolak ACFTA; see www.facebook.com/group.php?gid=246488869393&v=wall) and the Civil Society Coalition against the ACFTA (Koalisi Masyarakat Sipil Tolak ACFTA; see www.facebook.com/group.php?gid=122907537719856), during which these movements managed to gather 1,196 and a mere 168 supporters, respectively.

also undermined the unity of President Yudhoyono's so-called United Indonesia Cabinet II, a name given to the current Indonesian cabinet that attempts to reflect the underlying unity of the diverse political and professional backgrounds of its members. As a genuine supporter of trade liberalization, Mari E. Pangestu (the minister of trade) and some other ministers responsible for related economic affairs[27] were adamant that Indonesia should fully commit to the implementation of the ACFTA. The traditionally protectionist minister of industry, on the other hand, chose to side with the private sector and on occasions expressed his irritation publicly about the government's failure to renegotiate the terms of the ACFTA. The opposition to the ACFTA, therefore, illustrates the vulnerability of the neo-liberal camp, despite the increasing acceptance of the ideology among some decision-makers in the country.

A more recent questioning the relevance of neo-liberal ideology can be illustrated in the request of a group of civil society organizations for a judicial review of the ratification of the ASEAN Charter (Antara News, 2011).[28] Although drawing less public attention in comparison to opposition to the ACFTA, the initiative, which took place shortly after the 18th ASEAN Summit in Jakarta in April 2011, managed to generate public debate about the potential friction between the neo-liberal character of the ASEAN Charter and the more socialist values enshrined in Article 33 of the Indonesian constitution. Thus, Article 2.2(f) of the ASEAN Charter calls for ASEAN members to adhere to the "multilateral trade rules and ASEAN's rules-based regimes for effective implementation of economic commitments and progressive reduction towards elimination of all barriers to regional economic integration, in a market driven economy" (ASEAN Secretariat, 2008, p. 7). However, Article 33.1 of the constitution, as mentioned earlier, emphasizes the cultivation of the country's economy as a common endeavour that is to be implemented on the basis of the so-called family principle (see above). These civil society organizations therefore argued that the spirit of the constitution runs counter to the free market ideology as underlined in the ASEAN Charter. Although it remains to be seen whether the Indonesian Constitutional Court will grant this request, it raises the question of whether Indonesia needs to withdraw from the ASEAN Charter, which is very unlikely, or to revisit the relevance of Article 33 of the constitution.

27 These included the coordinating minister for economic affairs, the minister of small and medium-sized enterprises, the minister of state-owned enterprises, and, to a certain extent, the minister of finance.

28 Indonesia ratified the ASEAN Charter in 2008 through Law No. 38/2008; see www.depdagri.go.id/media/documents/2008/11/06/UU_No.38-2008.DOC.

6. Conclusion: Is neo-liberalism bad for Indonesia's FEP?

In a recent interview with *Globe Asia*, Chatib Basri, a well-known Indonesian economist and one of the supposedly neo-liberal icons in the country, stated that "I do not believe there is a policy that is based on ideology in this country. Indonesia is pragmatic ... [and] pragmatism is becoming the way of the future" (Novianto, 2011, p. 140). While this claim is to a large extent true, there is little doubt that neo-liberal ideology has indeed crept into the overall economic policy and, consequently, FEP of Indonesia. Throughout much of the post-reform period, Indonesia has carried out an FEP that has adapted to the continuously changing international and regional economic environment. At the same time, however, the country's deepened engagement with the global economic system has also been driven by the willingness of the country's policy-makers and intellectual elites to adopt a market-based reform agenda.

The question of whether the market reform agenda is good or bad for the country will continue to be debated by advocates and critics of neo-liberal ideology. One thing is certain, however: there appears to be a significant gap between the more socialist approach on which the Indonesian economy is supposedly based and many of the neo-liberal principles embedded in the economic policies that nearly all post-reform governments have pursued. While relevant for Indonesia during the post-colonialism era, the more socialist component of Indonesia's constitution needs to be revisited and further debated so as to allow more flexibility in present and future foreign economic policy-making. Without this, it is likely that the contradiction between what Indonesia stands for and what its governments actually do in the area of economic policy will remain.

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